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A review of the effectiveness of Development Finance Institutions in KwaZulu-Natal

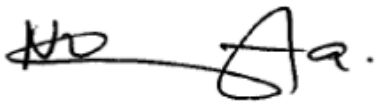
Nomusa Zethu Qunta

A Thesis submitted to the Wits School of Governance in fulfilment of the requirements for the Degree of Doctor of Philosophy

University of the Witwatersrand
Johannesburg 2015

DECLARATION

I, Nomusa Zethu Qunta, declare that this thesis is my own work. I conducted fieldwork personally and therefore, I am responsible for the text of this study. This whole study or any part thereof has not been submitted in the past, nor is it to be submitted for a degree at any other institution. The data used in this thesis was collected between June 2012 and January 2013 when I was not employed by any government institution. The assistance I received is disclosed in the acknowledgement page.



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ABSTRACT

The Development Finance Institutions (DFIs) in South Africa have a mandate to provide finance to private and public sector organizations for investments that facilitate development. The main aim of DFIs is to invest in areas where the market fails to invest adequately and where there are institutional failures. DFIs specialise in offering long-term advances and loans and where defaults are experienced by investors, they are able to re-structure the loans to facilitate easier repayments. However, there are allegations of maladministration and poor management within DFIs as well as a high failure rate of funded enterprises. This study set out to explore the effectiveness of the DFIs by reviewing their contribution to economic growth in KwaZulu-Natal (KZN). This study evaluated the role and effectiveness of four DFIs in the province, namely Ithala; Industrial Development Corporation (IDC); National Empowerment Fund (NEF); and Trade and Investment KwaZulu-Natal.The study attempts to answer the following questions: 1) Have the DFIs made a positive contribution to the economy in KZN based on their performance indicators? 2) How do the DFIs take funding decisions? 3) What is the success rate of the DFIs in creating sustainable businesses? 4) What support and monitoring mechanisms are in place in these DFIs to ensure that funded enterprises succeed? 5) What general performance issues face DFIs? The qualitative research approach was used in this study as the investigation was exploratory in nature. Data was collected using three different instruments: document analysis, structured questionnaires, and face-to-face interviews. The document analysis enabled the design and customization of the questionnaires used to collect data from different DFIs.

Organisational effectiveness models and performance management theories were used as a reference to assess the effectiveness (performance) of the DFIs in KZN. The study found that the level of performance of the DFIs varied, as did their capacity and resources. All the DFIs made a positive contribution to the economy of the province, taking into consideration that some of the thriving small, medium and micro enterprises (SMMEs) could not have started without the funding

from these DFIs. There is however, massive room for improvement in DFI operations and level of contribution to the economy of the province. The study identified a number of weaknesses in the operations of the DFIs, such as their financial statements, which are characterised by high annual debt write-offs, high impairment rates, and low rates of loans and advance repayments. While there is evidence of job creation by each DFI, the rate thereof may not be commensurate with the costs involved. The study revealed that in some cases, funded enterprises are not supported to ensure that they succeed in creating sustainable businesses. A number of portfolios closed down prematurely leading to the need to write off loans. The yearly performance targets set by the DFIs are mostly not achieved; in some cases, these performance targets do not measure the actual performance towards the achievement of the DFI's strategic objectives. There are too many DFIs in South Africa, some operational in all the provinces, a number of which were established during the apartheid era and may have been relevant at that time. At a macro level, there is a need to streamline DFIs in order to give relief to the fiscus. Increasing the efficiency of the DFIs would require a culture change with respect to information sharing and reporting to stakeholders. It is recommended that DFIs adhere to the funding criteria for each fund. This capacity to evaluate funding proposals needs to be reviewed continuously to avoid fruitless expenditure emanating from funding unsustainable business ventures. Effective monitoring of funded enterprises and implementation of an early warning system are recommended. Failure to repay loans and advances should have some consequences for enterprises in order to discourage perceptions of entitlement from most SMMEs, while at the same time DFIs should develop a tolerance level (a materiality framework) for non-performance of some of the loans and advances as a cost for creating/promoting entrepreneurship in South Africa.

ACKNOWLEDGEMENTS

I thank God for His unfailing love for me, in reaching this stage I see His mercy. God has been with me on this long journey, keeping me sane despite various demands I faced every day to keep a balanced life. I have no doubt that this is an appointed time for this thesis as God brought the Team that I had to work with, for which each member of the team contributed immensely to this work.

I am very grateful to the Chief Executive Officers of the entities that allowed me to conduct research in their organisations. The data collected from the four entities surveyed is the core of this thesis without which it would not have been possible. Some of the CEOs sacrificed their time to meet with me to ensure that I obtain a full understanding of their working environments; for this, I am indeed very grateful.

I want to appreciate Professor Pundy Pillay, for his patience, academic guidance and meticulous style of supervision, I learnt a lot from him. Despite his busy schedule, he has been able to critically read my work and provide so much guidance.

I am grateful to my husband Bonginkosi, and children and my mother and the whole extended family for their continued support through prayers. My husband's understanding of the time requirements for this study and his tremendous support will always be appreciated. For the sacrifice you all went through as a family, to enable me to go through with this study, I will forever be indebted to all of you guys.

To my colleagues and the entire PHD Forum students and lecturers, particularly Innocentia Marule, you all contributed so much to my determination to write this thesis. Your critical comments on my presentations and moral support when times were tough made this thesis to be what it is today.

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Part 1: Introduction, Literature Review and Research Methodology

Chapter 1: Introduction

1.1 Introduction to the field of study

Development finance is defined by Thorne and du Toit (2009) as the provision of finance to those market segments that are not well served by the financial system. These segments include projects whose social benefits exceed their commercial ones. Development finance aims to lower the risks of investment in certain sectors by crowding-in private sector investment. Development Finance Institutions (DFIs) are government-controlled institutions that are expected to invest in sustainable private sector projects with a view to spurring economic growth and development while they themselves remain viable.

The DFIs have a general mandate to provide finance to the private sector for investments that contribute to or facilitate development, as they invest in areas where the market fails to invest adequately. Globally, DFIs are usually under pressure to deliver on being catalysts for growth and development due to their unique advantage of being government owned and controlled. They have the flexibility to provide risk mitigation that enables the private sector to embark on or engage with projects or businesses that they would otherwise abandon. They specialise in offering long-term advances and loans and where investors experience defaults, they are able to re-structure the loans to facilitate easier repayments.

DFIs are capitalised by the State and are therefore expected to have high levels of liquidity and ability to access technical assistance funds. Hence, there is often an expectation of subsidies to be passed on to the beneficiaries in various forms including long-term repayment periods, and below-prime interest rates.

1.1.1 Overview of the DFIs surveyed

The four DFIs surveyed in this study are Ithala Development Corporation, Trade and Investment KwaZulu-Natal, National Empowerment Fund, and Industrial Development Corporation. An overview of the mandate of each of the DFIs is given below.

Ithala Development Finance Corporation (Ithala)

Ithala Development Finance Corporation (Ithala) was established in terms of the KZN Ithala Development Finance Corporation Act No. 2 of 1999. Prior to this, the Corporation carried out its development task as the KwaZulu Finance and Investment Corporation Limited from 1959. Ithala went through various phases of transformation between 1959 and 1999. It carried out its development mandate as KwaZulu Finance and Investment Corporation (1984), the KwaZulu Development Corporation (1978), the Corporation for Economic Development (1977) and the Bantu Investment Corporation (1959). Despite the transformation phases, the mandate of Ithala remains that of economic development through the provision of financial and non-financial services to businesses and individuals in KZN.

Ithala is a public entity in terms of the PFMA, and as such, it is listed under Schedule 3 D of the Act. Ithala is also a registered credit provider and authorised financial services provider in terms of the National Credit Act No. 34 of 2005 and Financial Advisory and Intermediary Services Act No. 37 of 2005. This means that Ithala has both developmental and commercial objectives. Since the study was about development finance, only data relating to the development role was collected.

To date, Ithala's objectives are linked to the development objectives of the KZN Province, the focus being the promotion, support and facilitation of economic growth and development. The strategic objectives/ goals for Ithala can be summarised as follows:

- Financial sustainability and institutional capacity to deliver on operational goals and strategic objectives;
- Job creation;

- Accessible funding for SMMEs and co-operatives;
- Broad-Based Black Economic Empowerment through skills and enterprise development programmes;
- Partnership with private sector and communities in investment and development; and
- Entrepreneurial development (Ithala Annual Report, 2011/12).

Ithala plays a critical role in facilitating the development of small, micro and medium enterprises operating within KZN. This is to be achieved through the provision of financial services solutions aimed at stimulating entrepreneurship mainly among previously disadvantaged communities.

Trade and Investment KwaZulu-Natal

The investigation of the historical information through document analysis revealed that Trade and Investment KwaZulu-Natal (TIKZN) was founded in 2001 as a Section 21 company. It operated as such until 2010. However, TIKZN's first implementable Corporate Strategy Document was only developed in the 2006/07 financial year. The 2010/11 financial year saw the enactment of new TIKZN legislation, officially declaring it as a schedule 3C public entity in terms of the PFMA. The mandate of TIKZN is to attract foreign direct investment and domestic investment and to generate exports and export capacity in KZN. The strategic objectives are to: promote and facilitate fixed investment, facilitate investor after-care and retention programmes, package large (>R50m) sector opportunities, facilitate market awareness and programmes and export opportunities, increase awareness of TIKZN as an entity, increase BEE transactions in committed projects and trade promotion and advocate for a conducive trade and investment environment. TIKZN activities include the following:

- Facilitation of joint ventures;
- Facilitation of business linkages between small and big business;
- Provision of timely information to potential and existing investors and traders;

- Assisting potential and existing investors regarding applications for investment and export marketing incentives;
- Assisting foreign investors with application for permits and negotiating for local government incentives on behalf of investors;
- Providing project support and after-care services to investors;
- Assisting with international trade enquiries and providing assistance to emerging international traders; and
- Assisting investors to secure projects and operational finance.

National Empowerment Fund

The National Empowerment Fund (NEF) is an agency of the Department of Trade and Industry, established in terms of the National Empowerment Fund Act No. 105 of 1998. Its mandate is to increase black economic participation in the economy of South Africa. The NEF was established as a Trust by the Act, which provides for the establishment of the framework for the broad promotion and facilitation of ownership of income generating assets by black people. The funding mandate of the NEF is directed by the Code of Good Practice on Broad-Based Black Economic Empowerment and by the Industrial Policy Action Plan (IPAP) (2011/12 NEF Annual Report).

The main objective of the NEF is to facilitate the redressing of economic inequalities, which resulted from discrimination against black people in the past. The NEF attempts to achieve its objectives through a range of investment products that are utilised to invest in black businesses that are at different stages of economic growth.

The powers and responsibilities of the Board of Trustees are derived from the National Empowerment Fund Act, the PFMA, the Protocol on Corporate Governance in the Public Sector and the King III report on corporate governance.

The detailed objectives of the NEF are contained in section 3 of the National Empowerment Fund Act No. 105 of 1998, which are mainly to provide historically disadvantaged persons with opportunities. These include acquiring shares or interest in state owned commercial enterprises that were being re-structured and in private business enterprises, encouraging and promoting savings, investment and meaningful economic participation by black people, promoting and supporting business ventures pioneered and run by black enterprises, and contributing to the creation of employment opportunities. The NEF loans are repayable over a period of between four and seven years depending on the nature of the project (2010/11, NEF Annual Report). The NEF offers 10 products as indicated in Table 1.1.

Table 1.1: NEF product offerings

No.	Product	Description	Amount (R)
1.	Entrepreneurship Finance	For starting new businesses	R250 000 to R10 million
2.	Procurement Finance	For tenders and contracts	R250 000 to R10 million
3.	Franchise Finance	Pre-approved franchise licences	R250 000 to R10 million
4.	Acquisition Finance	For black investors to acquire stakes in large companies	R2 million to R75 million
5.	Expansion capital Finance	For growing an existing business	R25 000 to R75 milion
6.	Project Finance	For participation in green fields projects	R2 million to R75 million
7.	Capital Market	For listing on the Johannesburg Stock Exchange	R2 million to R75 million
8.	Liquidity and warehousing Finance	To assist in warehousing shares for black shareholders	R2 million to R75 million
9.	Rural and Economic Development Fund	Agri-processing, mining, manufacturing, beneficiation and tourism	R1 million to R50 million
10.	Strategic Projects Fund	For developing strategic industrial capacity in poverty nodes	R1 million to R75 million

Source: NEF Information Brochure, 2010

Industrial Development Corporation

The Industrial Development Corporation (IDC) is a self-financing national development finance institution, established in terms of the IDC Act No. 22 of 1940 as amended. Its mandate, objectives and powers are regulated by this Act. The IDC is also subject to the provisions of the PFMA. The South African Government, through the Minister of Economic Development is the sole shareholder of the IDC. The objectives of the IDC are to support industrial capacity development and promote entrepreneurship. These objectives include creating sustainable employment, growing the SME

sector, promoting entrepreneurship and enterprise development through Broad-Based Black Economic Empowerment and ensuring environmentally sustainable growth (IDC, 2012).

IDC's loan funding requirements are sourced mainly from international development agencies and from commercial facilities raised through the IDC's relationships with commercial banks. Enterprise development is central to the IDC's core business, as it has to focus on promoting entrepreneurship across a broad range of industries. The IDC continuously identifies new economic sectors for development. The mandate of the IDC requires that special attention be paid to the sustainability of enterprises financed. For this reason, IDC does not only disburse funding but provides holistic entrepreneurial support on three levels:

i) Funding;

ii) Training (business skills and management); and

iii) Crisis management (restructuring).

The IDC establishes funds for each of the focus areas as a way to measure the investments and returns for each of them. Associated with enterprise development is the Transformation and Entrepreneurship Scheme, which consists of five funds that focus on entrepreneurs from previously disadvantaged backgrounds, women, people with disabilities, worker groupings, and community groupings (IDC 2011/12 Annual Report).

Based on IDC's annual reports for the years 2009 to 2012, the operations of the IDC are classified according to Strategic Business Units. There are three main Strategic Business Units comprised as follows:

i) Resources Division, which is made up of the following sectors:

- Food, beverage and agro-industries;
- Mining and beneficiation;
- Public and Private Partnerships; and

- Venture capital.

ii) Industrial Division, made up of:

- Chemicals, textiles and allied industries;
- Metal, transport and machinery products;
- Wood, paper and other; and
- Construction.

iii) Services Division, constituted by the following sectors:

- Franchising;
- Healthcare and education;
- Media and motion pictures;
- Techno industries;
- Tourism; and
- Transport, financial services and other.

While the funding disbursed is classified according to these sectors, it is further classified based on the utilisation of the financing. This means the funding is disbursed for utilisation on:

- Start-ups;
- New projects;
- Expansion of existing businesses; and
- Ownership changes (BEE transactions).

It is important to note that while IDC is a national development finance institution its funding also covers the rest of Africa. For instance from 2004 to 2008, 18% of the advances approved were for Africa.

While the four entities surveyed overall have their focus on economic growth and development, the mandates of Ithala and IDC are identical except for their scope, IDC operates in other African countries whereas Ithala operates in KZN only. NEF's mandate is black empowerment, while TIKZN's focus is on promoting KZN as an investment destination and an exporter to other regions and countries.

1.2 Research problem statement

DFIs exist because of the disconnection between low-income earners and conventional finance. The purpose of development finance is to kick start economic activities mainly in the hands of the private sector. In South Africa, government has established various institutions for this purpose. At the national level, there are large institutions such as the Development Bank of South Africa (DBSA), the Industrial Development Corporation (IDC), the Small Enterprise Finance Agency (SEFA), the Small Enterprise Development Agency (SEDA), and the National Empowerment Fund (NEF), which were established with the main purpose of supporting business growth and development in the country. All these institutions provide development finance and support countrywide.

Like all other public entities, DFIs are established through Acts of Parliament, 'enabling legislation', which encapsulate the purpose for their establishment and confers mandates on them. These entities are sometimes budgeted for from the relevant departmental votes, or if not, they were initially capitalised by government. Hence, they are funded from the public purse, especially in their initial phases.

The media constantly criticises the allocation of public funds and allegations of corruption in public institutions. Included in the public outcry are issues relating to the management of public entities, DFIs included. The South African public entities and State-owned enterprises are further criticised through the media that they continue to be inefficiently managed, under-perform and need constant government interventions and bailouts. This kind of criticism contrasts sharply with the rationale for creating public entities, which is to ensure efficiency and effectiveness. Among these

entities are those that are established mainly to facilitate growth in the economy of the country or the province by providing support to aspirant business people, thereby creating jobs. As gleaned from the annual reports, the service offerings of the DFIs include non-financial support that they should provide, which must be multi-dimensional, i.e. funding of business ideas and providing support in the requisite skills for business development.

The DFIs entrusted with the function of disbursing funds for development purposes are expected to have expertise to identify businesses and ideas with the potential to grow and to fund only those businesses. The reality, however, is that according to the Department of Trade and Industry (1995) 63% of the businesses that have been funded, failed in the first two years, some within their first year of operation and others within three to five years of being established. As a result, the effectiveness of these institutions is questionable. Should the government continue to fund these DFIs without comparable growth benefits? The costs of running these entities are enormous, and therefore an important question relates to whether government should continue with these entities or can the same objectives of these entities be attained at a lower cost if such services were rendered differently.

Three terms, namely 'economy', 'efficiency' and 'effectiveness', also known as the '3Es' were adopted by the South African Government, when enacting the Public Finance Management Act of 1999, as amended in 2000 (PFMA). The objective of this Act is to ensure that public funds are spent in compliance with the 3Es. This has resulted in a shift in the statutory audit by the Auditor-General of South Africa, wherein there is an increasing focus on the auditing of performance information and conducting of performance audits. The rationale is to give assurance to Parliament and the public about the efficiency and effectiveness of government and its institutions.

According to Kaul (1998), the UK government established an Efficiency Unit in 1979, reporting to the Prime Minister's Advisors on efficiency and effectiveness. The role of the unit was to advise on how to improve the efficiency and effectiveness of central government and to help government

departments improve the value for money of the resources that they utilise. They did this through an efficiency scrutiny programme. Since 1995, departments and agencies have drawn up efficiency plans each year, including what measures they propose to take to stay within their budgets for the three-year period. While the Canadian government does not have an Efficiency Unit they have an equivalent in the form of the Treasury Board Secretariat, which is responsible for giving guidance on how departments can determine the most efficient ways of delivering public services.

In South Africa, the role played by the Efficiency Unit in the UK and the Treasury Board Secretariat in Canada, has been assigned to National and Provincial Treasuries. The National Treasury introduced a system whereby departments have to develop strategic and annual performance plans, which include budget allocations for various performance targets set for the year. This is intended to increase the level of efficiency of the public service by having the Strategic Plans and Annual Plans of departments and entities reviewed by political heads of departments, and for departments to account to the Parliamentary Committees on the achievement of performance targets and expenditure.

South Africa's 'New Growth Path' strategy, released in November 2010, reflects on the important role of state-owned DFIs in creating employment, increasing economic growth, and enabling pro-poor expansion of infrastructure. South Africa needs to accelerate its industrial development and economic growth rates, expand its human resources capabilities in order to achieve the much-desired development, and create employment. DFIs are seen as one approach or tool to do this; however, while these institutions have been in existence for a long period, there are no studies that show how they are performing as a sector. A gap exists in answering the questions about whether the DFIs in KZN are effective in delivering on their mandate and how their effectiveness can be measured going forward. It is this knowledge gap that this study aimed to address.

This study generated knowledge in various areas within the public policy arena. It provided insight into the operational requirements and challenges of the DFIs. It also provided insight into the

capacity of DFIs to meet the broader developmental goals of government. Finally, it revealed the extent to which public resources are not effectively utilised through inappropriate funding decisions, reflected by the annual write-offs of the debts owed by private enterprises.

1.3 Research Objectives

The study explored the effectiveness of DFIs in pursuing their mandates and achieving their strategic goals in KwaZulu-Natal (KZN). This was done by reviewing their level of performance using their own performance indicators and targets over the ten-year period (2003 to 2012). The study explored in detail three groups of indicators of DFI effectiveness, namely, governance arrangements, financial sustainability, and leadership and management. The fundamental point is that regardless of whether one believes that government has a moral or ethical obligation to provide development assistance to South Africans, everyone can agree on the importance of having entities such as DFIs that maximise the likelihood that the provided funding reaches its intended beneficiaries and contributes to the growth and development of the economy of the country. The alleged failure rate of funded businesses raises doubts about whether development finance reaches the intended beneficiaries and has the intended impact of growth and development of the economy of South Africa.

The study also focused on the value for money spent in the maintenance of DFIs and funding business enterprises as opposed to the internal efficiencies in the operations of the DFIs. In other words, the study did not include internal processes in the processing of loans or grants or the turnaround time for applications, but, on 'value for money spent' in their establishment and maintenance. Development finance initiatives are regarded as an effective way to combat poverty in a non-interventionist, market-oriented, sustainable and potentially even profitable manner (Kaul, 1998).

KZN is one of the provinces with a high rate of poverty in South Africa; therefore, poverty alleviation is of paramount importance, addressed *inter alia,* through DFI initiatives. The study was therefore

necessary for informing government about the level of achievements of DFIs relative to their level of disbursement or their cost of existence. There were therefore three main objectives to this study:

i) To establish the effectiveness of DFIs;

ii) To inform government policy on improving the effectiveness of DFIs; and

iii) To assess value for money spent by government on DFIs.

The effectiveness of the DFIs was measured by a set of indicators that were identified from the legislative framework governing DFIs and other policy documents that are applicable to public entities and DFIs in particular. It is these indicators that were used to develop questionnaires and interview questions, the findings of which address the three objectives of the study. Based on the findings presented in Chapters 4 to 8, recommendations for improvement were made and these recommendations were aimed at informing government policy. The three main objectives of the study were addressed through five broad questions:

i) Have the DFIs made a positive contribution to economic growth in KZN based on their performance indicators?

ii) How did the DFIs make funding decisions? (i.e. what were the funding criteria)

iii) What was the success rate of the DFIs in creating sustainable enterprises?

iv) What support and monitoring mechanisms were in place in the DFIs to ensure that funded enterprises succeed and which ones are to be considered to ensure that funded enterprises succeed in the medium- to long-term?

v) What general performance issues faced DFIs?

1.4 Relevance and significance of the study

While development finance is a global phenomenon that is more efficient when compared to donations, the success of government in this area has not been measured sufficiently. This study was an attempt to assess the effectiveness of the public entities charged with responsibility to

manage development finance in the KZN Province. It is therefore important to explore the DFI operational environment to assess the level and extent of its contribution to the achievement of the government's development agenda. Government budgeting in South Africa is performance-based and some of the DFIs are subject to this system, which requires the definition of objectives and the development of measures to assess progress towards the achievement of such objectives. It would seem reasonable therefore to assess the success of government in achieving its policy objectives through the development of performance indicators and the linking of non-financial performance information to financial reporting. The performance indicators used by the DFIs have been used as the basis for evaluating their performance, and their contribution to the economic growth and development space in KZN.

1.5 Contribution of the study

This research makes a specific contribution to government policy in relation to the structure and performance management of the DFIs. There is no evidence that government's decision to establish or fund DFIs is informed by their value-add and effectiveness. Job creation, poverty alleviation, and economic growth and development are the priorities of government that should be addressed by DFIs as public institutions. Are the DFIs effective in this area? The study was an attempt to respond to these kinds of questions. The effectiveness of the DFIs was measured by their level of productivity and achievement on a whole range of performance targets over the 10-year period depending on the availability of information.

The study brought to the fore the key service delivery and governance issues that have an impact on the effectiveness of the DFIs in KZN for which recommendations were made to inform governance and performance management approaches to the DFI environment. It is imperative for government to develop informed policy on when and how public funds can be made available to develop small and medium enterprises (SMEs), create jobs, and attract private sector investment. The study advances arguments on the value for money spent on DFIs compared to their level of

achievement with respect to the strategic goals of government and the proliferation of such institutions in the country.

1.6 Organization of the study

In order to present data in a more meaningful and detailed manner, the study has been organized into nine (9) chapters. The presentation of the research findings and data analysis covers five (5) chapters in order to verify the measures of effectiveness across the DFIs studied, which required that the findings be presented per DFI first, before undertaking a horizontal analysis on an objective by objective basis.The study is therefore structured as follows:

Chapter 1: Introduction

Chapter 2: Literature Review

Chapter 3: Research methodology

Chapter 4: Ithala Development Finance Corporation (Ithala)

Chapte 5: Industrial Developmetn Corporation (IDC)

Chapter6: National Empowerment Fund (NEF)

Chapter 7: Trade and Investment KwaZulu-Natal (TIKZN)

Chapter 8: Horizontal data analysis and interpretation

Chapter 9: Conclusion and recommendations

Chapter 2: Literature Review

2.1 Introduction

A literature review is defined by Fink (2004) as an evaluative report of information found in the literature that is relevant to the study being undertaken. Its purpose is to convey existing knowledge on the subject matter, while identifying gaps and proposing improvements in knowledge. The purpose of a literature review is to provide context for the research, justify the need for the research, ensure that the same research has not been done before, enable the researcher to learn from previous theory on the subject and highlight flaws in the previous research (Calabrese, 2006).

This study is informed by the variety of literature reviewed in the field of development finance and performance management and also from the data collected from the respondent DFIs. As indicated in Chapter 1, the study was about exploring the effectiveness of DFIs in KZN Province based on the performance indicators of these institutions. A permeating issue in the arguments presented is that DFIs have very clear and specific deliverables worldwide, nationally, regionally and locally. Key among them is poverty alleviation, job creation, and facilitating entrepreneurship, thereby contributing to economic growth.

This chapter focuses on evaluating the relevant literature on the key concepts relating to the DFI environment, such as efficiency and effectiveness, development finance, performance management, performance indicators, and good governance. In undertaking the review of the effectiveness of the DFIs, it was important to understand the background to their establishment, operations, structures and accountability chain, as highlighted in Chapter 1.

According to Kaul (1998), current economic realities have led governments in Brazil, some in Asian countries and Mexico to review the programmes they deliver and the way they deliver them. As a

result, many governments are examining whether current programmes should continue to be delivered, and whether there are alternative methods of service delivery that are more responsive to client needs as well as being more cost-efficient and effective. The question for today's political leaders and public servants is not when or whether to innovate, but how. For South Africa, with its history of poverty and economic disparities, it is critical for government to monitor the utilisation of public funds to ensure that they can be stretched as far as possible to meet the needs of deserving communities.

The rationale for the establishment of government agencies is mainly efficiency and effectiveness in responding to service delivery challenges. Public entities are established because of the need for objectivity and more operational autonomy while retaining accountability in the delivery of services. They are also established outside the Public Service because of the requirement for strategic, social or economic intervention by the state or to deal with strategic risks and dangers that the state or society faces to its security, prosperity or wellbeing (Guzowska and Strak, 2010).

DFIs were created to mobilise financial resources to facilitate development by investing in markets regarded as too risky for the private sector to enter alone, while being essential for the growth of the broader economy. DFIs are expected to initiate sustainable development by providing risk capital to companies and individuals. According to the DBSA (2011), the rationale for DFIs is to finance development projects effectively and to play important roles as facilitators and financiers in the broader industrialisation and economic development strategies of their countries. It is not only about providing development finance, but also about assisting in fashioning broader national development strategies and objectives.

The rationale of DFIs includes providing countercyclical lending; this has been evidenced in the Brazilian Development Bank where countercyclical lending had a great effect in overcoming the impact of the global financial crisis (Griffiths and Smith, 2012). The Asian Development Bank also applied the same strategy of providing countercyclical lending to help member countries ramp up

fiscal spending to overcome the global economic crisis (Guzowska and Strak, 2010). This common role of the DFIs is also found in Mexico, where National Financier (Nafin Development Bank) focuses on financing small and risky businesses (Smyth, 2011). DFIs are expected to identify and develop strategic and long-term profitable sectors, to assist in expanding infrastructure development, to promote their countries' interests in the international arena and to provide leadership in development coalitions while also taking part in institutional capacity building (DBSA, 2011).

2.2 Effectiveness in development finance

The focus of the study was on the effectiveness of DFIs. The word 'effectiveness' is normally associated with 'efficiency'; hence, both are defined by various authors to show a relationship between the two concepts. To ascertain efficiency of DFIs it becomes necessary to have control of both the extent of achievement of their mandates and objectives, and of the costs invested in the execution of their functions. In this section a general analysis of the general principles of efficiency, economy and effectiveness principles will be reviewed alongside the concepts of productivity, performance, and good corporate governance to which they are linked.

Valderrama and Cejas (1997: 86) defined the three concepts based on the activities performed by an entity.

i) 'Economy' refers to the amount of resources used to obtain a particular quality of a product or service;

ii) 'Efficiency' refers to the resources applied to an activity or service, obtaining the highest rate of goods or services; and

iii) 'Effectiveness' refers to the relationship between outputs and the set objectives.

Eliassen and Kooiman (1993: 131) suggest that, "the criterion of efficiency dictates the choice of alternatives that produce the largest results for the given application of resources". Efficiency means getting the most out of scarce resources to achieve whatever goals the organisation wishes

to pursue. The economic definition compares benefits and costs, or the usage of resources to the results obtained.

According to Glynn (1993), a department provides 'value for money' when those who strive to provide the service do the best they can, within the resources that are available and the environment within which they operate. He further confirms that value for money consists of three elements: economy, efficiency and effectiveness. Glynn (1993) found that efficiency measures are only possible when outputs can be separated from each other and possess uniform characteristics. There are instances where efficiency measures are not possible, for instance, community police programs. Though tasks may be clearly stated, outcomes are not tangible and cannot be measured. When an agreed standard of performance does not exist, it might be useful to compare present performance with some previous base period, for example, the same month last year. Such a base period output/input ratio is termed a 'historical standard'. It assumes that past performance is indicative of future performance.

The definition of efficiency is a central concern of economic theory. Efficiency is achieved through management; hence, the aim of management, according to Livitt and Joyce (1987) is to improve the efficiency with which resources are used. The key elements that arise for management from adopting efficiency measures include an awareness of and the determination to accomplish program goals in the most economical and efficient manner, the need to plan operations as efficiently as possible for a given level of resources (or budgeted level of income), and the need to have structured organisation whose administration should follow prescribed work measures and procedures.

Glynn (1993) defines effectiveness as involving an examination of the relationship between the output and objectives of the department or institution. The management control process should endeavour to measure whether predetermined goals are being achieved. Effectiveness indicates whether results have been achieved, irrespective of the resources used to achieve those results.

According to Glynn (1993), assessing the effectiveness of programs in a systematic and regular way is the newest and most difficult area of work to which public sector management must adapt.

The literature on measuring efficiency uses both parametric and non-parametric approaches. The parametric approach, according to Guzowska and Strak (2010), is based on the production function, well known in microeconomic theory, which determines the relationship between a company's inputs and outputs; on the other hand, the non-parametric approaches to efficiency analysis are based on linear programming methods, such as Data Envelopment Analysis (DEA). DEA is the most common method of measuring the efficiency of public sector entities; it is a deterministic method that assumes there is no random component and it does not require specifying a functional relationship between inputs and outputs of a company (Guzowska and Strak, 2010). DEA is based on the concept of productivity, defined as the ratio of a single output to a single input, but it is applied to multidimensional situations where there is more than one input and more than one output. Linear programming is used to estimate technical efficiency measures.

While these three terms (economy, efficiency and effectiveness) are defined differently by various authors, there seems to be general agreement on their meaning in relation to the public sector environment as follows.

'Economy 'refers to acquiring resources of an appropriate quality at the minimum cost. A lack of economy could occur for instance when there is overstaffing, and goods purchased when not needed. 'Efficiency' refers to seeking to ensure that the maximum output is obtained from the resources devoted to a department or organisation, or ensuring that only the minimum level of resources is devoted to a given level of output. Lastly, 'effectiveness' ensures that the output from any given activity is achieving the desired results. To confirm effectiveness it must be established that approved or desired goals are being achieved.

Eliassen and Kooiman (1993) concluded that there is scope for efficiency improvement in the public sector, and the institutional factors, such as management, operational and political environments,

which affect efficiency. When conditions for market provision are sufficiently fulfilled, private production is more cost efficient than production by government agencies. The public sector could perform better when production involves economies of scale.

A relevant question to ask is, Is the public sector inherently susceptible to inefficiency? The conventional view holds that the absence of a self-adjusting mechanism similar to that of the market system causes an inefficient public sector (Rosen, 1993). Inefficiencies are reinforced by soft budgetary frames, by inadequate assessment of performance, by deficiency reward systems and bureaucratic waste. Others counter that these are ill-founded charges. Government pursues a more complicated and less tangible set of social objectives than those of the private sector and the efficiency criteria should be different from those of private business (Eliassen and Kooiman, 1993).

It is true that government resources are always under pressure as demand always exceeds the supply, and expectations consistently exceed what can be afforded. This leads to continuing pressure to review activities to ensure that resources are used to the best effect and that government can demonstrate sound stewardship. Public entities are major cost drivers within government; hence, this study's focus on examining the 'value-add' of DFIs.

According to Kaul (1998), economists have been interested in the factors that cause countries to grow at different rates and achieve different levels of wealth. Such differences may be explained by how much governments spend and on what they spend their money. Diamond (1989), basing his argument on growth being the major goal for any government, says policy-makers need to know the relative contribution of various components of expenditure to their country's economic growth and performance. In pursuance of growth objectives, governments in developing economies spend an average of 26% of Gross Domestic Product on goods and services, including spending on the DFIs (Nketiah-Amponsah, 2009).

DFIs came into being in the context of the political economy of the development industry where there are many institutions with a poverty alleviation focus, with very few that are strong and independent (DFF, 2004).

According to Curtis and Poon (2009), development can legitimately have high aspirations, but must also have means. High aspirations of government on development are sometimes not matched with means (e.g., ambitious development plans are crafted without regard to the available resources to finance them). For instance, it is easy to define desired end states, such as eliminating child mortality, reducing the HIV and Aids infection rate, and alleviating poverty. However, it is difficult to identify causal mechanisms in any socio-political system that might be reliably manipulated to achieve such desired conditions. Finding effective means of intervention presents another challenge.

Curtis and Poon (2009) argue that in development work the only safe assumption to make is that the way towards achieving development goals is uncertain. Contrary to what donors and government would expect, each programme or development fund needs to have clear linear patterns of causation, and predictable outputs and outcomes from defined interventions.

Bulan and Yan's (2009) view is that conventional instruments of development intervention and aid delivery include long-term agreements for resource transfer and budget support. These agreements take many forms based on goals, purpose, and actions. At the political strategic level there is usually some implicit understanding about the effectiveness of proposed strategies and activities, but it is at the operational level where such implicit understanding about the effectiveness of aid becomes articulated into explicit statements of 'do this or that for X to be achieved'. It is through much-discussed logical frameworks, key performance indicators (KPIs) and work plans that strategy becomes implementable (Bulan and Yan, 2009).

There are numerous theories that seek to provide answers to questions of what development is and how to achieve change. Development is better explained by complex social, political and

economic interrelationships and processes, the flows and flights of capital and the spirals of innovation that emerge in unexpected places, political turmoil, ideological inversions and even with the impact of weather (Curtis and Poon, 2009).

According to Smyth (2011), recent development challenges highlight a pressing need to re-evaluate whether international development finance is up to the task being demanded today. The challenges are twofold, i.e. problems to be addressed with development finance (e.g. HIV and Aids, abject poverty) and a change in attitude about the desired modalities for addressing them. At the international level there are two institutions that have dominated the development finance space, namely, the United Nations and the World Bank.

> The United Nations and the World Bank have undergone a crisis of legitimacy; for instance, the UN originally charged with protecting global welfare has not played a central role in the design and financial administration of the more recent innovations in development finance; instead it has ceded this responsibility to the World Bank (Smyth, 2011: 961).

Smyth (2011) further argues that the World Bank also is not without challenges, as it is struggling with the inherent schizophrenic nature of its role as a development institution on the one hand, and that of a bank on the other. Often its banking identity prevails to the detriment of the development agenda. Because of these inadequacies, the world's development aid donors are engaged in an on-going quest to find alternatives to these institutions.

As part of a search for alternatives, numerous funds have been set-up with a specific focus on one developmental area, for example, the Global Environmental Fund, the Infrastructure Grant, the HIV Fund, the Climate Change Fund, and the Growth Fund (Kakwani and Son, 2006). According to Grant and Keohane (2005), the *ad hoc* special purpose fund approach is reactive and lacks a coherent, unifying vision to meet today's development challenges. Criticism of special-purpose funds includes issues of fragmentation, governance gaps and lacunae in accountability.

DFIs are regarded as financial intermediaries that are positioned to play critical economic development roles (Thorne and du Toit, 2009). Economic development includes a substantive and sustained change in the condition of poor people (Shafik, 2011). The Development Finance Forum (DFF) (DFF, 2004) found that the constraints that keep customers from building wealth are not only access to credit, but also include poor workforce skills and education, weak communications infrastructure, inappropriate government policies, limited government services, and ineffective social organisations. It is in this context that this study assessed the development effectiveness of the entities, which required development analysis as opposed to legal analysis. This investigation tried to establish public entities' level of commitment to alleviating poverty by providing support beyond funding.

2.3 Global trends in development finance

Development finance ideology from the outset assumes the existence of an abnormal and unacceptable situation that some call underdevelopment. It is closely associated with international development aid aimed at rescuing under-developed countries (Gelinas, 1998).

DFIs played a critical role in facilitating industrialisation and post-war reconstruction by providing long-term finance in European countries (Siraj, 2004). The establishment of DFIs dates back to 1848, where among the earliest development banks was Credit Mobilier which played an important role in the European economy and was credited with increasing per capita income, disseminating skills in long-term finance, and fostering competition. This model was developed for the Industrial Bank in Japan in 1900, which in turn was the model for later development banks in poorer countries. Despite its success, the Credit Mobilier faced significant problems caused by the conflict between its developmental objectives and the need for short-term profit (Thorne and du Toit, 2009).

Thorne and du Toit (2009) further argue that the success of the early development banks was attributed to private sector co-ownership, co-financing of projects, commitment to skills dissemination, autonomy, hard budget constraints, and highly professional staff. This success

encouraged the poorer countries to establish their own development banks many of which failed. Their failure led to large-scale fiscal losses and poor development outcomes. In the words of Siraj (2004), inefficiencies and a range of financial, political and management problems contributed to the failure of these institutions. Shirai (2009) argues that corrupt officials and weak institutional environments were the reasons for the failure of development banks. Paulson and Townsend (2004) believed that limited skills in finance, management, and operations were the main reason for failure of the earlier DFIs.

DFIs, particularly development banks worldwide, operate with various degrees of success (Gelinas, 1998). Some governments are looking to establish or re-establish development banks to address the shortage of finance for higher – risk markets. According to Thorne and du Toit (2009) there was a large-scale failure of development banks in the 1970s and 1980s, which led to their disappearance from the development agenda. Development banks and state-owned development entities were characterised by poorly controlled spending which resulted in them delivering very little in terms of development. On the other hand, they contributed highly to the fiscal crises in many developing countries (Siraj, 2004).

Kakwani and Son (2006) state that although there were failures of most of the national development banks between the 1970s and 1980s, some governments persisted with these banks and a few of them successfully adhered to their mandates and became financially sustainable. Despite government efforts to address the failures, many developing countries still experienced a shortage of long-term finance for high-risk sectors such as new businesses or SMEs (Bruck, 2005).

It seems there is no universal model for financing development, as it is influenced by a plethora of factors, such as each country's level of development and the sophistication of its financial system (World Bank, 2005).

2.4 Role of DFIs

DFIs operate between public aid and private investment; they provide finance to the private sector for investments that promote development (Griffith and Smith, 2012). The role of the DFIs is made more important by the requirement that public authorities should fulfil their responsibilities by ensuring that taxpayers' money is used for socially desirable projects, which are in line with the development strategies and industrial policies of a country. The funding by DFIs (scarce public resources) should be genuinely additional to private finance. The use of DFI funding should lead to the best possible development outcomes, such as increasing job opportunities and alleviating poverty (Kwakkenbos and Romero, 2013).

Since DFIs are protected by public liability and guarantee and are driven by their development mandate, they are supposed to invest in projects or areas with higher risk and higher social return. Kwakkenbos and Romero (2013) maintain that DFIs and other aid agencies justify their investment in the private sector by cooperating with the private sector, so that they can leverage significantly more finance into their projects than development institutions could do on their own.

According to te Velde and Warner (2007), DFIs exist to provide finance to financial institutions that provide long-term capital and know-how to local small and medium sized businesses, private sector intermediaries which invest in underlying private enterprises involved in development projects, and directly to underlying private enterprises. According to Griffiths and Smith (2012) DFIs act in cooperation with government to provide management consultancy and technical assistance in general and to specific projects. At the same time, they aim to promote best practices in business, governance and environmental standards in the companies in which they invest. Since the private sector is associated with economic growth through the creation of jobs, profits and other benefits to society, the general purpose of DFIs becomes that of closing the gap in the financial market, as they invest in areas where commercial investors would normally not in order to play a developmental role.

On a larger scale, DFIs aim to invest on a sustainable basis by providing the means for developing countries to invest in projects that encourage socio-economic development in a way that reduces dependency on aid (Fink, 2004). Another important role DFIs play is acting as a catalyst to attract and mobilise the involvement of other private investors. The success of DFIs in this area is measured by the rate at which they are ultimately crowded out of an investment area by private investors (te Velde and Warner, 2007).

Development demands that DFIs adopt a long-term perspective in order to promote development on an on-going basis. They must demonstrate pioneering business and civic leadership to earn the trust of investors and donors (DFF, 2004). DFIs require leadership that can reflect on experiences, make adjustments, and adapt to market knowledge. They should offer products that are relevant to the business of the borrowers, expanding their capacity to become fuller participants in the market and in society. One of the critical functions of development entities is building sustainability. A strategy for sustainability means understanding the cost of transactions in order to build a pricing model that works. According to Bruck (2005), at the level of an organisation, a sustainability strategy means being able to re-create the business model including which products are offered, how markets are identified, how capital is raised, and what alliances are formed.

2.5 Financing young firms

Access to external finance and the ability to undertake profitable investment opportunities are important ingredients for success of any new business and ultimately for economic growth and development (Chavis, Kapper and Love, 2011). Liquidity constraints hinder potential entrepreneurs from starting businesses, which can lead to reduced growth rates, especially with small businesses (Evans and Javanovic, 1989). Attending to these constraints can lead to growth in start-up businesses and might promote broader economic growth. Financing options of mature firms could be explained by the pecking order theory of financing (Myers and Majluf, 1984). This theory states that, all other things being equal, companies seeking to finance a new project or product have a

hierarchy of preferred financing options that progresses from the most preferred to the least preferred. The hierarchy is said to follow this order: internal funding (or simply financing a project or product out-of-pocket), debt issuance, debt to equity hybrid issuance, and equity issuance. The pecking-order view states that the hierarchy is structured in this way because of the transaction costs involved in each form of financing. That is, internal funding has a lower transaction cost that debt issuance.

According to Chavis et al. (2011), mature firms generally have more internal funds (retained earnings) due to higher profitability and lower growth opportunities and therefore might prefer to use internal funds first. Mature firms are able to obtain loans on better financial terms compared to younger ones (Bulan and Yan, 2009).

Chavis et al. (2011) confirm that there is evidence around the world that new firms without proven track records experience more severe financing constraints. Studies conducted in China, Italy and the USA found that information asymmetry significantly limits the debt capacity of young firms, (Shirai, 2009; Carpenter and Rondi, 2000). Furthermore, higher financing constraints reduced the likelihood of starting a business in Thailand, especially in poorer regions (Paulson and Townsend, 2004). In the absence of formal finance mechanisms, new or start-up firms resort to informal finance, such as friends and family. This practice is also found in India where most SMEs get access to finance from friends, even in low growth phases. Chavis et al. (2011) in a study of 29 countries found that firms choose informal financing over formal routes where government officials are corrupt, as a way to avoid paying bribes.

They also found that around the world younger firms use more informal finance relative to older firms (Chavis et al., 2011). As firms age, bank finance replaces informal finance, but the use of external finance remains unchanged. The relationship between firms' age and the type of financing holds for firms of different sizes, and industries and by country and income groups.

2.6 Governance

Following the Organisation for Economic Co-operation and Development (OECD) (2004), governance refers to a system of exercising control or a system of governing. Corporate governance involves a set of relationships between an entity's management, board, shareholders, employees and other stakeholders. It also provides a structure by which the objectives of the entity are set, and the means of achieving such objectives and a system of monitoring performance. Therefore, good governance is an integral part of effective institutions.

For this study, a deeper analysis of the concept was necessary as it has an effect on the effectiveness and efficiency of organisations. Entities that are lacking in good governance are unlikely to perform well and achieve targets (Wong, 2004). Historically, the lack of good governance saw many organisations suffer from crisis management, loss of credibility and reputation and for some a complete loss of business (MacAvoy and Millstein, 2004). Good governance started gaining momentum in the 1980s as an attempt by corporations to address these challenges. According to Eisenhardt (1989), globalisation has resulted in increasing information flow and interactions between countries and has assisted in raising consciousness about issues of corruption and accountability. Many institutions now exist to measure and report on different aspects of governance.

According to the OECD (2004) the principles of corporate governance are based on four pillars: accountability, fairness, transparency and responsibility. The relationship between these pillars is diagrammatically represented in Figure 2.1.

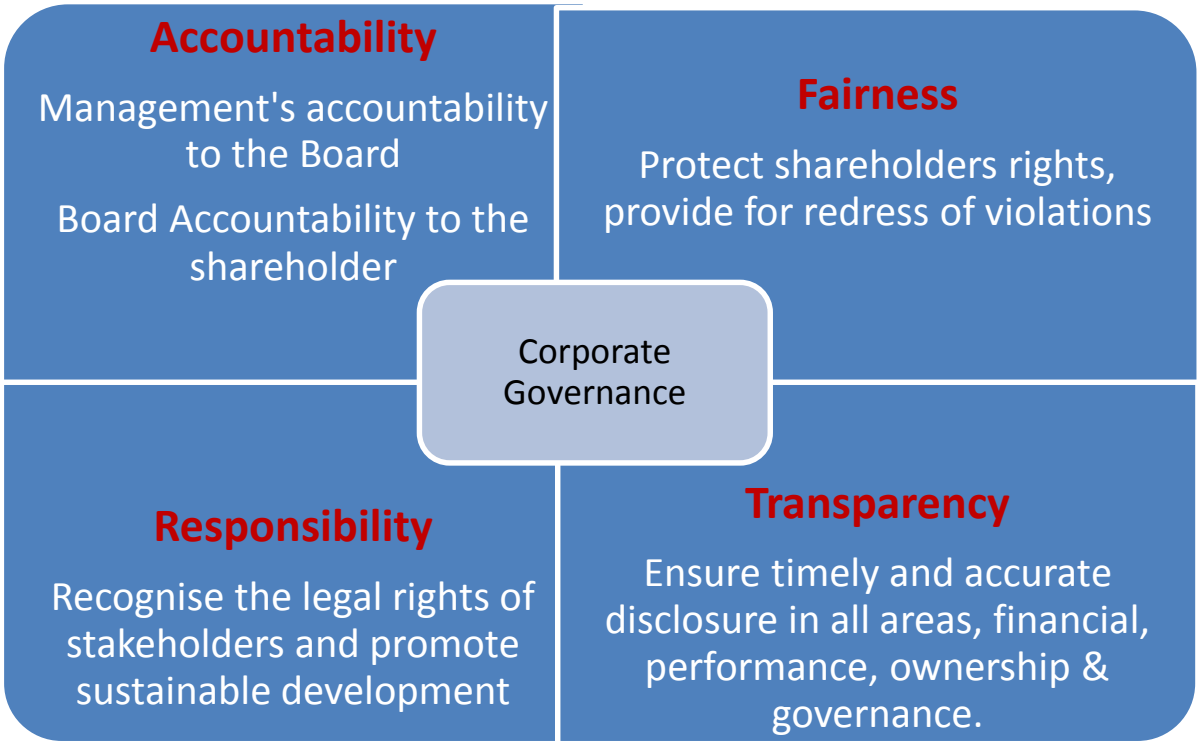


Figure 2.1: Four pillars of corporate governance

Source: Adapted from OECD, 2004

Figure 2.1 highlights four key elements crucial for effective corporate governance within the DFI environment. DFIs must have a clear statute indicating accountability arrangements between boards, management and shareholders. This ensures that responsibility is held at an appropriate level and that legal rights of all stakeholders and partners are observed. Transparency is one other key element that is essential for good governance, DFIs have to be transparent in their working arrangements and relationships and in disclosure of the results of their operations. Fairness is also a major requirement for DFIs in dealing with their stakeholders internally and externally. With these four elements appropriately structured and executed, the acceptable DFI level of corporate governance effectiveness will be attained.

The literature describes numerous debates and discourses around good governance and its associated benefits; for instance, Useem (2006), Wong (2004) and Hahn (2004) advocate five areas that they consider beneficial for good governance in companies: it optimises operational and

financial efficiency; it improves access to outside capital; it improves valuation and lowers the cost of capital; it improves the company's reputation and trust; and it attracts employees. Sonnenfeld (2002) on the other hand, argues that it is not about the rules and regulations that produce good governance, instead it is the way people work together.

Following the argument forwarded by Naidoo (2011) and Wong (2004), the growth of development finance requires appropriate governance systems in order to manage tensions between markets and the public purpose in a transparent manner. The governance issues facing DFIs are not limited to internal control systems; they include the need for them to deal with the tension created by the drive to raise capital from traditional markets, while avoiding mission drift and loss of value to low-income clients.

According to the Development Finance Forum, 2004 (DFF) the composition of and roles played by boards in these entities vary significantly, from relatively weak boards that exert very little authority to strong boards that shape policy and engage in long-range planning. The different qualities of boards have to do with organisational structures, the position of the entity within its life cycle, the leadership style of the executives and board members, and the experience of different political and cultural contexts.

Good corporate governance dictates that even state-owned enterprises with commercial objectives or social objectives must focus on the 'triple bottom line' – integrated economic, social and environmental performance (IoD, 2009). It is therefore clear that good governance practices should be a priority for any state-owned enterprise. Often governance weaknesses are identified with respect to a lack of role clarity, absence of fair process to appoint boards, disempowered boards and undue interference by government in the management of enterprises. This leads to boards that are not decisive, often having diluted accountability. Khoza and Adam (2005) state that such diluted accountability of Boards stems from a government desire to control public entities, notwithstanding the appointment of a Board of Directors that is supposed to be accountable for

leadership and performance of such entities. They further argue that while government concerns regarding the national interest are justifiable, their reluctance to let boards lead and direct public entities does more harm than good. Bernet (2011) argues that government needs to accept that unless its approach to governance changes, public entities and state-owned enterprises will never be effective or sustainable. A poor governance framework implementation does not only have an impact on the performance of the state-owned enterprise, but it is also not conducive to attracting and retaining the best talent on the Board of Directors.

On the other hand, government concern is understandable in that its interest is the pursuit of national goals and there is always a fear that a board of directors acting independently may not pursue national goals to the satisfaction of government.

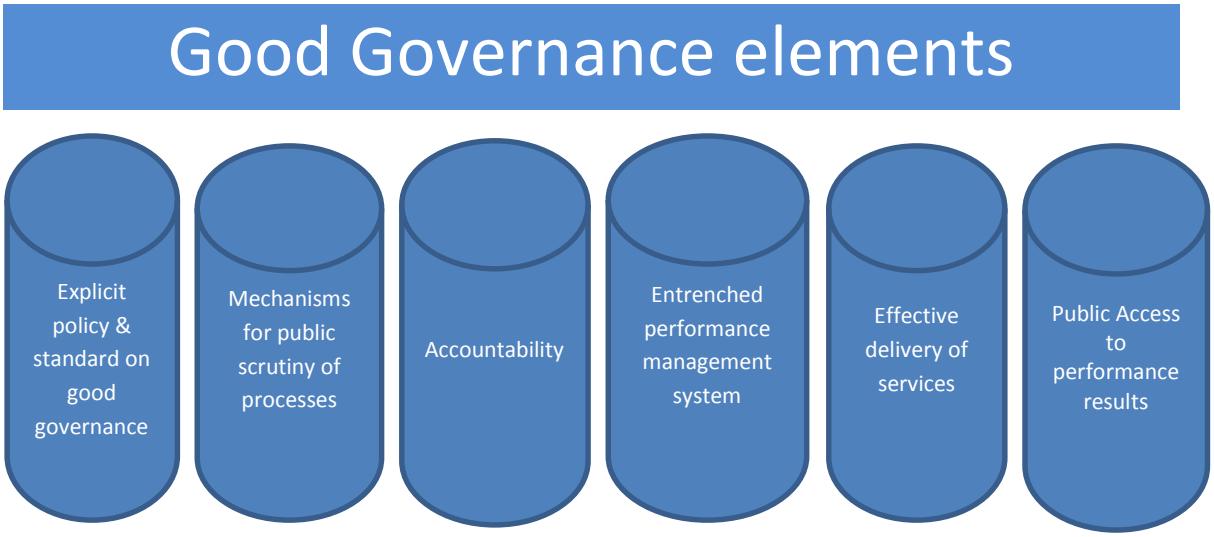


Figure 2.2: Support for good governance

Source: Naidoo, 2011: page 21.

Naidoo (2011) pointed out six elements which are considered to be important for good governance as indicated in Figure 2.2. These elements though not exhaustive, provide a basis to engage with current practices within the DFIs. As a model for good governance, the investigation into the affairs of the DFIs had to consider these elements. Naidoo (2011) maintains that organizations or

institutinos should have a) explicit policies and standards on good governance; b) mechanisms for public scrutiny of processes; c) appropriate accountability arrangement; d)entrenched performance management systems; e) effective mechanisms for delivery of services; and f) public access to the performance results.

According to the Institute of Directors (2009) the pursuit of good governance should lead to discernible changes in the manner in which organisations are managed and controlled, and how services are experienced by the targeted beneficiaries. Following Naidoo's (2011) model, the DFIs should have policies and standards that regulate the operational environment; and ensure that operational systems are subject to scrutiny by any interested party. Furthermore, there must be full accountability by the principals, as well as a culture of performance management, which should then lead to the effective delivery of services, which lends itself to the achievement of the planned results to which the public can have access.

2.7 Financial self-sufficiency and subsidy

The DFF (2004) defines financial self-sufficiency as the ability of a public entity to cover the financial and operating costs of its lending and investment operations, including the cost of loan losses without using external grant funds. The heated debate on the subsidies for DFIs continues around the world on whether it is fair and just given economic realities. There is no evidence in the literature of the subject being resolved. However, this study is not focusing on the merits or demerits of this debate. Important for this study were the self-sufficiency of development entities and the extent of grant funding utilisation. There seems to be general agreement in the literature that prolonged subsidy tends to reduce independence, obscure inefficiencies, and create barriers to productivity (Cooper, 2005). Financial self-sustainability demonstrates the market quality of borrowers, ensures against political interference that often comes from external donors and government funds, creates a platform for growth, and forces entities to create efficient operating systems (World Bank, 2005).

Subsidies in the development arena remain popular instruments that poor countries are known to look for from the developed nations (Yaron, 1992). At the onset, African Institutions attracted significant numbers of subsidies, which were used to capitalise, promote growth and help improve operations and performance of enterprises. At face value, such interventions seem positive, yet they can be counterproductive in terms of their effect on performance, efficiency and self-sustainability of enterprises (Yaron, 1992).

According to the DFF (2004) governments ought to fund costs that the market place cannot recover, in ways that maximise the creation of private and social wealth. The Forum (2004: 29) suggests six areas that can be subsidised efficiently:

i) Start-up costs, to seed new entities;

ii) Research and development costs, for new products;

iii) Cost of significant-impact high risk products, such as very poor customers who might require subsidy beyond two years of product development;

iv) Cost of capacity building, such as training, policy development and advocacy;

v) Cost for building customer capacity, such as analyses of economic sub-sectors and technical assistance; and

vi) Cost of building capital access, such as developing secondary markets and niche equity funds to support field growth.

There is no agreement on the issue of business subsidies; it remains a controversial point more so in South Africa where local businesses have to compete globally for the same markets (Cooper, 2005). This has been an issue in the agricultural sector (subsidisation of farmers in other countries, when South Africa has not been able to do so).

2.8 Small, Medium, Micro Enterprises (SMME) business support

There is consensus among policy makers, economists and business experts that SMMEs are drivers of economic growth (Mahembe, 2011). Abor and Quartey (2010) maintain that a healthy SMME

sector contributes positively to the economy through creating employment, generating higher production volumes and increasing exports, and introducing innovation and entrepreneurship skills. Turner (2008) confirms that the value of the small business sector is recognised in economies worldwide – irrespective of the economy's developmental stage. SMMEs play a pivotal role in creating jobs and contributing significantly to growth and development.

The South African Government has initiated wide-ranging support for SMMEs since 1994. Encapsulated in these support programmes are various business aspects, such as addressing low levels of skills, inaccessibility of markets, processes related to procurement, access to finance, and the legal environment. Various structures were initiated to provide this kind of support. Apart from government and semi-government entities that support SMMEs, there are also NGOs, donors and private sector agencies (DTI, 1995).

After 20 years of democratic government in South Africa, most of the constraints facing SMMEs remain unresolved. In a study conducted by Ladzani and Netswera (2009), the findings on the impact of the South African government's SMME programme revealed among other things, the weak state of official data for understanding impact evaluation. Furthermore, the fact that SMMEs make a weak contribution to employment creation because most do not grow, and that existing government programmes are largely biased towards groups of SMEs and bypass micro enterprises and the informal economy, was disclosed.

2.8.1 SMME support mechanisms

Ladzani and Netswera (2009) found that SMMEs in South Africa contribute 25% to the Gross Domestic Product (GDP) and 38% to employment. With more support, this sector could contribute much more to the national GDP and employment, considering that SMMEs in developing countries, such as Brazil, India and Mexico, contribute more than 40% of GDP and more than 60% to employment (DTI, 1995). The South African government started as early as 1994 to create an enabling environment by designing relevant policies and putting in place support institutions, such

as Khula Enterprise, SEDA, Trade and Investment Promotion Agencies, and particularly in KZN, the Ithala Development Bank was split between its banking focus and its development focus (DTI, 1995).

Access to finance is generally perceived to be critical to the success and growth of SMMEs; this has led to criticism of the private banking sector for its inflexibility regarding the development of SMMEs. In the survey conducted by Ladzani and Netswera (2009) in Limpopo Province, they found that 58.9% of SMMEs believed that the commercial banking sector was still unwilling to provide financial support. As a result of this lack of financial support, many SMME owners (84%) started their businesses without external funding.

The findings by Ladzani and Netswera (2009) confirm the need for a publicity strategy in order for the existing support to SMMEs to be accessible. The lack of knowledge of the available support systems also hinders accessibility; among these is the issue of language and proximity of support entities to rural entrepreneurs.

2.9 Challenges facing DFIs

According to te Velde and Warner (2007) many governments embrace the value of development finance and there are many examples of short-term capital access strategies that are likely to have limited impact. In some loan programs run by government, the political logic of the programme dominates product delivery and the operating style. On the other hand, Sheng (2013) maintains that some short-term programs, while focusing on the poorest, have limited impact, resulting at best in a temporary improvement in cash flow. There are also operations with the dominant goal of showing good repayment statistics and high sustainability numbers to shareholders or donors.

At a broader level, the intensity and varying levels of poverty have led to changes in the purpose of development aid. According to Shafik (2011), the future of development finance is such that development aid will increasingly have two focus areas; first, international solidarity to help the poorest achieve minimum standards of living especially in the states that lack the willingness or

capacity to provide it themselves and second, solving global collective action problems (e.g. communicable diseases, financial instability and conflict) that exacerbate poverty and have international spill-overs of globalisation and growing interdependence.

At an institutional level, Shafik (2011) argues that the share of global aid from multilateral institutions, such as the IMF, has declined in favour of specialised institutions, such as the Global Fund to fight HIV and Aids. Sheng (2013) confirms that the specialised institutions provide an important addition to global governance and problem solving that has the advantage of speed, flexibility and legitimacy.

Caine, Cane, Mcclintic and Klimek (2005) argue that the evolution over the last decade of the mini-lateral institutions (e.g. bilateral agreements between countries) reflects frustrations with the effectiveness, legitimacy and pace of delivery in many of the multilaterals. Countries have stressed the need for multilaterals to reform their governance and modes of operation if they are to remain important for solving global problems (hence, a massive effort to reform the governance of the IMF and the World Bank). Caine et al. (2005) allude to evidence that money and influence has drifted towards the more effective parts of the multilateral system. Many poor performing agencies have seen funding levels stagnate as donors have focused their resources on those that are better at delivering and accounting for results (Shafik, 2011).

2.10 Framework for successful DFIs

Following the line of thinking of Thorne and du Toit (2009), the success of DFIs depends on a variety of dimensions, and failure in any one of the dimensions can significantly undermine the institution. Following Thorne and du Toit (2009), Figure 2.3 illustrates the imperative principles for DFIs.

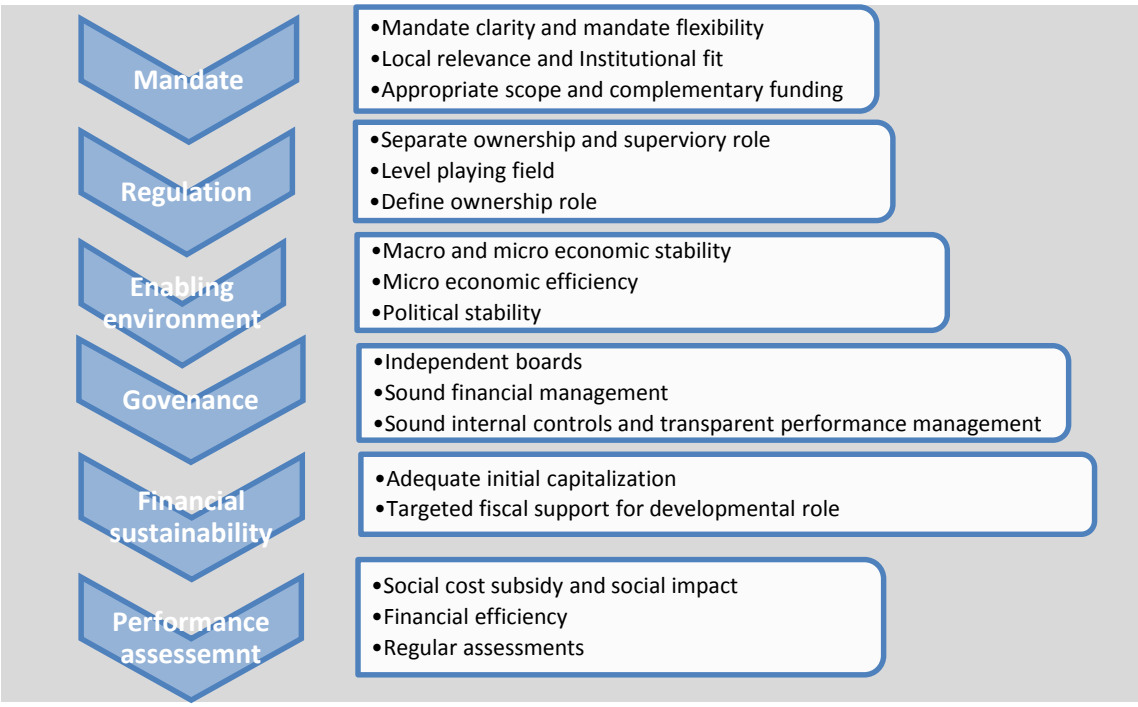


Figure 2.3: Framework for successful DFIs

Source: Thorne and du Toit, 2009: page 689

In line with Figure 2.3, Thorne and du Toit (2009:689) argued for the six dimensions that are critical for the success of DFIs. The first among these is the environment – development entities need a climate of macro-economic stability without too many micro-economic distortions. They require political stability and other complementary institutions, and they cannot succeed in a largely dysfunctional climate. Second, mandates – their role should be clearly defined and not compete with the private sector. Third, how they are controlled (regulated and supervised) – the ownership role of the state should be recognised and carried out cautiously so that the entity remains with some meaningful autonomy operationally while executing its mandate. Fourth, governance (how they are run) - sound governance and management are critical for the success of DFIs. How DFIs are funded (financial sustainability) is also important and constitutes the fifth principle, as government has to adequately capitalise these entities and then limit additional fiscal support. This requires that DFIs should approach donors and obtain a credit rating to enable

them to raise their own funds. Performance assessment is the final principle, as it is important to assess whether these entities make a difference. There has to be a set of objectives that are established from the beginning and regular assessment of the level of achievement is a fundamental activity.

Although the model in Figure 2.3 provides a basis for assessing the DFI environment, it does not provide depth on the proposition for financial sustainability of DFIs considering its role is to operate in high-risk markets compared to the commercial bank sector. It also assumes that the mere existence of a performance assessment system will contribute to the success of DFIs. The existence of the factors as indicated by Thorne and du Toit (2011) such as a clear mandate, favourable regulatory environment, enabling environment, good governance, financial sustainability and performance assessment systems, while providing the necessary conditions for the operation of the DFIs, are not adequate to guarantee success. The culture of the organisation plays an important role. Systems and policies *per se* are not sufficient; a practical system of monitoring the implementation and consequence management is likely to lead DFIs to operate at an optimal level. This model was used to review each of the DFIs surveyed, and the findings on how they each fare are provided in Chapter 8.

In order to review the effectiveness of the DFIs successfully, a number of factors that are considered to have an effect had to be reviewed. DFIs as government agencies of development are dependent mainly on government for an environment that enables them to perform and deliver successfully on the government's development agenda. Reviewing the environment within which DFIs operate was therefore important for the study.

An enabling environment refers to attitudes, policies and practices that stimulate and support effective and efficient functioning of organisations and individuals (Jones and George, 2009). According to Jarvis (2013), an enabling environment is a set of interrelated conditions, such as legal, organisational, political and cultural, that has an impact on the capacity of DFIs to achieve their

objectives. It is true that a flourishing business sector and civil society requires an enabling environment, which depends upon the actions and policies of different stakeholders such as government and donors.

For DFIs, an enabling environment comprises a complex set of conditions. These include, administrative factors affecting the way in which government deals with DFIs, a general legal and judicial system and related mechanisms affecting the establishment, capitalisation and monitoring of DFI performance, and political factors and other circumstances that influence the recognition and operations of the DFIs (Jones and George, 2009). Based on these, it is apparent that respecting DFIs as development actors in their own right and allowing them autonomy even when it might be inconsistent with 'mother' department priorities, can go a long way towards creating an enabling environment.

The right enabling environment creates wealth. The DFF (2004) found that strengthening the enabling environment enhances the ability of DFIs to reach scale and have a positive impact on poverty. The DFF (2004) further found that dysfunctionality in the legal and regulatory environment constrains social and capital mobility, and limits the long-term effectiveness of DFIs. There is a need to transform a constraining environment into an enabling one.

2.11 The value for money (efficiency and effectiveness) concept

Understanding the causes and consequences of effectiveness or ineffectiveness of public institutions is crucial to advancing knowledge regarding major debates on service delivery challenges, public policy, and the allocation of public resources. Despite its important role in addressing major debates on service delivery, scholars have neglected the study of the efficiency and effectiveness of DFIs in South Africa. According to Stoner et al. (2009), efficiency refers to the ability to minimise the use of resources in achieving organisational objectives, i.e. doing the things right. Scott et al. (2008) also contrast efficiency with effectiveness, arguing that efficiency focuses on the input-output relationship while effectiveness refers to the outputs and outcomes. Scott et

al. (2008) defined effectiveness as the likelihood of achieving the intended objectives of an activity, policy or intervention. Yankey and McClellan (2003) define organisational effectiveness as the extent to which an organisation has met its stated goals and objectives and how well it performed in the process.

Immordino (2010) argues that in order for all organisations to remain effective, they must continuously improve themselves in response to the challenges confronting them. Those in the public sector are no exception; public sector agencies are subject to both internal and external pressures that result in the frequent need for change and improvement. Public entities, especially DFIs, have a unique opportunity to impact the lives of those to whom they provide services. The key question is how best DFIs meet the needs of their relevant constituencies. They are expected to respond and adapt to demographic shifts as well as changes in the economy, their internal workforce, and the priorities of those for whom they provide services. Hence, government agencies are under constant pressure to improve their efficiency, effectiveness and responsiveness. At the same time, there is pressure for transparency and increased accountability in the way that DFIs conduct their operations. This is the essence of good governance. The pressure to perform comes from both internal and external sources: externally from the public, the recipients of services; and internally, the push to evaluate performance and improve services comes from both elected and appointed leaders and staff trying to stretch limited resources.

Turner (2008) emphasises that DFIs are expected to make resources available for both existing and new challenges. They must continually review their ability to achieve their mission and their capability to be efficient and effective in meeting the needs of those they serve. While the scope of services provided by government is growing, the critics of government agencies are becoming more vocal about what they perceive to be their problems. These concerns have generated calls from taxpayers, legislators, academics and government itself to expand performance evaluation and introduce a culture of continuous improvement. Hence, it is important for the South African

Government to review the effectiveness of the DFIs as part of performance evaluation in order to effect improvements.

The successful operation of any government agency, regardless of the type or size of the jurisdiction, presents a challenge at all levels of government. The challenge is to function in a way that makes the best use of available resources, serves the broadest possible population, accomplishes the goals of society and government, and sustains a workforce that is energised and able to meet these challenges. The ability to fulfil the organisation's mission and to meet its goals and objectives is measured in terms of effectiveness, efficiency and economy, which translates into value for money.

In the government context, effectiveness refers to the degree to which a government agency meets the perceived need for services at an acceptable level of service quality. It is not easy to measure because it can be very subjective and dependent on the perspective of the group doing the measurement. Being effective also becomes more difficult in the face of calls to do more with less. Efficiency refers to making the best possible use of the resources available in meeting the needs of constituencies. It takes into account different types of resources, such as time, money, equipment and staff (Levitt and Joyce, 1987). In this study, the effectiveness of the DFIs is measured by the rate at which they achieve their performance targets as contained in their corporate and operational plans and in their annual reports.

2.12 Theoretical framework

2.12.1 Agency theory

This theory explains the relationship between principals (shareholders) and agents (management) in a business or corporate environment. It is concerned with resolving challenges that exist in agency relationships. There are two challenges that this theory tries to address:

i) The conflict of desired goals between the principal and the agent in situations where the principal is unable to confirm the actions of the agent; these are difficult to confirm due to differences in their duties and access to information; and

ii) The challenge with regard to risk management, when the agent is risk averse while the principal may be more risk tolerant or more aggressive in risk appetite; this means that their actions and approach are bound to be different (Carrington, DeBuse and Lee, 2008).

The notion that boards should be independent from management is derived largely from the agency theory. The agency theory posits that executive managers act as agents of the shareholders. This runs the inherent risk that a self-serving management can pursue its own priorities that are at odds with those of the shareholders (Thomas, Schrage, Bellin and Marcotte, 2009). As a solution to this conflict of interest problem, this theory introduces independent boards of directors, which are not linked or associated in any way with management. The main role of the boards of directors is to monitor management's performance and to use levers such as pay determination to elicit expected behaviour.

Overall, following various arguments by Butler (2005), Grant and Keohane, (2005), and Stone, (1995) the agency theory is a supposition that explains the relationship between principals and agents in business. It is concerned with resolving problems that can exist in an agency relationship between principals (shareholders) and agents (executives). This theory is relevant to this study because DFIs have executive management, shareholders who are mainly government represented by various departments, and the boards of directors. This tripartite relationship can be complex.

The agency theory recognises the role of information in this relationship. It recognises that management at all times knows more about the business then the shareholders and the board of directors. This kind of information asymmetry is one of the key factors that enable management to pursue divergent objectives. Based on this theory, the board of directors has the responsibility to overcome the information asymmetry so that it maintains a firm grasp of the core business and

risks facing their organisations. Openness between boards of directors and management around each other's interests, expectations, aspirations, fears, and objectives drives the effectiveness of the relationship (Thomas et al., 2009).

The challenge of the separation of ownership and control dates back to the early 1930s because investors could not collectively make the daily decisions needed to operate the business, and shareholders did not wish to be part of the daily activities of different firms. This brought about a challenge with respect to separation of ownership and control, which is not unique to the private sector, but is also applicable to public entities such as the DFIs. This is referred to as the principal-agent problem. The owners are the principal and the manager is the agent who is supposed to work for the owner. If shareholders cannot effectively monitor the manager's behaviour, managers may be tempted to use the firm's assets for their own ends at the expense of the shareholder (Kim and Nofsinger, 2007). Various authors, e.g. Kim and Nofsinger (2007), Dorstein (1988), and Khoza (2005), suggest the tying of wealth of the executives to the wealth of the shareholders, so that shareholders and executives want the same thing. This means that when the business makes a profit and achieves targets, the executives also get a share of the profit. This is often referred to as performance bonuses.

In the public sector, the matter is much more complicated in that the shareholder of public entities is mainly government, whose role is exercised through relevant mother departments. The appointment of the boards of directors for public entities intends to provide oversight to the executives of the public entities on behalf of government as a shareholder. This arrangement does not resolve the challenges relating to the principal-agent problem. The mother department, minister or member of the executive council, as principal and the board of directors as agent do not always pursue the same interests. As an attempt to regulate the relationship, often a shareholder compact is drawn up annually setting up roles for each party and indicating the performance targets for the board. The assumption of the agency theory that boards of directors will resolve the challenge of the conflict of priorities is not always correct. Boards are not always

neutral to the two parties (shareholder and management); they normally fall on the management side, probably because of their reliance on management for information.

In this study, the shareholder compacts coupled with enabling legislations were reviewed as part of the document analysis in preparation for the face-to-face interviews. In the case of DFIs, the donors (government departments) become principals as they determine the purpose for which the funds are available. The agent's role is to implement the directives of the principal. According to Hawkins, Lake and Nielson (2006), the key concern of the principal is agency slack (an independent action of the agent that is contrary to the principal's requirements). The alternative models to channel development finance would seek to minimise occurrence of slack. Slack may occur in two forms; first, shirking, when an agent adopts a 'go slow' approach in delivering on the results desired by the principal; and second, slippage when the agent drifts away from the outcomes of the principal (Hawkins et al., 2006).

Smyth (2011) proposes various solutions to the principal-agent problem. Among them is the need to construct the principal-agent relationship as a rule-based delegation by the principal to the agent, limiting the agent's discretion. Another way is for the principal to establish an ex post monitoring and reporting requirement. One other possible solution proposed by Hawkins et al. (2006) is for the principal to create its own agency from scratch. They maintain that while creating an agency from scratch might be more expensive, it is likely to emerge with an agency that would have the same preferences as that of the principal.

Scholars in different fields have used this theory, over a long period dating as far back as 1971; nevertheless, it is still not without controversy. Its proponents argue that it is revolutionary and the foundation for a powerful theory of organisations is being put in place (Eisenhardt, 1989). On the other hand, the detractors of this theory label it as trivial, dehumanising, and dangerous. It is seen as excessively narrow and addresses no clear problem, which suggests it has no obvious worth (Perrow, 1986).

The agency theory is also criticised as being overly simplistic and that it does not reflect the real-world business environment. Furthermore, empirical research has failed to support its basic tenets. Researchers are not only seeking ever finer incremental adjustments to the theory but are also asking for re-examination of the theory so that research can move into new and different directions (Lan and Heracleous, 2010).

Government control is often a source of conflict between those representing the government and those representing public entities (DFIs). The overall impression is that the majority of conflicts arise because the legitimacy of governmental authority, over various matters concerning the conduct of the entities, is often contested by those heading the entities. Within the DFI environment, the authority of the shareholder appears to be regarded as ultimate.

A study conducted by Dorstern (1988) revealed that board members in Britain and Israel did not agree with the use of public entities for the implementation of economic policies. Most of them felt that government intervention purely for short-term political and social reasons was not sustainable due to the short-term horizon of politicians.

In the same study, board members emphasised that government interference is mainly caused by financial dependency of the entities on government. Such interference impairs the ability of the entities to react expediently to opportunities and market forces. Some maintained that government controls obstruct and cause severe distortions in the implementation of long-term corporate plans and therefore have a negative impact on the economic efficiency of the entity. There is, however, less government intervention when the entities are successful, i.e. independent of government support financially.

2.12.2 Accountability theory

According to Carrington et al. (2008), accountability and governance are two sides of the same coin. Holding an organisation accountable means ensuring that their internal policies and procedures are lawful and reflect the best interests of its stakeholders and that they act according to their

governance arrangements. Accountability is only possible when the governed are separated from the governors (Grant and Keohane, 2005).

For the purpose of this study, accountability refers to a situation where decision-making power is transferred from a principal (government) to an agent (DFI), which requires that there must be a mechanism in place for holding the agent to account for his decisions and if necessary for imposing sanctions, ultimately by removing the agent from power. According to Carrington et al. (2008), accountability is one of several methods for constraining power for the benefit of those represented. The relevance and importance of the theory of accountability for DFIs comes from the understanding derived from Bentham's principle, namely, "the more strictly we are watched, the better we behave –we give an account only when it is requested, and only when that request is backed up by power" (Butler, 2005:11).

Accountability is associated with the act of governing that is related to the authoritative allocation of resources and exercising control and coordination (Kooiman, 1993). DFIs are expected to maintain effective financial stewardship and demonstrate social impact. Accountability is crucial in development finance due to the nature of the funding arrangements that exist between various stakeholders. Over and above fiscal responsibility, DFIs must pay attention to ensuring a reasonable return for investors (government) and demonstrate social impact (DFF, 2004).

According to Carrington et al. (2008), accountability requires a state of affairs in which some actors have the right to hold other actors to a set of standards, judge whether those actors have fulfilled their responsibilities in the light of these standards, and impose sanctions if they determine that these responsibilities have not been met. In the case of development finance, the sponsors or donors have an obligation therefore to hold the DFIs responsible for the utilisation of the funds. It is therefore appropriate for government as the shareholder in most DFIs in South Africa, and KZN in particular, to make it mandatory for the DFIs to account for fund utilisation.

2.12.3 Theory of bureaucracy

Kingston (2011) defines bureaucracy as a body of non-elected government officials and/or an administrative policy-making group. Historically, bureaucracy referred to government administration managed by departments staffed with non-elected officials while in modern times, it refers to the administrative system governing any large institution.

Max Weber (1860-1920), known as a political economist and sociologist, is the founder of the bureaucratic theory. He argued that bureaucracy is the most efficient form of organisation because of the clear lines of authority it creates. In other words, bureaucracy is a rational and effective mode of organising activities of large numbers of employees as decisions are made according to general rules rather than whims of officials or experts. In this way, the risk of corruption and nepotism is reduced. In a bureaucratic environment, there are clear and well-defined rules and regulations that are strictly followed. According to Weber, bureaucratic organisations have common features, such as a high degree of division of labour; a well-defined hierarchy of authority; formal and impersonal relations among the members of the organisation; interpersonal relations based on positions and not on personalities; all rules must be strictly followed; and only legal power is given importance.

“Modern societies cannot function without bureaucracy, which leads to the question of whether bureaucrats can adopt Pareto efficient solutions? The objective of bureaucrats is to maximise the size of the budget, since they are concerned with the size of the budget of their organisations” (Nemec and Wright, 1997:164). This confirms that politicians enact legislation but bureaucrats run government programmes.

Pareto efficiency refers to an economic state where resources are allocated in the most efficient manner. Pareto efficiency is obtained when a distribution strategy exists where one party's situation cannot be improved without making another party's situation worse. With budget maximising bureaucrats it would be unfair to expect a Pareto efficient outcome (where resources are optimally utilised). Therefore, bureaucratic organisations cannot be effectively run as suggested

by Weber. In fact, a number of reasons have been put forward as criticism of bureaucratic organisations, such as too much emphasis on rules and rigid regulations; a lot of wastage of time; effort and money due to a lot of paper work involved; difficulty in coordination and communication; and limited scope of human resources.

Nemec and Wright (1997) further argue that there is common agreement among economists that bureaucracies generally produce too much output and may be technically inefficient by producing at too high costs per unit of output.

Adam and Khoza (2005) maintain that several practical problems limit the level of efficiency in bureaucratic administration. It is often impossible to measure the performance of the bureaucracy for several reasons. The processes of objectives setting are very complicated. Programs provide for a multiplicity of objectives. Some countries restrict salaries of public servants, but this may have a negative impact on motivation and on the quality of persons hired. Some countries have special legislation on public servant job security so that it may be very difficult to dismiss somebody from a government job; thus, there may be a non-competitive environment for bureaucratic services with elements of imperfect information. Government agencies often cannot go bankrupt as opposed to private enterprises; at the same time, bureaucrats are considered to be risk-averse individuals. Government representatives (bureaucrats) are unable to take high-risk decisions because of the nature of government and the accountability that goes with being in government.

The word 'bureaucracy' has come to have negative connotations as bureaucracies are criticised for their complexity, inefficiency, and inflexibility. The elimination of unnecessary bureaucracy is a key concept in modern managerial theory and has been a central issue in numerous political campaigns (Kingston, 2011).

Various scholars have criticised bureaucratic organisations as very rigid organisations that place little or no importance on human relations. Instead, it may be suitable for organisations where change is very slow. Other scholars argue that bureaucracy is appropriate for government

organisations because government is a bigger institution with a very slow wheel to turn. Therefore, policies, rules and regulations are the best mechanism to ensure efficient operations.

While Merton (1957) agrees with Weber's theories of bureaucracy in certain analyses, he also criticised it for the dysfunctional aspects, which he attributed to the requirements resulting from over conformity to the written rules and regulations. He confirmed that bureaucrats are more likely to defend their own entrenched interest than to act in a manner that benefits the organisation as a whole.

The theory of bureaucracy has both positive and negative features, and it is clear that a number of initiatives have been undertaken in many countries, including South Africa, to improve the efficiency in the provision of public services. However, some degree of inefficiency in bureaucratic behaviour is expected as a standard feature of government administration. As a result, there is a belief or assumption that the creation of entities outside the government will have better capacity, systems and resources to deliver much more efficiently and effectively.

This study examined the compliance requirements of the DFIs to assess whether they are more effective and efficient than government departments. The result was that DFIs are subjected to the same bureaucratic structures and behaviour as departments as they are expected to comply with the same legislation (PFMA), to have written policies and procedures about every process, and a hierarchy of approval requirements. These requirements can have a negative impact on the service delivery standards of the DFIs.

2.13 Conceptual framework

This section deals with the concepts, assumptions and the theory that informs the study. The key questions addressed in this section are: "what defines effective organisations, and how is the effectiveness of DFIs measured in this study?" Various models of organisational effectiveness are examined as well as some key subset theories of performance management.

2.13.1 Organisational effectiveness concepts

In evaluating the literature, it is clear that the concepts 'performance' and 'effectiveness' have the same meaning, mainly because the problems, relating to their definition, measurement and explanations are the same (March and Sutton, 1997). Shenhav, Shrum and Alon (1994), in their 35-year period survey of leading management journals, found that these two concepts are dependent and that until 1978 they both dominated the literature interchangeably.

Shahzad, Luqman, Rana, Khan and Shabbir (2012) posit that performance refers to the degree of achievement of the mission at the work place that builds up an employee's job. This definition is the same as that given by Yankey and McClellan (2003), which states that organisational effectiveness is the extent to which an organisation has met its stated goals and objectives and how well it performed in the process. Malik et al. (2011) concur that organisational effectiveness is the concept that describes how effective an organisation is in achieving the outcomes it intends to produce. Malik et al. (2011) further reveal that organisational effectiveness is an abstract concept and is impossible to measure. Instead of measuring organisational effectiveness, organisations can determine proxy measures, which are then used to represent effectiveness. VRH Consulting (2003) further confirms that effectiveness is considered as a social construction based on judgements of individuals or groups.

In organisational effectiveness research, there is little consensus either theoretically or empirically, as to what constitutes organisational effectiveness and how best to measure it (Aguinis, 2009). Robbins and Judge (2009) assert that effectiveness, like beauty, is in the eye of the beholder, as different stakeholders' judge organisations by different criteria. Following Etzioni's view (1960), organisational effectiveness is the degree to which an organisation realises its goals. In other words, Etzioni (1960) considers organisational effectiveness as another name for goal achievement. Following this definition, the effectiveness of the DFIs is directly linked to the achievement of objectives and goals; therefore, one cannot assess the effectiveness of the DFIs without looking at

their objectives and performance targets. Organisational effectiveness represents the outcome of the organisational activities, while performance measurement consists of an assessment tool to measure effectiveness (Cameron, 1986). A natural measure of the effectiveness of an organisation is how well it achieves its goals, indicated by measuring performance. Organisational researchers Hannan and Freeman (1993) used the concept of organisational ecology to argue that organisational effectiveness depends on the environment in which the organisation operates. An organisation that delivers adequate performance in a challenging environment may be more effective than an organisation that performs well without encountering problems.

Organisations face constraints from internal and external factors, such as not having the money, people or raw materials needed for optimal solutions; or a physical plant and its equipment may be inadequate while facing strong competition or regulatory action. Hannan and Freeman (1993) refer to such constraints as one aspect of the environment, or ecology, in which the organisation operates. The most effective organisations deliver the required performance, despite such constraints on their freedom to act in the most efficient manner possible.

The construct of effectiveness in academia is not without ambiguity and confusion. While there is no agreement on how to measure organisational effectiveness and there is disparity in its use by practitioners and academics (Cameron, 1986), there seems to be some agreement in that organisational effectiveness requires multiple criteria and it must consider both means and ends (Robbins, 1983). Various models have been developed over time to evaluate the effectiveness of organisations. The choice of model and criteria should be flexible and appropriate for the context. The explanation of effectiveness variation and the search for its true causal structure represent one of the most enduring themes in the study of organisations (March and Sutton, 1997).

Daft (2015) defines three contingency approaches to the measurement of organisational effectiveness that are relevant to this study:

i) The resource based approach assesses effectiveness by observing the beginning of the process and evaluating whether the organisation effectively obtains resources necessary for high performance, defined as the ability of the organisation to obtain scarce and valued resources;

ii) The internal process approach looks at the internal activities, measured as internal organisational health and efficiency, for instance, a strong corporate culture; and

iii) The goal approach is concerned with the output side and whether the organisation achieves its goals in terms of desired levels of output. Since organisations have multiple and conflicting goals, effectiveness cannot be assessed singularly through operative goals.

Hence, emerging from the theories reviewed, effectiveness is a function of profitability (financial management), internal processes (leadership and management) and goal setting (governance). These three concepts can be linked to the three approaches of organisational effectiveness as per Figure 2.4.

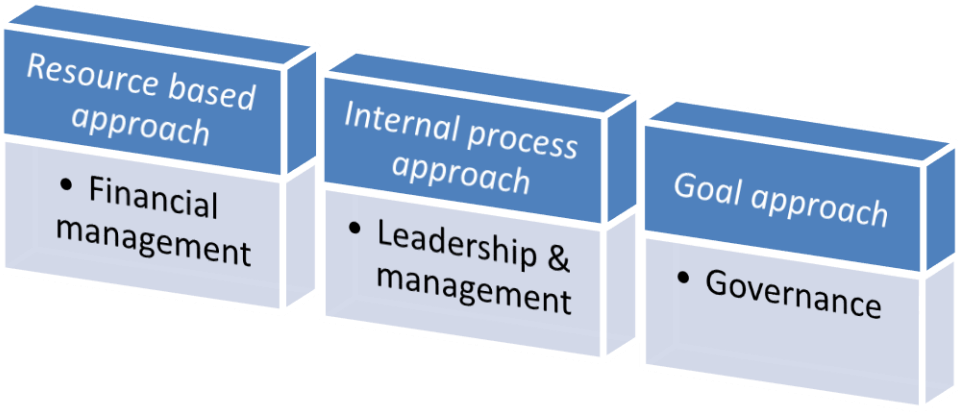


Figure 2.4: Organisational effectiveness approaches and key concepts

Patel (2007) refers to the 'competing values framework' a theory derived from research conducted on major indicators of effective organisations. Based on statistical analyses of a comprehensive list of effectiveness indicators, Patel (2007) discovered two major dimensions underlying the conceptions of effectiveness. The first dimension is related to organisational focus, with the internal emphasis being on the wellbeing and development of the people in the organisation, and the external emphasis being on the wellbeing and development of the organisation itself with respect to its environment. The second dimension is related to preference for structure and represents the contrast between 'stability and control' and 'change and flexibility'. In short, all organisations deal with two tensions, internal versus external and flexibility versus control. To be successful, an organisation must effectively balance these tensions and put together a team that can address these different needs. Hence, for the purpose of this study, a set of indicators of effectiveness was developed from the document analysis of the DFIs that were surveyed.

Henri (in his unpublished dissertation) reflects on the evolution of the organisational effectiveness models. Initially the focus was on the achievement of goals, which is known as the 'goals model' (Etzion, 1960), and gradually moved to the 'systems model' (Yuchtman and Seashore, 1967), which considered the resources and processes necessary to achieve goals. This evolution led to the 'strategic constituency model' which takes into consideration the expectations of the various powerful interest groups, which later led to the 'competing values model' (Quinn and Rohrbaugh, 1983), which views the assessment of organisational effectiveness as an exercise grounded in values. Lastly, in the evolution is the 'ineffectiveness model' (Cameron, 1984), which represents the absence of ineffectiveness as a source of effectiveness. A summary of the models of organisational effectiveness is provided in Table 2.1.

Table 2.1: Models of organisational effectiveness

No.	Model	Conceptualization of the organisation	Focus	Advocates
1.	Goal model	Enterprise as a rational set of arrangements oriented towards achieving goals	Achievement of outputs	Etzioni, 1960
2.	Systems model	Organisation as an open system (input, output, transformation)	Acquisition of resources and internal processes (means)	Yuchtman and Seashore, 1967
3.	Strategic constituencies model	Organisation as internal and external constituencies that negotiate a complex set of constraints and goals.	Response to the expectations of powerful interest groups that gravitate around the organisation	Connolly et al., 1980
4.	Competing values model	Organisation as a set of competing values which create multiple conflicting goals	Three dimensions of competing values: Internal vs external focus; control vs flexibility concerns; and ends vs means concern	Quinn and Rohrbaugh, 1983
5.	Ineffectiveness model	Organisation as a set of problems and faults	Factors that inhibit successful organisational performance	Cameron, 1984

Source: Adapted from Cameron, 1984

Of these models, the goal model is the closest to the DFI environment. DFIs in their medium-term macro plans or strategic plans and annual performance plans, set out goals and objectives and outputs defined as performance indicators. While these models were extensively researched and analysed, they are not without faults as none of them can be used in isolation to explain or understand organisational effectiveness in totality (Rojas, 2000). These models are not able to explain the effectiveness phenomenon in all sectors of the economy (in all industries). They have therefore been criticised by a number of authors (Group, 2000; Malik, 2011; Herman and Renz, 2004), in that they do not answer some of the critical questions, such as from whose perspective is effectiveness being assessed; on what domain of activity is the assessment focussed; and what levels of analysis are being used?

2.13.2 Measuring the effectiveness of the DFIs

Considering there is no agreement on how to measure organisational effectiveness and there is disparity in the use of effectiveness indicators by practitioners and academics (Cameron, 1986), a set of effectiveness indicators focusing on the DFIs was developed for the purpose of this study. There seems to be some agreement that organisational effectiveness requires multiple criteria and it must consider both means and ends (Robbins, 1983). The choice of model and criteria

should be flexible and appropriate for the context. With these considerations, the indicators of effectiveness were formulated after the analysis of the documents from the DFIs that were surveyed.

Figure 2.5 shows all the areas that were investigated within the DFIs during the data collection stage. These areas emerged from the document analysis as elements that define the performance of the DFIs. This is the lowest level of data that was collected in order to assess the performance of the DFIs. These indicators were then grouped into the key areas from which the high level of analysis could be concluded.



Figure 2.5: Measures of DFI effectiveness

Figure 2.5 describes diagrammatically the elements that have been used in the study to assess the effectiveness of the DFIs. For the purpose of this study, effectiveness was measured using the elements below, i.e. DFIs were classified effective if:

- Their strategic plans or corporate plans inform their reporting during the year and at the end of the year;

- Their performance indicators are the real (true) measures of actual performance. When the set annual targets are achieved, there is a linkage with the achievement of the objectives of the DFI. The quality of the performance indicators refers to the degree to which the performance indicators are useful, reliable, consistent, relevant and measurable;
- They achieve their performance targets set for each year;
- Their daily activities are directed towards the fulfilment of the broader mandate of the DFI;
- There are more viable businesses, generated by the DFI, than those that fail;
- Their percentage of performing loans is higher than that of the non-performing loans;
- They comply with their founding legislation;
- They have an enabling environment, where political and administrative leadership pulls in the same direction;
- There is role clarity among stakeholders, such as boards, relevant government departments and management; and
- They have moved, or are moving, towards self-funding as entities of government.

These indicators can be further linked to the key effectiveness indicators as they appear in the literature and are highlighted in Figure 2.6.

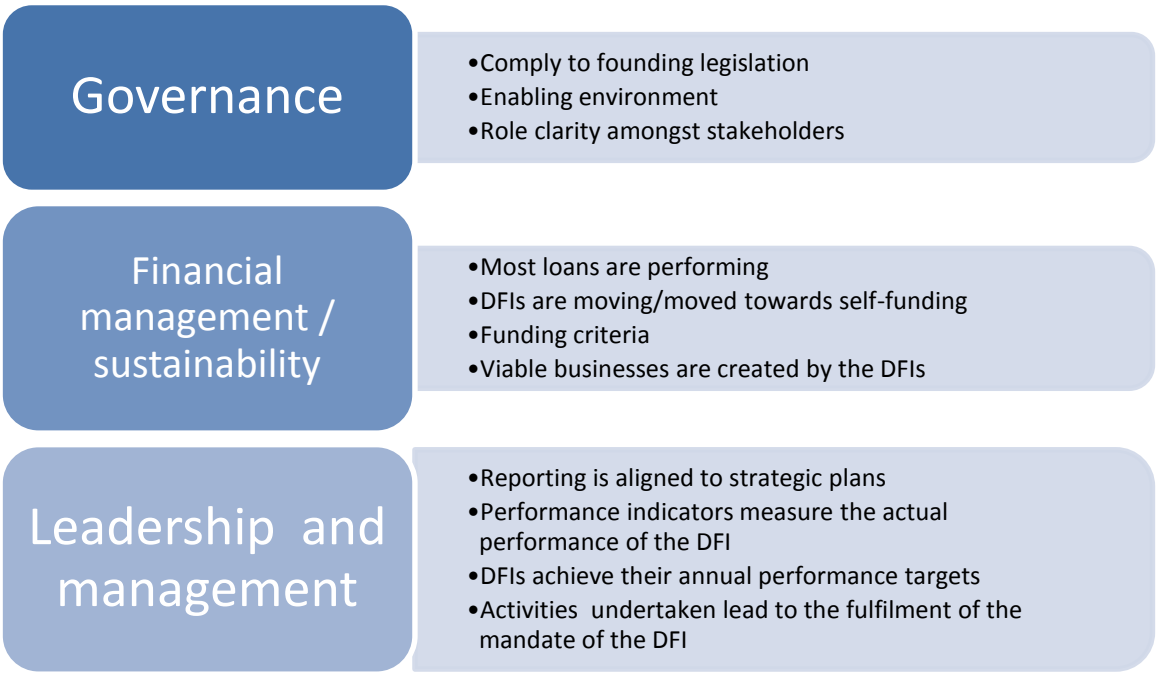


Figure 2.6: DFIs key concepts and indicators of effectiveness

The identified DFI indicators of effectiveness can be further linked to the organisational approaches as narrated by Henri (n.d.) and indicated in Figure 2.7, which shows the linkage between the organisational effectiveness approaches as proposed by Cameron (1984) and the key concepts and indicators of DFI effectiveness.



Figure 2.7: Linking conceptual framework to the DFIs indicators of performance

In order to be able to review the broader areas indicated in Figures 2.6 and 2.7, the performance management theory was identified as mostly relevant to review the detailed areas within DFIs. Performance management theory allows the analysis of the governance, financial management/sustainability and leadership and management of the DFIs.

2.13.3 Performance management theory

Definition

Aguinis (2009) defined performance management as a continuous process of identifying, measuring and developing the performance of individuals and aligning performance with the strategic goals of the organisation. Rudman (1995) states that performance is a process by which an entity tries to achieve its objectives. He associates performance with excellence. The National Treasury (2009) on the other hand, regard performance management as the activity of evaluating organisational results against planned performance, identifying opportunities for improvement, and taking action to fix problems or improve performance. Performance management is the means by which an organisation ensures that its employees understand how they can contribute to the organisational strategic goals. It focuses on the effective management of people in line with the organisational goals and objectives to enhance performance. It guarantees the creation of a working environment that will allow and enable people to perform their duties and responsibilities to the best of their abilities (Bucher, 2007).

Nasser and Vivier (1998) define performance management as management's systematic application of processes aimed at optimising performance in an organisation. In this definition, there is an emphasis on process that carries a negative connotation in the performer's perspective. A more progressive definition by Weiss and Hartle (1997) is as follows: A process for establishing a shared understanding about what is to be achieved, and how it is to be achieved, and an approach to managing people that increases the probability of achieving success. Aguinis (2009) furthers argues that performance management refers to controlling all the steps of a process to ensure an efficient and effective result. This involves studying a process from beginning to end. To study a process, it must be observed as a whole and then key points identified. The key points become points of measurement to determine progress and the measurements become tools to predict outcomes.

Rationale for performance management theory

Reviewing the effectiveness of DFIs in KZN is the same as reviewing their performance, i.e. are they achieving their objectives? For this reason, the performance management theory was used as a basis for the review. There is a vast array of performance management theories that can be used in the improvement of performance management. Among them are expectancy theory, justice theory, self-determination theory, equity theory, cognitive evaluation theory, goal-setting theory, and control theory (Mabey, Salaman and Storey, 1999).

According to Salaman, Storey and Billsberry (2005) the two theories underlying the concept of performance management are the goal-setting theory and the expectancy theory. The goal-setting theory, proposed by Edwin Locke in 1968, suggests that the individual goals established by an employee play an important role in motivating him for superior performance. This is because employees keep striving towards their own goals. If these goals are not achieved, they either improve their performance or modify the goals and make them more realistic.

If performance improves, it will result in achievement of the aims of the performance management system (Salaman et al., 2005). Expectancy theory, proposed by Victor Vroom in 1964, is based on the hypothesis that individuals adjust their behaviour in the organisation based on anticipated satisfaction of valued goals set by them. The individuals modify their behaviour in ways that are most likely to lead them to attain these goals. This theory underlies the concept of performance management, as it is believed that performance is influenced by the expectations concerning future events (Mabey et al., 1999). Performance management theories require an understanding of the long-term goals, strategic objectives, performance indicators, and performance targets of each of the DFIs reviewed. What are the indicators or elements that describe and distinguish effective from non-effective DFIs? For the purpose of this study, these were formulated and articulated.

The application of the performance management theory

An effective performance management system allows organisations to demonstrate that work is planned with consideration for objectives, activities, outputs, outcomes and measures that will demonstrate results. It also demonstrates that management is results oriented, with a clear understanding of the mandate and objectives, and method to achieve such objectives. All decisions are based on results, and plans are adjusted based on the lessons learned while organisations are accountable for results, and report reliably on performance, supporting monitoring and evaluation and the need to be responsible (Nasser and Vivier, 1998). Experts have explained the concept of performance management in various ways, leading to a situation where scholars agree that there is no single universally accepted performance management model.

The concept of performance management has received attention for its ability to improve results in the midst of challenging economic conditions. Many organisations, instead of waiting for external improvements such as market growth and technological advances, looked into their internal capabilities for performance and productivity gains (Buchner, 2007). Given this view, it is necessary for DFIs in South Africa to have an objective interpretation of their performance since performance improvements can only be effected when there is information about current performance and the rating thereof.

Performance improvement is a generic term used both in public and private organisations in order to move from one level of operation to the next. According to Barker and Rubycz (1996), within the private sector, managers are always searching for ways to cut costs while increasing productivity and quality of service to customers. A number of performance improvement techniques exist, such

as business process re-engineering, benchmarking, activity-based management, priority-based budgeting, and change management processes (Marr, 2011).

In the public sector, performance management has been regulated as a strategy to ensure that government departments set performance targets, monitor performance and report on performance. Sometimes drastic actions are required in order to address service delivery issues. There are instances where an organisation needs to stand back and reassess its strategic direction, vision, mission and position in its environment (DPSA, 2002). Barker and Rubycz (1996) set out a number of possible routes to improving an organisation's performance, some external, others internal, as well as a hybrid of both. The external route uses the stimulus of private sector involvement, while the internal route uses process improvement techniques, such as benchmarking and activity-based management.

In South Africa, government departments often use business re-engineering as a tool for improving performance. These processes tend to be outsourced to private firms and often the result is that departments tend to focus on re-engineering at the expense of service delivery. Often with the change of leadership, re-engineering processes tend to follow each other, leading to the disorientation and demotivation of employees.

Turlea, Stefanescu, and Dumitru (2008) argue that it is difficult to undertake performance measurements in the public sector entities due to public system dynamics and complexity. They argue that the complexity of performance measurement in the public sector results from the fact that entities try to accomplish both commercial and non-commercial objectives.

Meyer and Gupta (1994) state that performance measurement in the public sector is a paradox; there is a weak correlation between performance indicators and performance itself. This paradox is explained by the tendency of performance indicators to run down over time, and as performance gets better, indicators lose their value in terms of detecting bad performance; on the other hand, when entities have learned which aspects of performance are measured they are able to use that information to manipulate assessments. Wilson (1989) confirms this issue by calling out the elusive character of the policy objective, because public policies often have multiple and contradictory goals.

Kaplan and Norton (1996) propose that the performance of an entity could be based on a performance monitoring system called a 'balanced score card'. This method helps the entity to unify long-term strategies and short-term actions. According to the balanced score card method as proposed by Kaplan and Norton (2006:189), performance can be measured from four perspectives; i) translating the vision into objectives; ii) communicating and linking strategies at all levels of the organisation; iii) activity planning; and iv) feedback and learning.

Performance measurement through the economy, efficiency and effectiveness triad appeared as a new paradigm in the public sector in 1982 under the name of 'value for money' (Turlea et al., 2008). Jones and Pendlebury (2000) concluded that economy measures are relative and usually concern the inputs. In an opposing view, Rudman (1995) states that the focus is on inputs related

to outputs, and he proposed the linking of economy measures with efficiency and effectiveness measures. This has since been applied.

Turlea et al. (2008) state that performance assessment in public sector entities depends on the political perspective. As these entities are owned and controlled by government, the assessment of performance will shift as the political debate shifts. Therefore, the performance measures used by these entities will have limitations.

Public sector performance management standards

In an effort to improve the performance of public sector organisations, performance management has been standardised using key performance indicators, known as KPIs. Marr (2011) defined KPIs as measures that provide managers with the most important performance information to enable them or their stakeholders to understand the performance level of the organisation. He emphasises the need for KPIs to link to the strategic objectives of the organisation, in order to be useful in monitoring the execution of the business strategy.

KPIs are designed to assist firms define and measure progress towards the achievement of performance targets. Once an organisation has analysed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress towards those goals, known as performance indicators (Rainey, 1991).

KPIs are quantifiable measurements determined during the planning stage that reflect the critical success factors of an organisation. The KPIs selected must reflect the organisation's goals, be a key element to its success, and be quantifiable (Parmenter, 2010).

All government institutions including DFIs are expected to develop indicators that measure economy, efficiency and effectiveness. These measures or performance indicators are incorporated into their strategic plans and annual performance plans. In order to establish whether an entity is efficient and effective, its efficiency and effectiveness indicators are reviewed. Based on the 'Framework for Managing Programme Performance Information in the

Public Sector' (National Treasury, 2009), indicators of performance are classified into different categories: for example, input, output and outcome indicators. Indicators relevant to public sector organisations can relate to cost or price, quantity, quality, adequacy, accessibility, and period.

According to the National Treasury (2009), efficiency indicators explore how productively inputs are translated into outputs. An efficient operation maximises the level of output for a given set of inputs or it minimises the inputs required to produce a given level of output. An institution's efficiency can also be measured relative to predetermined efficiency targets. The effectiveness indicators explore the extent to which the outputs of an institution achieve the desired outcomes. An effectiveness indicator assumes a model of how inputs and outputs relate to the achievement of an institution's strategic objectives and goals.

According to Parmenter (2010), organisations with over 20 KPIs lack focus and alignment and underachieve. He argues that there are normally fewer than 10 true KPIs in an organisation and these should be measured and reported daily or weekly. The lack of understanding of performance measures has led to most monitoring and reporting of measures failing to deliver. The casualty has often been the balanced scorecard, a brilliant tool that can only work if it has appropriate measures (Marr, 2011).

According to Carter, Klein and Day (1992), a unifying theme on performance measurement lies in the objectives of economy, efficiency and effectiveness and to the production of measures of input, output and outcome. These terms are very common, yet very confusing to most professionals and government officials themselves. The authors further define performance indicators in terms of inputs, processes, outputs and outcomes. Inputs are the resources required to provide the service, including staff, buildings, equipment and consumables. Processes are the way in which a service is delivered and involve some measurement of quality. Outputs are the

activities of the organisation or the service it provides, e.g. the number of benefit claims processed, or the number of patients treated. The outcome refers to the impact of the service.

Although inputs and outputs used alone can provide some indication of performance, most organisations try to construct performance indicators that are based on ratios of inputs, outputs and outcomes. By focusing on input only, this approach ignores completely the quality of the output. Therefore, the definitions adopted for the purpose of this study are as follows: 'economy' is the purchase and provision of services at the lowest possible cost consistent with a specified quality. 'Efficiency' on the other hand, is the ratio of inputs to outputs or rate at which inputs are converted into outputs. Therefore, efficiency can be regarded intrinsically as a politically neutral concept. In practice, people are concerned with the objective of improving efficiency and this is when political judgements are made (Jones and Pendlebury, 2000).

The role of performance indicators in organisations might seem a simple issue. However, there is much confusion relating to the use of performance indicators in the public sector environment. Performance indicators have a variety of uses depending on their purpose and location in each organisation. According to Immordino (2010), they can be used:

- To monitor the overall strategic or operational performance of organisations;
- As an instrument for hands-off control over lower levels of the organisation;
- As a tool for day-to-day management by the 'street level' bureaucrat; and
- As part of the process of individual performance appraisal, for example, allocating performance related pay.

Performance indicators can be used by different stakeholders, such as managers, national and local politicians, professionals, workers, and consumers. In the South African government, the inclusion of performance indicators in the strategy and budgets of government departments and public entities started in the late 1990s. The purpose is to measure the performance of departments and

public entities to ensure alignment of expenditure to the achievement of performance objectives. This methodology is therefore more relevant for the analysis undertaken in this study.

Jones and George (2009) found that measuring corporate success is mainly done through financial ratios, which are used to dissect corporate performance. Financial performance is the single most important factor in judging corporate success. The same cannot be said for development finance public entities and the question therefore is how the success of DFIs is measured. For instance, the achievement of yearly performance targets is assumed to indicate performance success. However, there is no evidence that performance targets set by entities, particularly DFIs, always have a direct link or correlation with actual service delivery. As Meyer and Gupta (1994) found, there is a weak correlation between performance indicators and performance itself. Some of the entities can report that performance targets were met, while the delivery of services remains questionable. This study has endeavoured to dissect all issues pertaining to performance, including whether the performance indicators contained in the strategic documents are a true reflection of actual performance by the DFIs surveyed.

Government budgeting in South Africa requires the definition of objectives and the development of measures to assess progress towards the achievement of such objectives. It would seem reasonable therefore to assess the success of government in achieving its policy objectives through the development of performance indicators and the linking of non-financial performance information with financial reporting.

There are a number of complexities experienced in defining objectives for government programmes and in designing performance indicators. Thus performance indicators often turn out to be multiple and ambiguous. For instance, the number of arrests does not necessarily indicate that such arrests were correct or desirable; or the number of patients treated does not define the quality of treatment given. According to Marr (2011), performance indicators are relevant at all levels of service, i.e., input, activity, output, outcome and impact levels. Performance indicators

can be developed for each of these levels. However, for DFIs, performance targets should relate in some way to the success of businesses financed over the years. In summary, an effective performance management system should have three components, namely: a performance-measuring framework, a governance structure, and a communication strategy.

A performance measurement framework consists of a model that depicts key organisational outputs, outcomes and linkages, a data collection strategy that identifies data types and sources, responsibilities for collection and reporting, and a performance report that organises and presents performance information to tell a compelling story of the organisation's achievements (Scott et al., 2008). The governance structure identifies the individual or department to whom the data will be reported, how it will be used to make decisions, and who is responsible for acting on the findings to improve the organisation. The communication strategy identifies the messages and audiences for performance information, and the venue for communicating and acting on performance results (Patel, 2007). In Patel's (2007) view, the capacity of those constituting the governance structures within DFIs is crucial for the purpose of good decision-making and taking actions on performance deficiencies.

Performance management theories mainly assume that if performance management systems are in place and contracts aligned, and managers comply with time frames for conducting performance assessments, the desired outputs would be delivered. These theories further claim that when employees are involved in setting goals themselves, they will be motivated to ensure that such objectives and goals are achieved. When the necessary contracting of performance takes place, there is a legal and administrative basis for managing performance and that there will be a cascading of responsibilities from the Minister or MEC to the Boards, the CEO and other levels and this should result in the achievement of the objectives and performance targets. Furthermore, it makes assumptions that conducting performance assessments will deliver appropriate levels of reflection and feedback, learning will take place and future performance will improve. However, this is a systems approach to human resource management based on the assumptions that there

would be objectivity and neutrality in managing the system. The fact that there are service delivery challenges within DFIs where performance targets are consistently not achieved and no systems for verification of reported performance, such as number of jobs created or number of sustainable businesses created, it appears that despite the contracting being in place, the entities remain ineffective in generating the required results where it matters most. The ability of the DFIs to comply with elements of performance management does not imply better performance or governance, only compliance.

2.14 The relevance of the theories

The four theories (agency, bureaucracy, accountability and performance management) explained in this chapter, are all relevant to this study in various ways. Each theory provides a theoretical basis for the analysis of each category of indicators. However, they were not all used in the analysis of the activities in the entities indicated. Instead, the performance management theory was used as it encompasses most of the aspects of the study.

In addressing the key question, 'are DFIs succeeding in creating viable businesses that are sustainable and able to create jobs that lead to economic growth and development?', three key focus areas emerged, namely: financial sustainability, performance, and governance of the DFIs. The purpose of the literature review was to re-visit existing knowledge on the effectiveness of DFIs in South Africa and to find a theoretical basis for this study. Relevant theories were therefore identified for each of the focus areas as discussed in the preceding pages and summarised in Table 2.2.

Table 2.2: Summary of theories applied

Agency Theory	Accountability Theory	Bureaucracy Theory	Performance Management Theory
Are the DFIs pursuing their mandates?	Is there a need to account for DFIs?	Are the entities susceptible to bureaucracy like government departments?	Are the DFIs achieving their performance targets and overall objectives, such as job creation and growth?
Is the funding utilised for its intended purpose?	Do entities account to shareholders / stakeholders accordingly?	Why government formed entities outside the public service?	Performance and reporting culture, are the funding criteria adhered to?
What is the nature of the relationship between MECs and boards?	Accounting is part of governance. DFIs should account to government	Is bureaucracy bad for DFIs? Which aspects are good, which ones are bad?	Number and nature of businesses funded each year
What if the agent is right?			Repayments rates
			Are the DFIs financially sustainable?

Table 2.2 shows how in reviewing the governance arrangement of the DFIs, the agency theory and accountability theories were found to be relevant. While both these theories have limitations, they provided an acceptable perspective for the analysis of the relations within DFIs, given that DFIs in South Africa are owned by the government through different departments, and government is seen as the principal while the DFIs are the agents of government. They are required to execute the government mandate of growing the economy through financing high-risk projects with a social return. At the same time, the amount of resources channelled through these DFIs by government requires that some form of accountability be maintained for good governance purposes. The two theories provided a foundation for the study to explore the effectiveness of DFIs.

Exploring the effectiveness of the DFIs could not be accomplished without a detailed review of the operations and performance standards of DFIs. For this area, performance management theory, with a specific focus on performance indicators and performance targets, was used as the basis for the review in order to come up with an opinion on the performance of DFIs. Financial sustainability of DFIs is closely related to effectiveness, and therefore the bureaucracy theory provided the basis for engaging with the DFI environment compared to that of government departments.

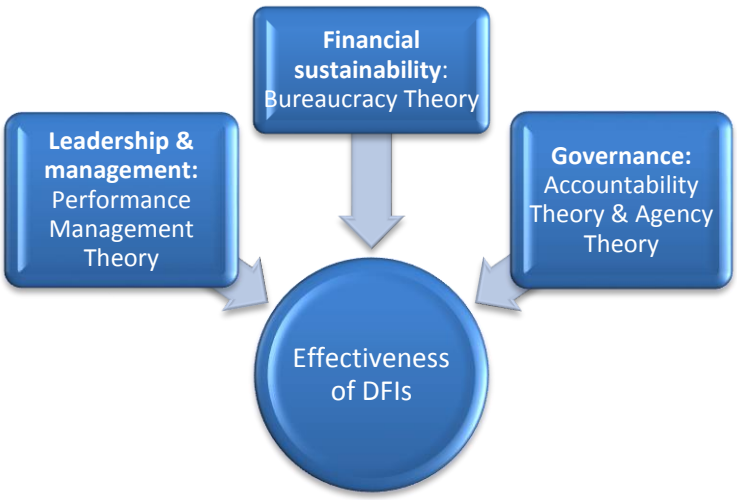


Figure 2.8: Linking focus areas of the study to the theories

When DFIs are governed with a certain set of rules wherein each stakeholder fulfils its role, it is likely that DFIs will be effective. From the accountability theory, the need and the reasons for DFIs to account are clearly stated as well as the role of governance structures in enhancing effectiveness. The bureaucracy theory explains why some DFIs manage to reach financial sustainability while others struggle to do so. The different interpretations and implementation of policies, rules and regulations and lack of innovation talk to the different levels of adherence to bureaucratic structures. The performance management theory assisted in finding a theoretical basis for the stance of DFIs in setting performance standards, targets and indicators, and how the achievement of such targets contribute to the attainment of the DFIs' objectives.

Table 2.3: Key concepts defining effectiveness emerging from the theories

No.	Key concept	The relevance of the concept
1.	Governance	The literature reflects that weak governance led to the failure of most DFIs in world, particularly in under-developed countries. All the DFIs surveyed complied with their reporting requirements, they submitted quarterly reports to the shareholders, tabled to Parliament and published their annual reports. However, the content of their reports could not always be verified to have supporting documents for validation and accuracy verification. Integrity in the reporting requires attention. This reflects negatively on both leadership and governance arrangements within DFIs. The ethics in reporting to the stakeholders becomes a governance issue.
2.	Financial management	The value for money concept, also central to this study, was defined by efficiency (achievement of objectives within allocated budgets) and economy (quality of spending) in the spending by the DFIs. The management of funds for disbursements or the maintenance of the DFIs plays a key role in ensuring their effectiveness.
3.	Leadership and management	i) Performance indicators must reflect organisational goals and must be key to its success (Parmenter, 2010); and ii) There is a weak correlation between performance indicators and performance itself (Meyer and Gupta, 1994). From the data collected, not all DFIs had managed to define performance indicators accurately to indicate their actual level of performance, hence, Meyer and Gupta (1994) are correct in their analysis of a weak correlation between indicators and actual performance.

Figure 2.9 shows an integration of the theoretical consideration, conceptual framework and the findings.

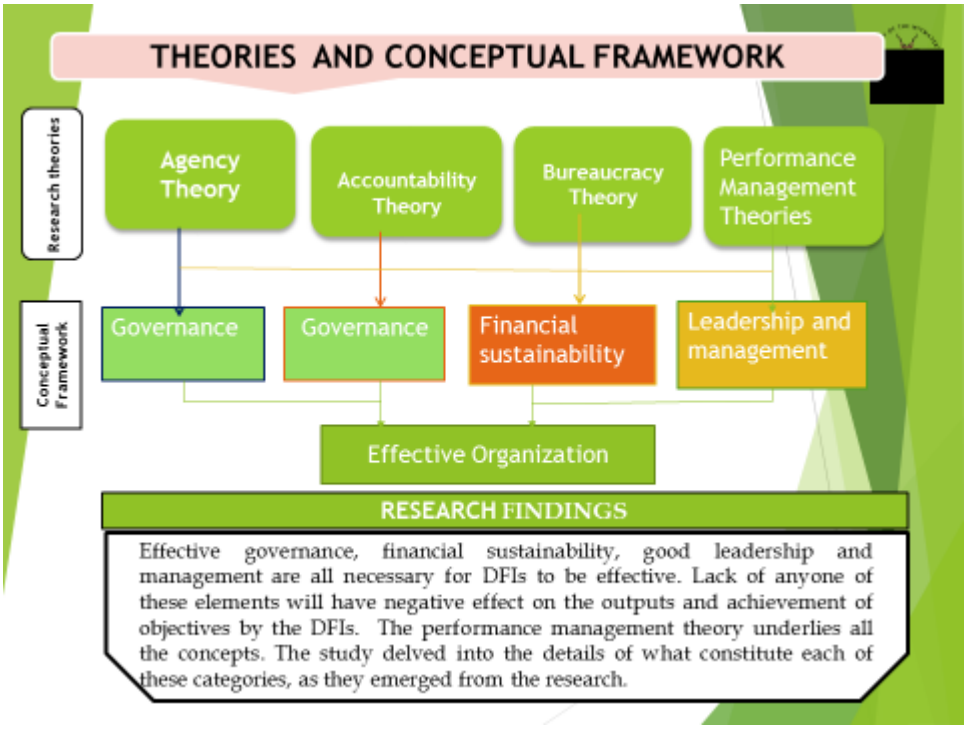


Figure 2.9: Linking theories applied and conceptual framework

Chapter 3: Research Methodology

3.1 Introduction

This chapter provides details of the methodology followed in gathering data. It also justifies the research methods used in the study. The nature of the study, which was exploratory, necessitated the use of a qualitative research approach. Neuman (2006) regards triangulation as one of the best ways to enhance validity and reliability in qualitative research as it can help overcome the deficiencies associated with using one method. By triangulating at data collection phase, attempts were made to provide a confluence of evidence that breeds credibility (Eisner, 1991: 110). Conducting a study on the effectiveness of an organisation is a sensitive subject as data can easily be manipulated to provide a good image of the organisation. The respondents, who were the executives in the DFIs, were more likely to be subjective in providing responses and this aspect was seen as a threat to the validity and credibility of data to be collected. In line with this understanding, data was collected using three different data collection instruments, namely: document analysis, questionnaire, and face-to-face interviews. Following Silbey (2003), this study as a qualitative one went beyond descriptive questions of how and why, to seek explanations on the performance issues of the DFIs and their impact on broader government objectives, such as job creation, development of entrepreneurs, and economic growth in the province.

3.2 Research design

In order to ensure the appropriateness of the design of this study, consideration of the factors that increase trustworthiness and reliability of data was made. Such factors included congruency of the design with the nature of the results desired (objectives of the study), the depth of understanding and description required from participants (emphasis on seeking information from the people who are within the DFIs), and the type of reasoning required from the DFIs. Qualitative research uses multiple methods that are interactive, emergent and fundamentally interpretive (Marshall and

Rossman, 2006). In a phenomenological approach, understanding of the meaning of events and human interactions is sought (Heath, 1997). Qualitative research uses an approach that seeks to understand phenomena in context-specific settings, such as the real world; no attempt is made to manipulate the phenomenon of interest, (Golafshani, 2003: 600). The qualitative research approach used in this study is in line with Golafshani's reasoning, as it focuses on organisational behaviour. The researcher was sensitive to the respondents and actively focussed on building a rapport and credibility with all of them. The mandates and strategic objectives of the DFIs were scrutinised (document analysis). This document analysis enabled the design and customisation of the questionnaires used in collecting data from different DFIs.

The data collected in a qualitative study includes words, attitudes, feelings, vocal and facial expressions and other behaviours (Silbey, 2003). In this study, the CEOs and executives interviewed were directly responsible for or affected by the efficiency and effectiveness of their entities in service delivery, so the in-depth face-to-face interview became an important tool to neutralise data received from the document analysis and from the questionnaires. The interview allowed the documenting of not only verbal responses but also non-verbal responses since part of the study was viewed as sensitive. Qualitative research is regarded as a rigorous attempt to produce findings or results by describing, explaining and interpreting qualitative patterns in terms of words, numbers, matrices, pictures and other forms of representation (Chenail, 2011). All these techniques are relevant in this study and were applied to enhance the quality of data collected and the presentation thereof.

3.2.1 Population

As a qualitative study, it was considered important that participants should be at an executive level of the organisations due to the nature of the research questions. Therefore, the selection of the participants was pitched at the CEO level or nominee in each of the DFIs surveyed. As there was only one DFI in KZN during the data collection phase, sampling became irrelevant. In order to

enhance the reliability of data from the one DFI in KZN, Trade and Investment KZN (TIKZN) was included in the population as the only entity that shares a mandate closely with the DFI in KZN. As a result the two entities in KZN identified for survey were Ithala Development Finance Corporation (Ithala) and TIKZN. Considering that the objectives of the study were to assess the effectiveness and contribution of DFIs in the growth and development of KZN, two national DFIs with a KZN presence were identified, namely, the IDC and the National Empowerment Fund. The study therefore covered these four entities:

i) Ithala Development Finance Corporation;

ii) Trade and Investment KwaZulu-Natal;

iii) Industrial Development Corporation; and

iv) National Empowerment Fund.

3.2.2 Securing participation and co-operation

As an independent consultant whose major involvement in the corporate sector is in the corporate governance space, the researcher made telephonic appointments with the responsible officials/executives in these entities in order to introduce the research. In some instances, introductory meetings were secured with the CEOs, while in other cases; the executives responsible for organisational strategy units were selected. The detailed introduction of the research was done electronically through emails. Prior to conducting research each participating entity was requested to issue a participation letter, wherein its participation in the study was officially agreed upon. The participating DFIs were given an opportunity to indicate whether they would be interested in the results of the study.

3.3 Data collection

The nature of the study required that data collection strategies were comprehensive enough to support a rich and robust description of the issues identified within DFIs. Many different strategies

are employed in qualitative research to establish trustworthiness (Krefting, 1991). The nature of the study necessitated that some form of triangulation in data collection was undertaken to increase its reliability and validity; hence, three data collection instruments were used, namely, document analysis, questionnaire, and face-to-face interviews.

3.3.1 Document analysis

Document analysis is a systematic procedure for reviewing or evaluating documents in the form of both printed and electronic material. It requires that data be examined and interpreted in order to elicit meaning, gain understanding, and develop empirical knowledge (Corbin and Strauss, 2008). Document analysis yields data, excerpts, and quotations that are then organised into themes and categories through content analysis (Labuschagne, 2003). According to Eisner (1991), document analysis is often used in combination with other qualitative research methods as a means of triangulation. "By triangulating data, the researcher attempts to provide a confluence of evidence that breeds credibility" (Eisner, 1991: 110). Documents analysed in qualitative research include all documents related to the research (Bowen, 2009).

The review of documents was undertaken with a focus on the performance indicators in the DFIs. Document analysis provides background information on the performance and internal environment of the DFIs, especially the performance of the DFIs with respect to approvals of loans and advances, disbursing of funds, performing and non-performing loans and non-financial support mechanisms.

All public entities are required by law (PFMA) to produce five-year strategic plans and annual performance plans that contain performance targets for each year and each quarter. Included in these documents is budget information. The DFIs are also required to prepare quarterly performance reports, indicating actual performance against targets, and associated expenditure. At the end of each financial year, DFIs prepare annual reports that include audited annual financial statements and audit reports from the external auditors. The annual reports and audit reports were

reviewed to establish performance levels of the DFIs. The data collected through document analysis was instrumental in designing the content of the questionnaires and in the preparation for interviews.

3.3.2 Self-administered questionnaires

The choice of a self-administered questionnaire was based on the understanding that such a questionnaire is useful when it is impractical to observe behaviour directly and that senior executives in the DFIs would respond much better if they were allowed to complete the questionnaire in their own time. Another consideration was that self-administered questionnaires encourage openness to sensitive topics such as this one. It was important to establish the commitment of the respondents so that they allocated time to complete the questionnaires.

Law, Stewart, Pollock, Bosch and Westmorland (1998) identify the advantages of self-administered questionnaires as follows: respondents answer at their own convenience; standardised questions; wording and instructions produce uniform results; there is no need to set-up interviews; surveys are delivered wherever the mail goes; no interviewer is present to inject bias in the way questions are asked; and it is an economical method. However, this does not mean that the self-administered questionnaire has no disadvantages, such as the fact that they tend to emphasise scope rather than depth, and that self-reported information raises concerns regarding validity due to the characteristics of the respondents. Their motivations may lead to reluctance to answer honestly and their limited knowledge may lead to misunderstanding or lack of information when answering the question (Law et al., 1998). Therefore, self-administered questionnaires may be appropriate for people with a certain level of education, such as CEOs and other executives of DFIs who have the ability to be unbiased and act with full knowledge.

Neuman (2011) argues that there are no standards with respect to the length of questionnaires; it all depends on the purpose of the study. He further emphasises that questions should be sequenced to minimise discomfort and confusion of respondents. In order to simplify the

questionnaires for this study, a 12 page questionnaire was designed with the data required categorised into three categories or themes, namely, budget and expenditure, operations, and governance. These themes were based on the understanding that all entities are expected to report their performance on these three categories and also that the evaluation of the effectiveness of DFI performance can as a minimum be considered based on these categories.

The primary source of data was the questionnaire. The questionnaire was designed with the input from the informants and from the document analysis in order to capture all the significant areas of performance. To mitigate the tendency of respondents to respond haphazardly on questionnaires as they are sometimes regarded as time consuming, the researcher secured appointments to introduce the study in person or telephonically. Questionnaires were sent electronically after the respondents had been lobbied and made aware of them. Follow-up calls were made to confirm receipt and commitment to respond timeously. In order to counter the effect of haphazard responses and strengthen the validity of the responses, face-to-face interviews were conducted.

3.3.3 Interviews

According to Law et al. (1998), an interview implies some form of verbal discourse, where the participant provides the researcher with information through verbal interchange or conversation. Non-verbal behaviour and the context of the interview were noted and became part of the data. A qualitative research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level (Kvale, 1996). According to McNamara (1999), interviews are useful for getting the story behind a participant's experience. In-depth information around the topic can be pursued and interviews may be useful as follow-up with certain respondents to further investigate their responses. This was the case with this study – the interviews were conducted as a follow-up to the questionnaires.

Qualitative interviews place an emphasis on listening and following the direction of the participant. Interviews require considerable preparation, careful design and layout of questions being utilised,

making arrangements to visit the respondent, note taking, and the necessity to write-them up. A variety of open-ended questions were chosen to elicit the most information possible in the time available.

Interviews were held with each of the four DFIs surveyed as a follow-up to the completed questionnaires. Interviews were intended to close the gaps in the responses to the questionnaire and to seek clarity and confirmation on the responses where applicable.

McNamara (1999) furthers argues that interviews are a more personal form of research than questionnaires as the interviewer works directly with the respondent. Unlike in a survey or questionnaire, the interviewer has the opportunity to probe or ask follow up questions.

Face-to-face interviews with executives of the DFIs were important to confirm data collected through questionnaires and through the document analysis. Hence, a conversational interview approach was adopted. Interviews were formally scheduled, with the anticipated duration of the interview indicated upfront. This helped in ensuring that the respondents set aside sufficient time for the interview. Questions for the interview were prepared in a semi-structured protocol, with a series of open-ended questions designed to allow respondents to describe in their own words, their perspective on service delivery, governance, performance and goals, problems and policy solutions. Most of the questions were follow-up questions to the questionnaire answers and the data from the document analysis phase. While the conversational interview approach allows for open-ended questions that are not necessarily predetermined, with this study, the questions were prepared in advance as follow-up questions from the document analysis data and from the questionnaires. The preparation of questions in advance assisted in limiting the researcher's bias during the interview while validating responses from the documents and questionnaires.

A qualitative research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level (Kvale, 1996). According to McNamara (1999), interviews are useful for getting the story behind a participant's experience. In-depth information

around the topic can be pursued during interviews and may be useful as follow-up to certain respondents' questionnaires, for example, to further investigate their responses. This was the case with this study - the interviews were conducted as a follow-up to the questionnaires.

3.3.4 Consolidating data collected through the three instruments

The process of collecting data commenced with document analysis. Document analysis for the four DFIs surveyed took over five months with most documents reviewed being annual reports, strategic plans and quarterly reports. The relevant data collected was documented and used to formulate questions for the questionnaire. The questionnaires were adjusted according to the mandate and the environment of each entity surveyed. After the completed questionnaires were received, interview questions were formulated to close the gaps in the responses. The interview questions were mainly designed as follow-up questions and to obtain clarity on data from document analysis and from questionnaires. This process was undertaken in order to enhance trustworthiness, validity and reliability of the data collected. All the themes that emerged from the document analysis have been presented as found. The same themes were probed through the questionnaire and verified during the face-to-face interviews. Where contrasting data was obtained, it was recorded as such.

3.4 Management of data

To facilitate easy retrieval of data, some of the interviews were recorded while at the same time notes were taken during the interview process. Recording of interviews was denied by some respondents and that was accepted. All interview notes were typed using Microsoft Word and kept in electronic files per DFI. All questionnaires collected were filed in a secure place and a back-up mechanism created in the office and home of the researcher.

3.5 Data analysis and interpretation

Qualitative data analysis consists of a range of processes and procedures whereby the researcher moves from the qualitative data that have been collected into some form of explanation,

understanding or interpretation of the situation being investigated. It is normally based on an interpretive philosophy (Lewins, Taylor and Gibbs, 2010). Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data (Neuman, 2011). The data collected is presented in the next four chapters following the hermeneutical approach whereby data is presented as collected with the meaning of the respondents and interpreted through the lens of the researcher. While data presentation and interpretation are done vertically per DFI in individual chapters, Chapter 8 gives a complete picture horizontally following themes that were identified.

3.5.1 Coding data

The themes investigated were identified in the planning stage as indicated in the last section of Chapter 2. Similar themes used to analyse the effectiveness of the DFIs followed both axial and selective coding. The same themes were assessed across the four DFIs, and as far as possible, the same questions were raised with each of the DFIs with the difference highlighted between the National DFIs and the KZN DFIs. Use was made of the same questions or similar questions in order to establish differences based on performance differentials, governance differentials, effectiveness indicators, and planning.

3.6 Promoting integrity and objectivity

As part of ensuring the integrity of the study, a secure place wherein documentation of materials was stored was established. An audit trail is available for each of the themes that are presented for each of the DFIs. The materials used, reference materials, notes, interviews, questionnaires and various draft reports were safely kept.

3.7 Validity and reliability

Golafshani (2003) states that validity and reliability are two factors that should be of concern when designing a qualitative study. According to Creswell and Miller (2000) the choice of validity

procedures is governed by two perspectives: the lens with which the researchers choose to validate their studies and the researchers' paradigm assumptions. According to Winter (2000:1), "the concept of validity is a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects". Creswell and Miller (2000) further suggest that validity is affected by the researcher's perception of validity in the study and choice of paradigm assumptions.

Creswell (2003) listed eight primary strategies used to check the accuracy of findings: triangulation, member-checking, thick description, clarification of researcher bias, presentation of negative or discrepant information, spending prolonged time in the field, use of peer debriefing and use of external auditors to review the project. These reflect Scheurich's (1997) statement, that "validity is much more than technique. It bores into the essence of science itself" (Scheurich, 1997:81).

Three of these eight strategies were adopted in this study for improving the validity and reliability of the findings as a way of building confidence in the findings from the DFIs. For the purpose of triangulation, three instruments of data collection were used, document analysis, questionnaires and face-to-face interviews. The presentation of findings in Chapters 4 to 7 followed a thick description approach, i.e. the responses to each question are presented as captured/received from the respondents and then, followed by interpretation. Finally, two officials involved in the field of development finance were engaged as a sounding board for the data and interpretation in this study, as part of the member checking approach.

3.8 Ethical considerations

Because qualitative methods are used to examine situations in detail, ethical concerns that might otherwise go unnoticed are more clearly in focus. Neuman (2011) emphasises that ethical research requires balancing the value of advancing knowledge against the value of non-interference in the lives of others. It is critical that research does not cause any harm to those being studied (Israel and Hay, 2006). In conducting this study, the ethical issues in all stages of the research were considered.

The success of this study depended on the cooperation of the executives of the DFIs; hence, all ethically possible avenues were explored to ensure their cooperation and acceptance of the research.

An ethical researcher anticipates risks before beginning the research, including basic safety concerns (Mouton, 1996). According to Creswell (2003), there are ethical issues in all the stages of the research project. In this study, a lot of time was spent discussing the experiences, performance issues, internal environment and vulnerability of the executives working for public entities in general, and more specifically the DFIs.

According to Israel and Hay (2006), deception occurs when participants understand one purpose for a study while the researcher has a different purpose. To avoid any kind of misrepresentation on the purpose of the study, during the data collection planning stage, when invitations to participate were issued, a detailed explanation on what the study aims to achieve was communicated to allow respondents to make an informed decision about whether to participate or not.

According to Neuman (2011:139), "confidentiality refers to ethical protection for those who are studied by holding research data in confidence or keeping them secret from the public – not releasing information in a way that permits linking specific individuals to specific responses". In this study, the buy-in of the respondents from the DFIs was obtained in order to avoid anonymous responses that could have complicated the analysis of data. The study was also very specific to the identified DFIs; hence, it was not possible to conceal the identity of the institutions studied.

In a study of this nature, it is inevitable that emotional reactions are likely to occur. For instance, in the event that the data collected reflect inefficiencies and lack of productivity from the entities, there is a risk that respondents might want to withdraw from the study or they might feel that it will have serious repercussions for their offices. This was experienced from one of the respondents who did not participate mainly because of the discomfort in discussing internal performance issues

of the entity. The withdrawal of one entity from the study had limited impact as it was received during the data collection planning stage. This entity was replaced with TIKZN.

PART 2: Findings and data analysis

Overview on findings and data analysis

The design and formulation of the questions emanated from the conceptual framework. As a result, Chapters 4 to 7 provide detailed findings on the measures used to review the role of the DFIs. Although three instruments were used to collect data, the same measures, indicators or themes were probed as much as possible in order to close gaps in the data. The following elements were identified as indicators of effectiveness and used to design the questionnaires for data collection: consistency of macro or corporate plans; quarterly reports; annual reports; return on investment and funding criteria; types of business funded per economic sector; the quality of performance indicators; achievement of performance targets; compliance to the mandate as per the founding legislation; number of businesses funded or enterprises assisted; annual debt ratio; debt as a proportion of annual budget; debt equity ratios; operational environment (is it enabling?); political patronage; governance (roles and stakeholder relations); and performance assessments with respect to the impact of assisted businesses (job creation, gross geographic product (GGP), and economic growth).

These indicators were later ranked according to their level of importance in relation to the DFIs expected performance that has an impact on enhancing effectiveness. Table A indicates the ranking of the performance indicators used to review the effectiveness of the DFIs.

Table A: Ranking of DFIs performance indicators

No.	Performance indicator	Comments
1.	Quality of performance indicators	Poor quality performance indicators make it difficult to measure performance. The usefulness of performance indicators lies in their quality to measure what it purports to measure.
2.	Achievement of performance targets	Important for service delivery targets – Once targets are set, efforts to achieve should be visible and evidence available for achieving the targets.
3.	Number of businesses funded/supported	The more funded enterprises, the bigger the chances to grow the economy and realise the development agenda of government.
4.	Governance: role of stakeholders	Governance is central to effectiveness (respect for policies) Each stakeholder has to understand its role and be capable of delivering in such a role without crowding out other parties.
5.	Consistence of planning and reporting	Alignment of what is planned and what is being done is important for mature organisations. If not, planning becomes fruitless and a waste of time and resources.
6.	Execution of mandate	DFIs should operate as DFIs – are they able to balance expectations with the mandates.
7.	Budgets (funding by government)	What is the level of dependency of DFIs to government – the level of maturity should lead to self-sustainability.

The first two elements were regarded as more important indicators of effectiveness. The DFIs that had poor quality performance indicators and also did not achieve performance targets are unlikely to yield value for money from government investment. Therefore, DFIs that failed on these two indicators could not be said to be effective.

Chapter 4: Ithala Development Corporation (Ithala)

4.1 Introduction

This chapter focuses on the findings from Ithala Development Corporation. The findings are presented according to the meaningful themes that emerged from the indicators that were probed.

4.2 Findings

4.2.1 Respondent profile

The respondent is a divisional manager responsible for credit risk within the organisation. He was designated by the CEO as she felt the questions were best suited for his division. The respondent was with the organisation for five years and reported to the CEO.

4.2.2 Budget and disbursement levels

From 2006/07 financial year, the provincial government signed an agreement with Ithala for grant or loan funding for SMMEs. In the agreement, it is stipulated that 10% of the fund will be used as Ithala's agency fee. Every year funds should be disbursed in full; there are no savings. Some savings were occasionally realised on the operational budget of Ithala. During the face-to-face interview it was established that prior to the 2006/07 financial year, Ithala funded all SMMEs irrespective of race; during this time, the liquidity position of Ithala was good and the performance of the loans was better compared to the current position where only the black SMMEs are funded.

4.2.3 The state of the loan book and level of defaulters

The respondent believed that up to 50% of the loans are repaid within the stipulated and agreed timeframe. This means that the state of the loan book is neither good nor bad, but average. The percentage of defaulters is estimated at between 20% and 50% over the 10-year period under review. The 50% repayment rate is a threat to the sustainability of Ithala. The DFIs are expected

over time to become self-funding and sustainable; however, with this level of repayment it may be difficult for Ithala to reach that stage.

4.2.4 Provision for bad debts and debtors written-off

Table 4.1: Ithala Debt write-offs and loan impairment

Period	Repayment (R million)	Write-offs (R million)	Impairment for Performing loans (R million)	Impairment for Non-performing loans (R million)
2002/03	R169.9	R37.626	R8.510	R87.324
2003/04	R159.5	R24.386	R33.514	R102.872
2004/05	R194.7	R0.113	R28.539	R127.393
2005/06	R201.5	R4.680	R30.777	R158.232
2006/07	R273.7	R1.465	R28.615	R246.019
2007/08	R213.7	R25.580	R43.218	R559.706
2008/09	R169.0	R176.048	R45.953	R552.510
2009/10	R151.9	R227.057	R15.784	R343.580
2010/11	R188.1	R44.392	R37.629	R350.332
2011/12	R179.1	R94.256	R40.392	R338.774
		R635.313	**R312.931**	**R2 866.742**

Source: Ithala Annual Reports, 2003 – 2012

Table 4.1 indicates a relatively full picture of the loans and advances performance within Ithala. The headings were identified because of their importance in describing the performance of the loans. The headings can be explained as follows:

- Repayment refers to the amounts of loans that were repaid in each year.
- Write-offs refer to the amount of loans (debts) that were removed from the loan book. In each year, these are loans that have been pursued for over three years with no movement; in many instances alternative collection methods were tried and failed. These loans are considered uneconomical to pursue further. Depending on the size and effort required, they are therefore written-off following internal approval processes. These amounts are disclosed in the annual financial statements.
- Impairment indicates provision for discounting of amounts owed (loans); this is done for both performing and non-performing loans to ensure that loans and advances are not

listed in the statements of financial position as amounts higher than that which can be collected.

For the period under review, Ithala has written off more than R635 million as per Table 4.1. It was established during the interview that the main reason for writing off debts is lack of possibility of recovery. When businesses close down, the chances of recovering the debt are minimal especially due to the nature of the funding agreements and no collateral or gearing is required. The rate of repayment is very low, and a number of loans are restructured on an on-going basis. For Ithala, government financing seems to operate more like grant funding for businesses with minimum shareholding of 30%. The high rate of write-offs can be attributable to the conditions for the funding. The study revealed that government funding for disbursements comes with the following conditions:

- Funding is targeted at black unemployed persons - to assist them to get into business;
- The lending rate is fixed between 2.5% and 5%;
- Collateral or security is not an issue (100% funding is granted, assets being funded serve as security);
- A poor credit record does not disqualify applicants. They just need to explain what happened, but this cannot be used as a disqualifying criterion; and
- Ithala has to explain each loan application not granted to the shareholder – the focus is on the funding being used as a poverty alleviation mechanism.

The rate of impairment on loans and advances is high especially for the non-performing loans; this indicates that the entity has a very low level of expectation for repayment of the loans and advances. Even with those loans that are performing in each year, the provision for impairment is an indication of the level of confidence that management has on the future of the loans or advances.

From the 'value for money' perspective, the amount written-off *per se* raises some doubt about whether there is value for money in disbursing funds with the funding conditions or guidelines as described above. In terms of the PFMA, the amount written-off is classified as fruitless and wasteful expenditure, which constitutes financial misconduct on the part of the perpetrator.

4.2.5 Debt to equity ratio –the past 10 years

The debt to equity ratio is not applicable since in terms of the funding agreement for black SMMES, there are no equity requirements, i.e. 100% loan funding is sometimes granted. An equity of between 2.5% to 10% had been a requirement prior to the adoption of the black SMME funding criteria in 2006/7 financial year.

4.2.6 Cost to income ratio – from 2003

The average cost to income ratio is 70%, which is too high when compared with commercial banks where it is around 50%. This ratio does not assist Ithala towards becoming self-sustainable and casts doubt on its effectiveness.

4.2.7 External audit opinion on annual financial statements

All the DFIs are required in terms of the PFMA and Companies Act to audit annual financial statements. The audit report forms part of their annual reports that are tabled through the respective department to Parliament. In this way, the affairs of the DFIs undergo public scrutiny. The opinion of the external auditors is an important guide for the public to become aware of the kind of controls that exist within entities. Ithala complied with this requirement to have its annual financial statements audited. However, its annual financial statements had weaknesses that led to a qualification for the period from the 2002/3 to 2008/09 financial years. Ithala has struggled with credible financial reporting over a long period. Based on the document analysis, the main reason for qualification over the years was material losses from impaired loans and advances. In short, the

Annual Financial Statements of Ithala were qualified for various reasons for seven years; however, they were not qualified for the last three years being reviewed (2009/10 to 2011/12).

4.2.8 Compliance with mandate and the focus of activities

The mandate of Ithala dates back to 1959, and relates to both commercial lending and economic growth and development. Prevalent in the annual reports is an evolution of some of the activities, even though Ithala's core activities remained the same over the years. In other words, it is to provide financial and non-financial support to emerging entrepreneurs. The core activities of Ithala are summarised as follows: entrepreneurship development; facilitating employment creation; funding business enterprises; providing business premises;, commercial shopping centres and tourism facilities; fostering personal wealth via savings; and providing loan finance for housing and home improvements and insurance services.

The compliance with the mandate does not necessarily mean achievement of the mandate or goals. It only refers to the focus of the activities that are being performed. While Ithala has been able, over the years, to provide financial support to emerging entrepreneurs, the level of non-financial support rendered is not evident in the reports. The activities reported upon in the various annual reports reflect that Ithala has focused on its mandate, with minor additions in the products over the years; for instance, the insurance portfolio started in 2009. However, from the interview, the respondent felt that the mandate was very broad and as such Ithala was able to fit anything into it. The respondent felt it was necessary to be more specific and to narrow the mandate down for the purpose of effectiveness and good governance in the process of implementation.

4.2.9 Consistency of corporate plans and reporting

All the DFIs are required by government to produce 3 to 5 year strategic or corporate plans; in addition, they must produce annual performance plans, which should contain performance indicators and performance targets. They are expected to report quarterly and annually to relevant

stakeholders. The key issue in the reporting is that it must be measured against the performance targets set at the beginning of the year. DFIs are not allowed to report as they please, but rather in line with the performance indicators and targets as contained in the approved strategic and performance plans. For this study, it was therefore crucial to establish whether the DFIs were complying at this level. Hence, a question on the consistency of these documents was important to establish compliance. The respondents were required to indicate their level of confidence on the consistency and compliance of their entities to this legislative requirement. The legends used were:

- *Good:* Performance targets contained in the strategic plan and annual performance plan are reported on in each quarterly report and in the annual reports.
- *Average:* Some of the performance targets/ performance indicators do carry through from the strategic plan to the annual reports.
- *Poor:* The entity has not been able to link performance indicators and performance targets from strategic plan to annual reports.

The findings from the questionnaire are shown in Table 4.2,

Table 4.2: Level of compliance to reporting requirements

Period	Rating
2002/03	Poor
2003/04	Poor
2004/05	Poor
2005/06	Poor
2006/07	Average
2007/08	Average
2008/09	Average
2009/10	Average
2010/11	Average
2011/12	Good

Source: Respondent Questionnaire

Table 4.2 indicates that Ithala is improving in aligning performance management documents as required from the political and administrative levels. Between the 2002/03 and 2005/06 financial

years, alignment of these documents was 'poor' and improved to 'average' from 2006/07 to 2010/11 and reached an 'acceptable' level in 2011/12 financial year.

However, from the document analysis the pattern of improvement could not be ascertained. For instance, according to the report of the Auditor-General, Ithala did not have a corporate plan for the 2008/09 financial year. In the 2009/10 financial year, the corporate plan content was inadequate as it did not comply with Section 52 (b) of the PFMA. This was the first year that Ithala had the annual performance plan that contained performance targets. The consistency in the annual reports over the review period was evident from all the annual reports. In cases where information was subjected to external audits, most stakeholders tend to rely on the opinion or findings of the auditors. For this reason, one can conclude that by 2011/12 Ithala had not reached an acceptable level of performance in this area.

4.2.10 The quality of the performance indicators

The quality of the performance indicators refers to the degree to which the performance indicators are useful, reliable, consistent, relevant and measurable. This definition commonly used by external auditors when auditing performance information, means that it is possible to have performance indicators that are not useful, consistent and measurable. Based on the findings from Ithala, for instance, there has been an evolution of performance indicators from the standard ones used from the 2002/03 financial year to 2008/09 to the ones developed from the 2009/10 financial year. Between 2002/03 and 2008/09, Ithala had measurable, relevant and useful indicators of performance. However, from 2009/10, it appears that performance indicators have not been of the required quality to indicate actual performance; this view is supported by the findings from the external auditors.

From the 2002/03 financial year, Ithala had developed both financial and development indicators. The financial indicators reported upon over the past ten years were assets, advances/loans, deposits, percent growth in advances, interest received, and interest paid. The development

indicators remained as follows: number of enterprises assisted, number of jobs created, number of savings accounts opened, hectares of agricultural land financed, and homeowners assisted.

The performance of Ithala has been reported on these indicators over the years, but there were no pre-determined performance targets set for each one of them. Performance reporting was done comparing the performance indicators year on year. From the 2009/10 financial year, additional performance indicators or predetermined objectives were developed in compliance with the requirements of the PFMA. The additional indicators formed part of the annual performance plan for Ithala for the 2009/10 financial year. In the 2009/10, 2010/11 and 2011/12 financial years some of the performance indicators did not meet the criteria for validity, accuracy, reliability and completeness. According to the Auditor-General, (the external auditor) Ithala did not have adequate systems in place to facilitate reporting on predetermined objectives in compliance with the PFMA. Some of the performance indicators were not measurable and it was difficult to assess their usefulness in compliance with PFMA and Treasury regulations. The respondent was required to indicate the level of confidence on the performance indicators used by their entities with respect to measuring actual performance.

The rating was based on the following scale:

- *80%:* Most of the performance indicators used measure actual performance of the entity and individuals and indicate level of achievement of the objectives and broader goals of the entity.
- *50%*: Some of the performance indicators used measure actual performance and lead to the achievement of the objectives of the entity.
- *20%:* Performance indicators and performance targets were not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives.

Table 4.3 shows the level of confidence the respondent had on the quality of performance indicators used by Ithala.

Table 4.3: Quality of performance indicators

Period	Rating
2002/03	20%
2003/04	20%
2004/05	20%
2005/06	20%
2006/07	50%
2007/08	50%
2008/09	50%
2009/10	50%
2010/11	80%
2011/12	80%

Source: Ithala Annual Reports, 2002 – 2012

The ratings indicated in Table 4.3 confirm that the indicators chosen and reported upon do not always measure or indicate the actual performance. The risk arising from this scenario is that the entity can report achievement of performance targets up to 100% with no real achievement on the actual deliverables and objectives of the entity. A need to improve in the area of setting performance targets and reporting thereof is apparent. Performance indicators and targets should be derived from the strategic plans and the annual performance plans and be linked to the individual performance agreements of the employees.

4.2.11 The level of achievement of performance targets

Between the 2002/03 and 2007/08 financial years, the performance indicators contained in the macro plans and annual reports only focused on the indicators of development measured by the number of enterprises assisted, number of jobs created, agricultural land financed and savings accounts opened. During this period, Ithala did not have Annual Performance Plans that conformed to the Treasury's requirements of pre-determined objectives and reporting thereon. Tables 4.4 to 4.8 (obtained from the annual reports) provide details on the performance targets and actuals for the 2002/03 to 2011/12 financial years.

Table 4.4: Performance targets versus actual performance – 2002 to 2007

Indicator	2002/3		2003/04		2004/05		2005/06		2006/07	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Enterprises Assisted	1 144	557	379	561	605	523	700	1 607	1 320	1 163
Jobs created	7 350	4 967	3 935	5 084	4 555	5 554	1 476	7 930	6 755	7 853
Agricultural land financed	5 500	2 379	2 000	4 817	2 000	3 157	4 050	1 170	800	1 011
Savings Accounts opened	45 000	173 875	200 000	97 391	80 000	107 780	105 000	94 683	152 739	169 374
Growth in net advances	6.0 %	1.3%	5.4%	-2.6%	17.0%	7.2%	9.4%	11.9%	15.0%	14.1%
Bad Advances (debt) as % of loan book	1.1%	1.6%	0.9%	2.0%	1.3%	2.0%	NI	NI	1.3%	7.1%
Cost/income ratio	89.9%	88.6%	91.9%	88.7%	91.6%	89.2%	90.1%	85.0%	88.0%	69.4%

Source: Ithala Annual Reports, 2002 – 2012

The level of achievement of the set performance targets varied from year to year as indicated in Tables 4.4 and 4.5. For instance in the 2002/03 financial year, of the seven performance targets set only two were achieved while in 2006/07, four targets were achieved from the seven targets set.

Table 4.5: Performance targets versus actual performance – 2007 to 2009

Indicator	2007/08		2008/09	
	Target	Actual	Target	Actual
Enterprises Assisted	n/a	424	n/a	240
Jobs created	n/a	3 418	n/a	2 045
Agricultural land financed	n/a	2 306	n/a	1 962
Savings Accounts opened	n/a	185 057	n/a	123 934
Growth in net advances	n/a	-7%	n/a	-2%
Bad Advances (debt) as % of loan book	n/a	5.0%	n/a	4.9%
Cost/income ratio	n/a	69.8%	n/a	68.5%

Source: Ithala Annual Reports, 2002 – 2012

For the years 2007/08 and 2008/09, there is no evidence that Ithala did set performance targets against the same performance indicators as the previous years. Noted during this period is the improvement of the debt as proportion of the loan book from 7.1% in 2006/07 to 4.9% in 2008/09 and the decrease in the number of enterprises assisted from 1 163 in 2006/7 to 240 in 2008/09.

The 2009/10 financial year was the first year that Ithala had set performance targets in line with PFMA and Treasury regulations. Seventy performance targets were set for the five strategic goals of the DFI as indicated in Table 4.6.

Table 4.6: 2009/10 Ithala level of performance

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Financial sustainability	23	6	26% achieved
2.	Job creation	7	2	28% achieved
3.	Accessible funding for SMMEs	13	3	23% achieved
4.	B-BBEE through enterprise development	22	3	13.6% achieved
5.	Partnership with private sector in development	5	0	Nil achieved
	Average level of achievement of targets	**70**	**14**	**20% achieved**

Source: Ithala Annual Reports, 2002 – 2012

The strategic goals set by Ithala reflect the focus and milestones that should drive the operations. Evident, however, in Table 4.6 is the poor level of performance based on the 20% rate of

achievement. There could be a number of reasons for the low level of performance, but the 70 performance targets set on their own are likely to be the challenge as too many targets have the potential to split focus and it would thus be difficult to monitor and manage performance.

For the 2010/11 financial year one additional strategic goal was added and the performance targets were set as shown in Table 4. 7.

Table 4.7: 2010/11 Ithala level of performance

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Financial sustainability	6	1	16.6% achieved
2.	Job creation	5	0	Nil achieved
3.	Accessible funding for SMMEs	8	0	Nil achieved
4.	B-BBEE through enterprise development	6	3	50% achieved
5.	*Operational excellence	28	11	39.3% achieved
6.	*Good corporate governance	13	7	53.8% achieved
	Average level of achievement of targets	**66**	**22**	**33.3% achieved**

*Some of targets referred to the normal daily routine activities, while some were not verifiable and did not meet the criteria for measurable performance targets.

Source: Ithala Annual Reports, 2002 – 2012

While there is a 13% increase in the level of performance from the 2009/10 financial year, the achievement of 33.3% is still a reflection of poor performance that required attention to get Ithala to be effective in its operations. Sixty-six targets are still too many, which may be one of the contributory factors to the poor performance.

For the 2011/12 financial year, a slight change in the strategic goals took place. Two new goals were introduced, namely: forging strategic partnership and knowledge management instead of operational excellence and good corporate governance, and some were incorporated under a new goal termed ‘development effectiveness’.

Table 4.8: 2011/12 Ithala level of performance

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Financial sustainability	11	5	45.5% achieved
2.	Development effectiveness	09	02	22.2% achieved
3.	Operational excellence and good governance	10	08	80% achieved
4.	Forging strategic partnerships	03	0	0% achieved
5.	Knowledge management	0	0	0
	Average level of achievement of targets	**33**	**15**	**45.5% achieved**

Source: Ithala Annual Reports, 2002 – 2012

Table 4.8 shows a significant positive change from 2010/11, with a reduction in the number of performance targets from 66 in 2010/11 to 33 in 2011/12, there was in increase in the level of achievement from 33.3% to 45.5%. However, the 45.5% achievement rate does not present a satisfactory performance level by Ithala. Assuming that the performance targets indicate actual measurements for the achievement of its strategic objectives, the 45.5% level of achievement implies that Ithala is not delivering satisfactorily to its strategic goals and mandate. The Auditor-General could not establish the validity, accuracy and completeness of most of the performance targets. Some of the performance targets did not meet the measurability criterion. Contrary to the findings from the annual reports as indicated, the respondent in the questionnaire reported the level of achievement of performance targets as averaged at 60% each year for the past five years to 2011/12. For the purpose of this study, the performance of Ithala as reported in its annual reports for the 10-year period under review was taken to be the more accurate version as it is published for all the stakeholders and reported as such to the provincial cabinet.

4.2.12 Funding criteria and the level of deviation

The study revealed that the funding criteria differ between funds and changes from time to time, depending on what the provincial government wants to achieve. The funding criteria as at 31 August 2012, was that the businesses must be operating in KZN, in all economic sectors, as registered businesses owned 30% by black shareholders, with all FICA documents and a business plan with supporting documents; and that both start up and existing businesses are financed.

However, during the interview session the respondent indicated that the shareholder (the Department of Economic Development and Tourism), as the principal, entered into an agreement with Ithala to fund only black SMMEs and also to focus mainly on the business idea as opposed to the technical requirements. For instance, Ithala has to provide reasons to the shareholder for non-granting of loans and the applicant may be able to motivate for funding directly to the shareholder. Ithala's funding criteria works differently from other DFIs.

Most DFI funds come from their own revenue as they have reached self-sustainability. For Ithala, each year the Department of Economic Development and Tourism allocates funding for disbursements. The respondent indicated that the level of deviation from the funding criteria was small as it was less than 2%.

4.2.13 Number of businesses funded versus annual disbursements

Table 4.9: Number of businesses funded and disbursements

Fiscal year	Number of businesses funded	Loans and advances approved and disbursed (R million)
2002/3	247	R624.169
2003/4	250	R647.753
2004/5	146	R662.170
2005/6	1 207	R788.867
2006/7	705	R690.273
2007/8	310	R1 095.503
2008/9	193	R1 097.903
2009/10	253	R856.888
2010/11	108	R937.424
2011/12	96	R903.019
Total	**3 515**	**R8 301.209**

Source: Ithala Annual Reports, 2002 – 2012

Table 4.9 shows that Ithala disbursed R8.3 billion to 3 515 transactions over a 10-year period. There is no pattern in the number of businesses funded over the years. The lowest number of transactions was experienced in the 2011/12 financial year, while the highest number was in the 2005/06 financial year. Since Ithala is driven by the budget allocated for disbursements, which is 100% spent in each year, one may conclude that the number of transactions funded depends on the amount of

funding available and the size of the investment required. While the number of funded businesses has reduced from 253 in 2009/10 to 96 in 2011/12, the amount disbursed showed a slight increase from R856 million in 2009/10 to R903 million in 2011/12.

It is evident in Table 4.9 that the annual disbursements increased from R624 million in 2002/03 to R903 million in 2011/12 financial year. This increase was not matched by a corresponding increase in the number of transactions financed. This implies that the size of transactions (amount financed per transaction) grew; hence, fewer transactions with higher disbursements. This is particularly evident in 2008/09 financial year where 193 transactions were financed with R1 billion compared to 253 transactions financed with R856.9 million in the 2009/10 financial year.

4.2.14 Funding levels by economic sectors

Table 4.10: Funding levels per economic sector

Economic sector	Percentage
Agriculture	40%
Transport trade and services	20%
Building/built environment construction	19%
Manufacturing	17%
Other, specify: Co-operatives	4%
Total	**100%**

Table 4.10 shows the percentage distribution of funding by economic sector. Most of the businesses funded by Ithala over the reviewed period were from the agricultural sector followed by the transport trade and services. This trend is based on the historical focus of the DFI, where most of the enterprises perceived Ithala as the financier for farmers in the province. In terms of the mandate of Ithala, there are no restrictions on the sectors to be funded. The funding pattern given in Table 4.10 reflects the demand side as opposed to the supply side. The nature and type of funding applications determined the sectors funded.

4.2.15 Annual debt settlements versus annual defaulters

Considering the rate of annual debt impairment and the debts written off annually, it was considered important to establish the number of funded businesses that were able to service their debts, create job opportunities and thereby alleviate poverty. Depending on the period of survival of such businesses, those that have become self-sustainable suggest that Ithala as a DFI can be regarded as effective in the delivery of its mandate. The numbers indicated in Table 4.11 declined from 374 in 2003/04 to 149 in 2011/12. The shrinking numbers of funded businesses year-on-year may be attributable to either less demand for loans or the decline in the size of the disbursement budget.

Comparing the number of businesses that settled debts yearly and the number of businesses that failed to service their debts yearly shows instability of Ithala as a DFI. For instance, in 2002/03 the ratio of failed businesses is almost 1:1 with those that settled their debts, whereas in 2003/04 the ratio worsened to 1:1.8. An improvement is noticeable from 2004/5 to 2008/9, with a worst case scenario in 2009/10 where the ratio of settlements to closed businesses increased to 1:4.6 and in the very last year of review 2011/12, the ratio was 1:1.6.

Tables 4.11 to 4.13 were constructed mainly from annual reports and additional information was obtained from the interview session. Table 4.11 shows the number of businesses that settled debts against those that failed to do so. The respondent confirmed that the defaulters were due to businesses that were not viable; hence, they were unable to settle debts as they closed down. The number of businesses that settled their debts is fewer than those that closed down.

Table 4.11: Number of businesses that settled loans and those that failed

Period	No. settled debts	No. of businesses closed down	No. of businesses funded	Loans and advances approved and disbursed (R million)
2002/3	340	325	247	R624.169
2003/4	374	663	250	R647.753
2004/5	296	19	146	R662.17
2005/6	243	25	1 207	R788.867
2006/7	241	34	705	R690.273
2007/8	302	39	310	R1 095.503
2008/9	227	35	193	R1 097.903
2009/10	312	1 451	253	R856.888
2010/11	261	13	108	R937.424
2011/12	149	237	96	R903.019
	2 745	**2 841**	**3 515**	**R8 301.29**

Table 4.11 brings to the fore the key focus of the study on why DFIs fund businesses that are not viable or why funded business fail to survive beyond five years after being funded. While this study cannot reveal the actual financial loss in each year, it is apparent that over 2 800 businesses failed to settle their debts as they closed down. There could be a number of reasons leading to business failures, but in this study, the main cause of failures was attributed to the funding criteria used by Ithala. The funding criteria address social factors as opposed to economic growth aspects. The ability of the funded enterprises to create jobs and alleviate poverty seemed to be based on a short-term perspective. The resultant effect is the inability of Ithala to create sustainable businesses and job opportunities that lead to economic growth in the province.

4.2.16 Main reasons for business failure

The respondents were required to indicate their reasons why funded businesses fail. Reasons given were lack of market access and business management skills. These reasons point to the failure of the application evaluation process to screen funding applications. It is common practice that business plans should address how the applicant intends penetrating the market. The motivation given should convince the evaluating panel that the application is worth funding, as the demand for services or goods is sufficient to bring the return on the investment required. On the lack of business management skills, it is difficult to exonerate Ithala as a DFI on this aspect as well; the business management skills of the applicant should be ascertained during the evaluation stage of

the funding application. Should Ithala not be satisfied with this aspect it could be set down as a condition that applicants attend business management courses and that they be mentored in the running of their businesses. There is no evidence that Ithala diagnosed these two challenges (i.e. lack of market access and lack of business management skills) and tried to put in place mechanisms to address them.

4.2.17 *Number of businesses given non-financial support*

Table 4.12: Number of businesses provided with non-financial support

Period	Number	Loans and advances approved and disbursed (R million)
2002/3	557	R624.169
2003/4	561	R647.753
2004/5	523	R662.17
2005/6	1 607	R788.867
2006/7	1 163	R690.273
2007/8	424	R1 095.503
2008/9	240	R1 097.903
2009/10	294	R856.888
2010/11	144	R937.424
2011/12	125	R903.019
Total	**5 638**	**R 8 301.29**

From the document analysis, Table 4.12 shows the number of businesses provided with support in the form of mentorship and business management. However, during the interview it was discovered that there was no real support provided to funded businesses. Only monitoring was done. The unit responsible for business support was dysfunctional. The high rate of business failure is also an indicator of the lack of business support on the part of Ithala. It can be argued that if business support was functional, the rate of businesses that fail after receiving funding should have been reduced.

4.2.18 *Ithala's success rate in furthering the development agenda*

The main purpose for the establishment and maintenance of DFIs is to contribute positively to economic growth through servicing the sector of the business community that does not qualify for

financing by commercial banks. DFIs are expected to do this by facilitating the creation of job opportunities in the private sector. The creation of job opportunities, through the private sector, imply that funded businesses become self-sustainable, thereby contributing to economic growth. The success, or lack thereof, has been measured by the number of sustainable businesses and jobs created.

Table 4.13 shows the number of jobs created for the period under review. Ithala recorded this data per size of the enterprise funded between 2002/03 and 2006/07 and per economic sector from 2009/10 to 2011/12. The assessment of whether the number of jobs created compares well with the loans granted was not undertaken. Suffice to say, some jobs were created for each year with the funding disbursed.

Table 4.13: Number of jobs created

Sector	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
Micro enterprises	944	1 197	858	1 142	1 216	1 651	1 010	n/a	n/a	n/a
Medium enterprises	3 272	3 093	4 134	1 973	681	585	695	n/a	n/a	n/a
Commercial and tourism	530	654	446	23	0	n/a	n/a	n/a	n/a	n/a
Agriculture	221	140	116	415	273	205	279	431	471	440
Co-operatives	n/a	n/a	n/a	4 377	5 683	977	61	547	5	102
Construction	n/a	n/a	n/a	n/a	n/a	n/a	n/a	992	535	870
Manufacturing	n/a	n/a	n/a	n/a	n/a	n/a	n/a	188	197	312
Trade and services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	575	300	242
Total jobs	**4 967**	**5 084**	**5 554**	**7 930**	**7 853**	**3 418**	**2 045**	**2 733**	**1 508**	**1 966**

Table 4.13 shows that the number of jobs created grew from 4 967 in 2002/03 to 7 930 in 2005/06 and thereafter shrunk drastically to 1 508 in 2010/11 financial year. This rate of decline indicates that over the recent years there have been a smaller number of jobs per rand spent.

Using the two criteria (number of jobs created and number of sustainable businesses created) as major contributors to the development agenda of government, and the effectiveness of the DFIs, the respondents were required to rate the level of success of their DFIs in furthering the

development goals. Ithala rated its performance in the questionnaire as above average with a rating of 60%. Asked during the interview, the respondent stated,

Ithala is not entirely effective – though there are a handful of successful businesses created over the years. The mentality of the business community towards government funding is problematic. An entitlement culture contributes to non-repayment of loans. On the other hand, government's approach towards lending which is meant to be developmental, does not assist businesses to grow. Government was also too lenient to the detriment of the businesses themselves.

4.2.19 The opinion of the external auditors on the performance targets

The external auditors reported that performance targets were not measurable, not specific and not time bound due to management not receiving training to apply the principles. The entity therefore has a responsibility to put controls in this area as this has a potential to hinder accurate reporting to the stakeholders.

4.2.20 Customer satisfaction survey

Ithala did not conduct a customer satisfaction survey during the period under review. The respondent believed that if it were to be conducted the results would be positive. Negative comments might be in relation to the turnaround time for loan processing.

4.2.21 Stakeholder interaction

The board is responsible and accountable to its shareholder, the provincial government of KZN through the Member of the Executive Council (MEC) for Economic Development and Tourism. The Ithala Board of Directors is appointed by the MEC for a period of three years. The board has sub-committees that work on different focus areas and advise the board on decision-making. The role of the chairperson of the board and that of the CEO are reported to have been separate in each of the annual reports from 2003 to 2012.

The survey indicated that a healthy relationship exists among the stakeholders. The CEO interacts weekly with the department and the board through the chair of the board. These interactions exclude the statutory quarterly meetings that are scheduled in compliance with good governance requirements. The board's interaction with the MEC takes place on a quarterly basis.

4.2.22 Role clarity between parent department and board of directors

The respondent indicated that roles are clearly defined and implemented accordingly and the Board of Directors gives direction to the organisation, not the Department.

4.2.23 Ithala's independence in operational decision-making

The department as the shareholder and the board should not be involved in operational decisions of the entity in line with King III and the principles of good governance**.** The respondent was asked to indicate his own level of satisfaction in this regard. The finding shows 100% satisfaction with the non-involvement of the MEC and the board; but 50% with the head of department. The reason for the latter is the role of the department in vetoing the board's decision on disapproving some loan applications.

4.2.24 Allegations of maladministration or corruption

The survey revealed that Ithala has had allegations of maladministration and corruption over the past years. Each time allegations are received investigations take place.

Based on the Auditor-General's reports from the 2006/7 financial year up to the 2011/12 financial year, the institution struggled with irregular, fruitless and wasteful expenditure. In the 2006/7 financial year, the external auditors recommended that the system used to identify and record transactions with related parties needed to be enhanced. In the 2008/09 financial year, there were 35 investigations, while in 2009/10 there were 12 investigations pertaining to irregularities and theft. During 2010/11 financial year there were 188 investigations, the majority of the cases related to alleged irregularities and business loans. Irregular expenditure of R20.2 million and R19.8 million

was incurred in respect of 2009/10 and 2010/11 financial years respectively. During 2010/11 the external auditors also reported that Ithala did not ensure that investigations were conducted into all allegations of financial misconduct made against officials. The 2011/12 financial year also saw investigations on allegations of fraud and corruption continuing. However, the outcomes of investigations were not made public. In the 2011/12 annual report, the Auditor General indicated that loans amounting to R77 million were approved and paid without following the operational policy, which is contrary to the provisions of the PFMA (Section 51 (1) (b)).

4.2.25 Alternative model for delivering Ithala's services

The respondent believes government is not able to deliver to the extent that Ithala has because of the skills diversity that government lacks and the level of bureaucracy. The mandate of Ithala cannot be delivered successfully in any other model according to this view.

4.3 Summary of the findings

In Chapter 2 it was indicated that the effectiveness of the DFIs was measured through the following elements: consistency of the macro plan, annual performance plan, quarterly and annual reports; quality of performance indicators (are they correctly identified to indicate/measure the performance?); level of achievement of the performance targets (percentage of performance targets achieved each year); compliance with the mandate (are the entities doing what they are meant to do?); number of sustainable businesses emanating from entities' funding; annual debt ratio for the past five years (debts as a proportion of annual budget); adherence to the founding legislation (regulations), enabling environment (macro/micro environment and political support); role differentials and understanding of governance by all stakeholders (MEC, boards, management); performance assessment (number of funded ventures contributing to growth and development/sustainable employment); and financial sustainability (adequate initial capitalisation versus targeted fiscal support for developmental role).

The document analysis, questionnaire and interviews were used to collect data on these indicators. These indicators were further classified according to their relevance in responding to the broader research questions contained in Chapter 1, as indicated in Table 4.14

Table 4.14: Linking research questions to the findings

No.	Research Question	Indicator
1.	Have the DFIs made a positive contribution to the growth and development in KZN based on their performance indicators?	What is the quality of the performance indicators used by the Ithala?
		Does Ithala achieve its annual performance targets (90% and above)?
		What has been the impact of Ithala on job creation?
		What has been the impact of Ithala in creating sustainable businesses?
		What has been the success rate of Ithala in fulfilling its mandates (success = 90%)?
		Is Ithala complying with its mandates?
		What has been the opinion of the external auditors on the performance of Ithala?
2.	What is the success rate of the DFIs in creating sustainable businesses?	Is the state and size of the loan book acceptable?
		Are the debt write-offs within an acceptable level?
		Does the rate of performing and non-performing loans compare well?
		Is the number of funded businesses that closed down yearly reasonable compared to the loans approved annually?
		Are there reasons for business failures outside the mandate of Ithala?
3.	How do the DFIs take funding decisions?	Is the Ithala funding criteria in line with development finance principles?
		Is the funding criteria adhered to at all times?
		Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)
		Are the allegations of maladministration and corruption addressed (perception of the DFI by the community)
4.	What support and monitoring mechanisms are in place?	Number of funded businesses provided with non-financial support (mentorship)
		Number of businesses monitored
5.	What general performance issues face DFIs?	Is the reporting consistent with the Strategic and Annual Performance plans?
		What has been the opinion of external auditors on the annual financial statements
		What is the level of annual spending compared to the level of disbursements?
		What has been the success rate in fulfilling the mandate of the entity?

4.3.1 The contribution of Ithala to development in KZN

The question of whether Ithala has made a positive contribution to growth and development in KZN based on its performance indicators can be answered from the findings with the legends as given below.

- *Poor:* Unacceptable level of performance;
- *Average:* Some improvement is noticeable;
- *Good:* The level of performance is acceptable.

Table 4.15: The contribution of Ithala

No.	Indicator of performance	Results	Comment
1.	What is the quality of the performance indicators used by the Ithala?	Poor	The indicators do not measure the actual performance.
2.	Does Ithala achieve its annual performance targets? (90% and above)	Poor	Its achievement level ranged between 20% and 60%.
3.	What has been the impact of Ithala on job creation?	Average	Some jobs were created for each of the years.
4.	What has been the impact of Ithala in creating sustainable businesses?	Average	A significant number of businesses funded closed down.
5.	What has been the success rate of Ithala in fulfilling its mandates? (success = 90%)	Average	Less than 60% yearly.
6.	Is Ithala complying with its mandates?	Good	All activities fit within the mandate.
7.	What has been the opinion of the external auditors on the performance of Ithala?	Poor	Performance indicators not developed accordingly.

Conclusion – Not effective

The overall conclusion from the respondent on the effectiveness of Ithala in creating jobs and sustainable businesses was that, though Ithala created a few successful businesses, it has not been entirely effective due to its funding policies and the attitude of the community being served.

4.3.2 Success rate of Ithala as a DFI in KZN

The success of Ithala can be deduced from the performance areas that were surveyed, which include the state and size of the loan book, the rate of non-performing loans, number of businesses settling or failing to settle their loans, and reasons for failure to service debts. Questions were created based on the findings above.

Table 4.16: Ithala success rate

No.	Indicator of performance	Results	Comment
1.	Is the state and size of the loan book acceptable?	No	50% of loans are repaid, with cost to income ratio of 70%.
2.	Are the debt write-offs within an acceptable level?	No	R635 million written-off is too high.
3.	Does the rate of performing and non-performing loans compare well?	No	R2.8 billion impairment for non-performing loans vs R312 million impairments for performing loans.
4.	Is the number of funded businesses that closed down yearly reasonable compared to the loans approved annually?	No	More businesses closed down compared to those that settled over the period reviewed. (2 841 vs 2 745)
5.	Are the reasons for business failures outside the mandate of Ithala?	No	Providing non-financial support is part of the mandate and lack of business management skills was cited as the reason for business failure.

Conclusion – Not effective

4.3.3 Basis for funding decisions

How does Ithala decide on what project or business ideas to fund? This area becomes important in the light of the statistics of businesses that closed down, the debt written-off, and the rate of impairment. Based on the findings above, questions were formulated as shown in Table 4.17.

Table 4.17: Ithala's funding decisions

No.	Indicator of performance	Results	Comment
1.	Are the Ithala funding criteria in line with development finance principles?	No	Zero equity required.
2.	Are the funding criteria adhered to at all times?	No	2% deviation reported.
3.	Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)	Yes	The board and executives and shareholder roles are clearly defined.
4.	Are the allegations of maladministration and corruption addressed (perception of the DFI by the community)?	n/a	No evidence of matters resolved or not resolved.

Conclusion – Complies with criteria and therefore effective

Ithala has funding criteria, but the criteria do not support business growth and sustainability. It works more like a grant, with more people demanding funding and sometimes granted such funding without sufficient 'failure risk mitigation' strategies in place. Such funding criteria do not assist Ithala to be effective and efficient in its screening of funding applications, nor does it minimise funding undeserving applications.

4.3.4 Support and monitoring mechanisms for funded enterprises

Table 4.18: Implementation of non-financial support

No.	Indicator of performance	Results	Comment
1.	Is there a monitoring mechanism for all funded businesses?	Yes	A total of 5 638 business have been monitored over the period.
2.	Are the funded businesses provided with non-financial support to assist them with skills to grow their business and ensure sustainability?	No	Confirmed that only monitoring is done. The Unit responsible not yet functional.
3.	Are the customers satisfied? (Funded enterprises)	n/a	Survey not conducted. Respondent believed the results would be positive.

Conclusion – Not effective

Monitoring refers to reviewing the statistics and files of businesses that are funded. It does not include providing any kind of training or mentorship for business owners. Therefore, the high business failure rate is an indication of the importance of the support required for businesses to be sustainable. The failure of Ithala to provide mentorship has led it to be ineffective in delivering its service of producing sustainable businesses.

4.3.5 The performance levels of Ithala

Table 4.19: Ithala general performance

No.	Indicator of performance	Results	Comment
1.	Is the reporting consistent with the Strategic and Annual Performance plans?	Yes	The content of the annual reports has been consistent
2.	What has been the opinion of external auditors on the annual financial statements?	Unqualified	For the last three years the AFS were not qualified.
3.	What is the level of annual spending compared to the level of disbursements?	Favourable	100% disbursements made each year
4.	What has been the success rate in fulfilling the mandate of the entity?	60%	Overall rating by the respondent

Conclusion – Effective

4.4 Conclusion

The purpose of this chapter was to present and interpret the findings from Ithala as one of the DFIs surveyed in the study. The overarching goal was to establish whether Ithala was effective in delivering on its mandate over the 10-year period. Based on the indicators used for effectiveness Ithala was not entirely effective in achieving its purpose, objective and mandate. The data

presented shows that the overall success rate of Ithala is around 60% and that in most of the years studied, Ithala was not able to achieve all of its performance targets. Another major finding is that the quality of the performance targets set improved in the last financial year and the rate of success of Ithala in creating sustainable businesses has been low, based on the number of funded businesses that closed down before they could settle their loans. While there is a positive contribution to job creation, the rate of job creation decreased and the cost of creating jobs increased, evident when comparing disbursed funds with the number of jobs created.

Chapter 5: Industrial Development Corporation (IDC)

5.1 Introduction

The objectives of the IDC are to support industrial capacity development and promote entrepreneurship. The goals of the IDC include creating sustainable employment, growing the SME sector, enterprise development through Broad-Based Black Economic Empowerment and ensuring environmentally sustainable growth. IDC's loan funding requirements are sourced mainly from international development agencies and from commercial facilities raised through the IDC's relationships with commercial banks. Enterprise development is central to the IDC's core business, as it focused on promoting entrepreneurship across a broad range of industries. The focus of this study was on the contribution of IDC to growth and development in KZN. Though IDC is a national DFI, it has offices in most of the provinces. The study established that regional offices have been phased-in over a long period and the KZN office was opened in 2003. The reasons for regional offices relate to the need to market the services of IDC countrywide, to be accessible to local clients, and to monitor the projects that are funded in various provinces.

Of late, the regional offices have become involved in the operations, such as identifying projects with provincial government departments and in conducting initial assessment of projects and applications for funding.

There were two limitations experienced during the data collection stage, that is, some of the data were only available as national figures and some of it did not cover the entire 10-year period under review.

5.2 Findings

The data presented in this chapter was obtained through the use of three research instruments, namely: document analysis (where the strategic plans, quarterly reports, annual reports and various IDC brochures including internet were reviewed); the questionnaire; and interview process.

In order to summarise data collected, most data is presented using tables in this chapter and the two chapters that follow.

5.2.1 Respondent profile

The respondent was a senior strategist within IDC responsible for corporate strategy and portfolio management. He was with the organisation for over five years.

5.2.2 Budget and disbursement levels

The IDC's regional offices only have an operational budget (agency cost); there is no regional budget for disbursing as loans and advances. The budget allocations are done per industrial or economic sector. The information relating to the costs of the regional office was not available for the period prior to the 2006/07 financial year. The KZN regional office's operational budget totalled R30.6 million for the six-year period to 2011/12.

Table 5.1: IDC's KZN budget

Year	Period	Operational KZN budget (Total Agency costs) (R million)
1.	2006/7	R2.2
2.	2007/8	R3.1
3.	2008/9	R4.0
4.	2009/10	R5.5
5.	2010/11	R6.5
6.	2011/12	R9.3
	Total	**R30.6**

Table 5.1 shows that over the six-year period from 2006/7 to 2011/12, IDC spent over R30 million in operational costs for the KZN regional office. These costs show an increasing trend from R2.2 million in 2006/7 to R9.3 million in 2011/12. The function of the office is to receive, screen and forward applications to the national office. The office also undertakes the monitoring of the funded projects within the province.

5.2.3 The size and state of the loan book and level of defaulters

As at 31 March 2012, the size of the loan book was R17 billion nationally, of which R2 billion was for KZN. In order to understand whether funded ventures/enterprises are repaying loans, the respondent had to describe the state of their loan book based on whether it is good, average or bad, wherein:

- *Good:* 80% of the loans are repaid within the stipulated time;
- *Average:* 50% of the loans are repaid within the stipulated time;
- *Bad:* 20% of the loans are repaid within the stipulated time.

Table 5.2: The loan book nationally and the KZN share thereof

Description	Nationally	KZN
Good	X	
Average		X
Bad		

Based on these ratings, the IDC's national loan book is good with about 80% of the loans repaid within the stipulated time. KZN does not compare well with this national figure as it reflects that about 50% of the loans are repaid within the agreed period. This is reflected on the level of impairments of the portfolio. Impairment for the KZN portfolio is higher than for the overall portfolio (21% for KZN as at 31 March 2012 versus 18% for the overall portfolio). This means that loans in KZN perform worse than the national average. Various factors contribute to this scenario, however, this was beyond the scope of this study.

5.2.4 The percentage of defaulters nationally compared to KZN

Defaulters were defined for the respondents as businesses that failed to repay for a period of over three months. The rating below was done based on the impaired values for each exposure. This was based on the number of clients with impairments within the specified levels, i.e. clients with less than 20% of exposure impaired, between 20% and 50% and more than 50%.

Table 5.3: Proportion of loans not serviced according to loan agreements

Description	Nationally	KZN
Less than 20%	64%	68%
20% to 50%	6%	3%
More than 50%	30%	30%

Table 5.3 shows that for the category with less than 20% exposure impaired, there is slightly more in KZN than nationally, with only 3% for KZN in the 20% to 50% impairment category, and for those doing really badly, with more than 50% of their exposure impaired, KZN's contribution is the same as the national.

5.2.5 Loans and advances compared to debtors written-off

In order to be able to assess the returns on the amount injected or invested in the KZN transactions, it had to be dissected from the national loans for each year. IDC financed transactions to the value of R228.6 billion over the nine-year period, of which R21.4 billion went to KZN, this translates to KZN's share being 9.4%. There is no trend for KZN investments; it went up and down over the years, with the highest percentage in 2003/04 and the lowest in 2006/07. If IDC were to spend its disbursement budget equally across the nine provinces, it would spend around 11% in each province. However, the spending is demand driven and the economic and development opportunities differ from one province to the next. KZN is normally rated the third most attractive investment province after Gauteng and Western Cape; therefore, if what IDC spent in KZN is the third highest, that is considered fair and equitable. The 9.4% disbursement to KZN is considered fair and equitable given the economic climate and opportunities in KZN. The province is thus more attractive to IDC than would be expected.

Table 5.4: Loans, write-offs and impairment of loans

Period	Advances and loans			Write-offs			Impairments
	RSA (R million)	KZN (R million)	% KZN share	Amount (R milion)	KZN Share (R million)	% KZN share	Amount (R million)
2002/03	n/a	n/a				n/a	
2003/04	R17.618	R2.833	16.0%	R210	R23.1	11%	R1.390
2004/05	R17.944	R1.702	9.5%	R196	R21.5	11%	R1.430
2005/06	R18.346	R1.855	10.1%	R190	R15.2	8%	R1.940
2006/07	R20.727	R1.244	6.0%	R215	R38.7	18%	R1.585
2007/08	R22.402	R2.016	8.9%	R191	R24.9	13%	R1.718
2008/09	R26.232	R2.124	8.1%	R531	R79.6	15%	R1.798
2009/10	R30.162	R2.436	8.0%	R193	R42.5	22%	R2.166
2010/11	R34.008	R2.815	8.3%	R74	R16.3	22%	R1.848
2011/12	R41.211	R4.430	10.7%	R189	R34.0	18%	R2.529
Total	**R228.650**	**R21.455**	**9.4%**	**R1.989**	**R295.8**	**14.9%**	**R16.404**

Table 5.4 shows loans disbursed nationally indicated as the 'RSA' column and the share of KZN. The same goes for the write-offs; the amount of loans and advances written-off nationally include the KZN share, which has been indicated separately. Loan impairments refer to the reduction in the size of debts emanating from the loans and advances to avoid a higher carrying value on the financial statements than what is likely to be realised. KZN specific data was not available with respect to loan impairments.

While it is understood that in the DFI environment bad debts are inevitable, there is a requirement to exercise caution in the granting of loans. The amounts written-off can be classified as resources wasted. In the PFMA language, the amounts written off are regarded as fruitless and wasteful expenditure and where such expenditure could have been avoided, it constitutes financial misconduct. Government entities and DFIs are therefore expected to minimise fruitless and wasteful expenditure. For the period under review, an average of 0.87% (R1.9 billion) was written off; of this figure, 14.9% (R295.8 million) was for KZN. This is slightly higher than the national average. The higher amounts of loans written off and impaired in KZN mean that the KZN portfolio is performing worse than the national average.

Table 5.4 shows that the amount written off over the nine-year period amounted to R1.9 billion which constituted 0.9% of the total loans and advances approved for the same period. Of the R1.9

billion, R295.8 million was for KZN transactions, which constitute 14.9% of the total loans written off. Total impairments on loans and advances over the period reviewed amounted to R16.4 billion. Of the 21.4 billion invested in KZN, only R295.8 million was written off over the nine-year period, 1.4% of the investment.

5.2.6 Debt to equity ratio

The debt to equity ratio measures financial leverage between equity (cash) and debt. It is considered important to define upfront what equity business should come with for IDC to finance their business deals. With the increase of the fund-specific products that DFIs like IDC have tended to follow, this ratio has become less important at an organisational level. A higher debt to equity ratio means there is aggressiveness in financing enterprises. For DFIs, the lower debt to equity ratio can lead to them becoming less profitable and ultimately needing bailouts and perpetual dependence on the government.

Table 5.5: Debt to equity ratio

Period	Debt to Equity Ratio	IDC Profit(sustainability) (R million))
2002/03	26.4%	R799
2003/04	20.5%	R236
2004/05	16.1%	R1.303
2005/06	14.2%	R795
2006/07	10.9%	R4.318
2007/08	7.7%	R4.105
2008/09	7.9%	R6.446
2009/10	4.4%	R2.048
2010/11	7.2%	R2.918
2011/12	10.8%	R3.410

Table 5.5 indicates that IDC is self-sustainable; its profitability levels increased from R799 million in 2002/03 to R6.4 billion in 2008/09, and dropped to R2 billion in 2009/10 and again in 2010/11 and slightly increased again in 2011/12 to R3.4 billion. The debt to equity ratio has come down from 26.4% in 2002/03 to 4.4% in 2009/10. The varying debt to equity ratio from year to year confirms that this ratio is not a standard criterion for approving funding loans.

5.2.7 External audit opinion on annual financial statements

For all public entities, it is a statutory requirement that their annual financial statements are prepared and submitted for audit by external auditors. The audited annual financial statements are tabled in Parliament as part of the annual reports. Parliament, through the various portfolio committees, interrogates the performance of the entities or DFIs. Their emphasis is both on financial and non-financial information. In the process, Parliament relies heavily on the opinion of the external auditors; hence, it was considered important to assess what the opinion of the external auditors has been on the financials of the DFIs. For the IDC, the annual financial statements have not been qualified in the period under review. This means there were no negative findings to report on.

5.2.8 IDC's compliance with mandate and the focus of activities

IDC is a national DFI that was set up to promote economic growth and industrial development. It provides finance for industrial development in South Africa and the rest of Africa. The mandate as per the enabling legislation and shareholder compact is to promote the development of industrial capacity. The mandate in terms of the PDFA is to develop industrial capacity. The institution has focused on its mandate, where priorities towards the execution of the mandate have changed, the IDC has had to change its focus areas as well.

From the annual reports reviewed, IDC's execution of its mandate has evolved, as it does not only provide finance, but also entrepreneur development programmes such as mentoring, coaching, and training. Minor adjustments are made year-on-year to improve on the delivery of the objectives, all within the mandate; for instance, the financing of BEE acquisitions was once an important aspect, but for the past three years it has been discontinued. Non-financial support is aimed at achieving the goal of economic growth through enterprise development programmes. A special focus on SMME development is noticeable in the programmes offered.

5.2.9 Consistency of corporate plans and reporting

The IDC annual reports over the past ten years were mainly consistent in terms of content. The same kind of information is reported upon each year. The annual performance plans were prepared for the first time in the 2008/9 financial year and reported on in the annual reports. Although IDC reported quarterly to the stakeholders, the quarterly reports were not available for review by the researcher. The reporting was therefore assessed using annual reports and strategic plans. The important aspect in this question was to establish consistency between approved plans and reports, i.e. does the IDC do what has been approved by Parliament in each financial year.

The respondent was required to indicate his level of confidence on the consistency and compliance of the entity to this legislative requirement, using the legend as indicated below.

- *Good:* Performance targets contained in the strategic plan and annual performance plan are reported on in each quarterly report and the annual reports;
- *Average:* Some of the performance targets or performance indicators do carry through from the strategic plan to the annual reports; and
- *Poor:* The entity has not been able to link performance indicators and performance targets from strategic plan to annual reports.

The respondent rated the IDC's compliance as good for the entire 10-year period. This means that the respondent felt that the IDC reported on the planned objectives throughout each year for the past ten years with no deviation.

5.2.10 The quality of the performance indicators

The quality of the performance indicators used by DFIs was considered important to measure the actual performance of the DFIs. The general concerns of poor indicators that do not measure actual work performance had to be ascertained. The respondent was required to rate his level of

satisfaction on whether the performance indicators used measure actual performance. The rating was made based on:

- *80%:* Most of the performance indicators used measure actual performance of the entity and individuals, and indicate level of achievement of the objectives and broader goals of the entity.
- *50%:* Some of the performance indicators used measure actual performance and lead to the achievement of the objectives of the entity.
- *20%:* Performance indicators and performance targets were not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives.

The respondent rated 80% as a level of confidence. This meant that most of the performance indicators used measured actual performance of the entity and indicated the level of achievement of the broader goals of the institution.

However, the performance indicators for the period 2002/03 to 2007/08 could not be ascertained from the documents reviewed. The IDC's predetermined objectives as per the PFMA were developed for the first time in the 2008/09 financial year. During this period, the external auditors reviewed the performance targets and reported no material shortcomings in the processes, systems and procedures for developing performance objectives and reporting against them. In the 2009/10 and 2010/11 financial years, the external auditors reported the same information, that there were no significant findings on the pre-determined objectives of the IDC. This meant that the performance indicators and targets were found to be measurable, useful and reliable.

5.2.11 The level of achievement of performance targets

The respondent indicated that the IDC had set performance targets for the entire period under review and had achieved over 80% of its targets in the nine years, with the exception of the 2009/10 financial year where less than 60% of the targets were achieved. This could not be confirmed; although the annual reports contained detailed information on the activities and achievements of the IDC over the ten-year period, the performance targets were not set; hence, there was no data on the level of achievements for the period prior to the 2008/09 financial year. For the period from 2008/09 to 2011/12, Tables 5.6 to 5.9 indicate the numbers of targets set and level of achievement for each year. All the tables were constructed from the data collected through questionnaires and the interview.

Table 5.6: Performance targets versus actual performance (2008/09 financial year)

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Industrial capacity development	02	01	50%
2.	Entrepreneurial development	02	02	0
3.	Development outcomes	02	01	50%
4.	Financial sustainability	05	03	40%
5.	Customer satisfaction	01	Not reported	
	Average level of achievement	**12**	**7**	**58.3%**

IDC had five strategic goals for which performance targets were set; a total of 12 performance targets were set of which seven were achieved at the end of the financial year. The achievement of seven out of the 12 targets set, as seen in Table 5.6, translates into a 58.3% level of achievement. This can be interpreted as a 'fair' performance that requires much attention to improve on service delivery. The public expectations is that entities should perform adequately given the resources that are spent on this upkeep; the 58% cannot be regarded as an adequate performance and is not easy to justify to the public.

Table 5.7: Performance targets versus actual performance (2009/10 financial year)

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Industrial capacity development	01	01	Target achieved
2.	Entrepreneurial development	02	01	50% not achieved
3.	Development outcomes	03	01	60% not achieved
4.	Financial sustainability	09	06	33.3% not achieved
5.	Customer satisfaction	01	0	100% not achieved
	Average level of achievement	**16**	**09**	**56.2%**

The level of achievement of 58.3% in 2008/09 (Table 5.6) dropped to 56.2% in the 2009/10 financial year as shown in Table 5.7. In the 2009/10 financial year, more targets were set than in 2008/09. This level of performance requires explanation to the taxpayers funding the DFI. In other words, the DFI has to justify the need for its existence when some of the objectives are not being achieved.

Table 5.8: Performance targets versus actual performance (2010/11 financial year)

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Industrial capacity development	02	02	0 – 100% achieved
2.	Entrepreneurial development	01	0	100% – not achieved
3.	Development outcomes	01	01	0 achieved 100%
4.	Financial sustainability	03	02	33.3% not achieved
5.	Customer satisfaction	01	01	0 – no deviation
	Average level of achievement	**08**	**06**	**75%**

A significant improvement is evident in the level of achievement of the performance target set in the 2010/11 financial year. While the number of performance targets decreased from 16 in 2009/10 to eight in 2010/11, the level of achievement increased from 56.2% to 75% for the same period as indicated in Table 5.8. There thus seems to be a correlation between the fewer number of targets and improved performance. It would appear that the fewer number of targets enable the organisation to focus, manage performance and achieve better results.

Table 5.9: Performance targets versus actual performance (2011/12 financial year)

No.	Strategic goal	Performance target	Actual performance	% deviation
1.	Industrial capacity development*	03	2	1 – 33% not achieved
2.	Innovation – significant impact on industrialisation	04**	03**	1 – 25% not achieved
3.	Development outcomes / socio economic impact	02	02	0 – 100% achieved
4.	Financial sustainability	03	03	0 – 100% achieved
5.	Customer satisfaction/stakeholder relations	02	02	0 – 100% achieved
	Average level of achievement	**14**	**12**	**85.7%**

* The annual report contained both base and stretched targets. The info above relates to base targets
** Number of projects

The number of performance targets set in 2011/12 financial year increased from eight in 2010/11 to 14. The number of performance targets achieved also increased from 75% to 85.7% for the same period. Table 5.9 shows that IDC's performance level improved significantly from 58.3% in 2008/09 to 85.7% in 2011/12. The can be interpreted as adequate performance. The performance of the IDC in relation to the achievement of its objectives over the five-year period showed improvement from year-to-year. Based on the four years where performance targets were set, the average achievement over the period was 68.8%, contrary to the 80% reported in the questionnaire.

5.2.12 Funding criteria and the level of deviation

To establish the basis for funding decisions and whether good governance principles are followed, the study had to ascertain existence of funding criteria. The study established that IDC has criteria that serve only as a guideline with no strict adherence. The general guidelines/criteria included aspects such as:

- The company seeking funding must demonstrate a likelihood of future financial sustainability;
- It must operate in one of the sectors on which IDC focuses;
- The funding requirement must be at least R1 million;
- Owners must contribute some equity (level depends on affordability); and

- Companies must have or commit to a B-BBEE rating of at least five.

The respondent indicated during the interview that the important aspect is the sustainability of the business and the debt to equity ratio. It is set at 40% to 50%; however, for SMMEs or black businesses it can go down to 2.5%. For this reason, the deviation from the set criteria accounts for more than 5%, mainly to cater for black businesses.

This finding reflected that the IDC's funding criteria are very flexible; while broad guidelines exist, they are not followed strictly. The idea might be good as it aims at empowering black businesses as part of a broader government agenda to affirm the previously disadvantaged groups, but there is a risk of funding businesses that are not bankable; hence, the high rate of bad debts and increased write-offs, which leads to fruitless and wasteful expenditure.

5.2.13 Loan approvals per region

Table 5.10: Approvals of advances and loans per region

Sector	2005/6 %	2006/7 %	2007/8 %	2008/9 %	2009/10 %	2010/11 %	2011/12 %
Eastern Cape	47%	11%	10%	15%	-14%*	31%	2%
Free State	1%	1%	2%	1%	0%	4%	0%
Gauteng	18%	38%	37%	31%	12%	24%	27%
KZN	7%	14%	20%	22%	5%	11%	1%
Limpopo	1%	4%	4%	7%	29%	6%	7%
Mpumalanga	13%	11%	3%	4%	5%	8%	3%
North West	5%	6%	12%	4%	7%	4%	25%
Northern Cape	3%	11%	2%	7%	50%	-1%	26%
Western Cape	5%	5%	11%	9%	7%	13%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

* The cancellation of previously approved transactions can result in negative numbers, for instance, the -14% in the Eastern Cape related to the cancellation of the Coega aluminium smelter

Source: IDC Annual Reports 2005/6 to 2011/12

The study ascertained that the spread of IDC investment across provinces is not planned, i.e. there are no quotas set. The funding is determined by the bankable opportunities presented to IDC on a 'first come first serve' basis in each year. Focusing on IDC funding to KZN Province, it is apparent that opportunities and funding to KZN varies from year to year; the highest level was reached in 2008/09 where 22% of the funding went to KZN and the lowest level was in 2011/12 where only

1% of IDC funding went to KZN as per Table 5.10. The KZN share of the approved deals appeared to be average compared to other regions or provinces; however, KZN approvals went down from 22% in 2008/09 to 5% in 2009/10 and even down to 1% in the 2011/12 financial year. This may be a reflection of the extra precautions for KZN as a region on the part of the IDC or non-availability of opportunities when compared to others. It can be argued that the amount of investment made to KZN does not matter, but the performance of such investment is more important.

5.2.14 Loans and advances per economic sector

IDC funded businesses in three main categories; the resource division made up of food, beverages, and agro-industries; mining and beneficiation; and public and private partnerships and new venture capital. The industrial division constituted chemicals, textiles and allied industries; metal, transport and machinery products; wood and paper; and construction. The services division constituted franchising, health care and education, media and motion pictures, techno industries, tourism, transport and financial services.

Table 5.11: Advances and loans per economic sector

Sector	2005/06 (R million)		2006/07 (R million)		2007/08 (R million)	
	RSA	KZN	RSA	KZN	RSA	KZN
Resource Division	**R2 356.4**	**R-99.6**	**R2 252.4**	**R118.4**	**R2 972.4**	**R118.4**
Food beverage and Agro-Industries	R134.9	R17.3	R326.2	R44.8	R623.2	R41.3
Mining and beneficiation	R2 084.9	R-163.5	R1 008.1	R17.9	R1 646.8	R7.5
Public and Private Partnerships	R136.6	R46.6	R918.1	R55.7	R640.8	R69.6
Venture capital	-	-	-	-	R61.6	-
Green-industries	-	-	-	-	-	-
Industrial Division	**R321.8**	**R81.2**	**R1 349.2**	**R255.9**	**R1 913.1**	**R534.5**
Chemicals, Textiles and allied industries	R167.7	R71.4	R334.4	R123.2	R633.3	R208.3
Metal, transport and machinery products	R69.6	R-16.5	R229.5	R27.6	R959.2	R296.1
Wood, paper and Other	R84.5	R26.3	R717.1	R103.0	R244.0	R30.1
Construction.	-	-	R68.2	R2.1	R76.6	-
Services Division	**R1 057.0**	**R287.8**	**R1 921.2**	**R376.7**	**R3 574.6**	**R153.0**
Franchising	R176.7	R4.9	R332.6	-	R445.7	R14.2
Healthcare and Education	R384.2	R244.2	R178.6	R245.6	R462.6	R6.5
Media and Motion Pictures	R68.6	R14.6	R30.8	-	R397.0	R14.6
Techno industries	R129.8	R0.3	R657.4	R75.0	R454.5	R30.4
Tourism	R93.3	R8.2	R255.9	R7.7	R881.5	R16.7
Transport, Financial Services and other	R204.4	R15.6	R465.9	R48.4	R933.3	R70.6
Total	**R3 735.2**	**R269.4**	**R5 522.8**	**R751.0**	**R8 460.1**	**R805.9**

Source: IDC Annual Reports 2005/6 to 2011/12

Table 5.11 indicates that most approved deals were from the resource division followed by the services division. Table 5.11 confirms the share of KZN as 7.2%, 13.6% and 9.5% for 2005/06, 2006/07 and 2007/08 respectively.

Table 5.12: Advances and loans per economic sector in R'm

Period	2008/09 (R million)		2009/10 (R million)		2010/11 (R million)		2011/12 (R million)	
Sector	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**
Resource Division	**R3 356.7**	**R860.6**	**R2 712.4**	**R65.0**	**R3 422.7**	**R315.6**	**R9 055.8**	**R-600.4**
Food beverage and Agro-Industries	R350.0	R49.3	R400.6	R40.8	R783.4	R4.8	R622.0	R39.7
Mining and beneficiation	R1 124.9	R4.4	R2 210.9	R22.5	R1 445.6	R305.9	R4 200.9	-
Public and Private Partnerships	R1 754.6	R805.6	R32.7	-	R1 143.1	-	R-1 049.1	R-791.5
Venture capital	R127.2	R1.3	R68.2	R1.7	R50.6	R4.9	R187.0	R1.1
Green Industries	-	-	-	-	-	-	R5 282.0	R150.3
Industrial Division	**R1 809.2**	**R451.0**	**R2 065.2**	**R25.1**	**R4 216.9**	**R587.6**	**R3 394.8**	**R654.2**
Chemicals, Textiles and allied industries	R386.7	R173.3	R1 485.6	R231.5	R1 079.6	R329.9	R1 318.7	R333.5
Metal, transport and machinery products	R547.0	R150.0	R713.8	R439.0	R2 104.3	R77.6	R1 699.5	R338.4
Wood, paper and Other	R282.4	R77.9	R-369.9	R-645.4	R273.4	R106.0	R363.4	R-17.6
Construction.	R593.1	R49.8	R235.7	-	R759.6	R74.1	R13.2	R-0.1
Services Division	**R2 833.4**	**R412.0**	**R768.4**	**R175.5**	**R769.1**	**R-15.6**	**R1 323.5**	**R46.4**
Franchising	R198.4	R22.7	R-305.8	R-20.5	R23.4	R8.0	R-21.6	R1.0
Healthcare and Education	R438.9	R312.5	R177.6	R189.5	R246.4	R-1.1	R316.0	R-0.0
Media and Motion Pictures	R281.5	R21.5	R295.7	R-3.0	R164.4	-	R429.4	R42.7
Techno industries	R634.1	R21.3	R125.8	R-3.2	R265.6	-	R532.2	R2.7
Tourism	R582.9	R32.7	R265.6	R7.7	R31.0	R-22.5	R167.7	-
Transport, Financial Services and other	R697.6	R1.3	R209.5	R5.0	R38.3	-	R-100.2	-
Total	**R7 999.3**	**R1 723.6**	**R5 546.0**	**R292.6**	**R8 408.7**	**887.6**	**13 774.1**	**100.2**

Source: IDC Annual Reports 2005/6 to 2011/12

The resource division appeared to have the highest disbursements for most of the periods, except for 2010/11 where the industrial division had the higher disbursements. The financing of green industries led to a drastic increase in the disbursements for the resource division. Of the R9 billion disbursed R5.2 billion was for green industries while R4 billion was for mining and beneficiation in 2011/12 as shown in Table 5.12. The KZN share of approved deals per sector totalled 21.5%, 5.3%, 10.5% and 1% for 2008/09, 2009/10, 2010/11 and 2011/12 respectively.

5.2.15 Number of loans and advances for KZN

Table 5.13: The number of businesses funded in KZN

Sector	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Resource Division	**3**	**5**	**3**	**7**	**3**	**7**	**7**
Food beverage and Agro-Industries	3	3	1	4	1	2	4
Mining and beneficiation	-1	2	1	0	1	3	0
Public and Private Partnerships	1	0	1	2	0	0	-2
Venture capital	0	0	0	1	1	2	2
Green-industries	0	0	0	0	0	0	3
Industrial Division	**10**	**27**	**13**	**15**	**20**	**28**	**28**
Chemicals, Textiles and allied industries	6	13	11	10	15	18	19
Metal, transport and machinery products	1	4	1	0	5	2	8
Wood, paper and Other	3	9	1	4	0	3	1
Construction	0	1	0	1	0	5	0
Services Division	**5**	**5**	**-1**	**12**	**3**	**1**	**5**
Franchising	1	0	0	2	0	1	1
Healthcare and Education	0	2	2	4	2	1	0
Media and Motion Pictures	1	0	-1	1	0	0	3
Techno industries	0	1	0	2	0	0	1
Tourism	2	2	-2	3	1	-1	0
Transport, Financial Services and other	1	0	0	0	0	0	0
Total	**18**	**37**	**15**	**34**	**26**	**36**	**40**

Source: IDC Annual Reports 2005/6 to 2011/12

Table 5.13 shows that over the seven years, IDC funded 206 businesses in KZN, with the highest number in 2011/12 and lowest number in 2007/08. The most funded sectors in KZN are in the chemicals, textiles and allied industries, followed by food and beverage and agro-industries, and in third place is the wood and paper sector. The approved transactions that are not disbursed result in negative numbers in the following year, for instance in the tourism sector in 2010/11 the negative one reflects the reversal of the deal approved in the preceding year. The study revealed the four 'most funded' economic sectors as shown in Table 5.14.

Table 5.14: Most funded economic sectors

Economic sector	Ranking
Chemicals, textiles and allied industries	1
Food and beverage	2
Wood and paper	3
Metal, transport and machinery products	4

5.2.16 Main reasons for business failures

The reasons for non-payment of loans that was rated high, was the lack of business management skills, followed by fraud and corruption, which the respondent felt was on the rise from funded enterprises, wherein funding is not always used for the purpose for which they were approved.

5.2.17 Number of businesses supported

IDC has enterprise development as part of its core functions; for this reason a number of programmes aimed at providing support to funded enterprises are offered. IDC has a department called 'Post-investment Monitoring': its aim is to ensure effective and timeous implementation of approved transactions, monitoring of business partners and protection of IDC's interest until such time the relationship between IDC and the business partner terminates. The functions of this department include designing and development of detailed internal controls systems and procedures, overseeing amendments and cancellation of transactions, monitoring due payments and recording clients' visits, interventions and exit processes. In short, the business support programme aims to augment IDC's funding by providing non-financial support in the form of business support programmes. IDC has a panel of business consultants that are deployed to follow each investment made to ensure it succeeds. One major support provided over the years was through the creation of the 'Distress Fund'. The economic downturn experienced between 2008 and 2010 put many local businesses under severe financial strain. During this time, businesses had difficulty in accessing funding from the commercial banks, as they had to tighten their credit facilities.

During this time, IDC played a countercyclical role and set aside a R6 billion fund to assist companies negatively affected by the recession. The main objective of the intervention was to retain jobs and maintain productive capacity in the economy. During this period, some R1.4 billion was distributed to 28 companies during the 2009/2010 financial year, providing a much-needed lifeline for these businesses to turn around their operations and improve their position. When this funding was

distributed there was an expectation that about 8 800 jobs would be saved. This funding allowed businesses to build capacity and create employment, and provide working capital as well as operational and capital expenses. Affected business enterprises were assisted to become competitive, ensure liquidity by providing funds not accessible by banks, and reduce the quantum of job losses. Table 5.15 shows the number of distressed firms supported and number of jobs saved. In the 2008/09 economic downturn, 120 businesses were assisted of which 19 were in KZN.

Tables 5.15 to 5.17 were constructed from the data collected from annual reports and where gaps existed, the face-to-face interview was used to close such gaps. In some cases, the respondent provided additional reports from which complete data was obtained.

Table 5.15: Distressed firms and number of jobs saved

Period	No. of distressed firms assisted		Jobs saved	
	RSA	KZN	RSA	KZN
2002/03	n/a	n/a	n/a	n/a
2003/04	n/a	n/a	n/a	n/a
2004/05	n/a	n/a	n/a	n/a
2005/06	n/a	n/a	991	302
2006/07	n/a	n/a	3 816	1 903
2007/08	n/a	n/a	1 282	196
2008/09	14	4	2 528	1 950
2009/10	27	4	8 291	1 583
2010/11	44	4	11 656	506
2011/12	35	7	13 975	2 431
Total	**120**	**19**	**42 539**	**8 871**

5.2.18 IDC's success rate in furthering the development agenda

The purpose of the establishment of DFIs is to close the gap that is created by commercial banks in funding socio-economic development programmes. The success of DFIs should be measured by the extent to which they succeed in addressing socio-economic issues. IDC's focus areas in the period under review included job creation, funding of SMMEs, and assisting distressed firms. IDC made a distinction between jobs created and jobs saved, funding of SMMEs and funding for developing industrial capacity.

Table 5.16: Number of jobs created

Period	No. of Jobs created		Advances and loans approved (R million)	
	RSA	KZN	RSA	KZN
2002/03	12 396	n/a	n/a	n/a
2003/04	15 778	n/a	n/a	n/a
2004/05	13 379	n/a	n/a	n/a
2005/06	21 067	1 107	R3 735.0	R269.4
2006/07	29 330	4 995	R5 522.8	R751.0
2007/08	32 355	2 336	R8 460.1	R805.9
2008/09	24 233	3 776	R7 999.3	R1 723.6
2009/10	16 711	705	R5 546.0	R292.6
2010/11	27 791	1 366	R8 408.7	R887.6
2011/12	32 009	1 466	R13 774.1	R100.2
Total	**225 049**	**15 751**	**R53 446.0**	**R4 830.3**

Over the period under review, IDC funding created over 225 000 jobs. In the 2005/06 financial year, loans and advances of R3.7 billion were approved with more than 21 000 jobs expected to be created. Of the R3.7 billion, R269 million went to KZN, where it was expected that 1 107 jobs were to be created. Over the seven year period from 2005/06 to 2011/12, R53.4 billion worth of loans were approved of which R4.8 billion (9%) was for KZN. In the same period, 183 496 jobs were created nationally of which 15 751 (8.6%) were in KZN.

Table 5.17: Number of SMMEs funded

Period	No. of SMMEs funded		Amount approved to SMMEs (R million)	
	RSA	KZN	RSA	KZN
2002/03	254	n/a	R883	n/a
2003/04	150	n/a	R546	n/a
2004/05	105	n/a	R551	n/a
2005/06	104	15	R1 111	R108
2006/07	168	22	R985	R147
2007/08	94	3	R933	R14
2008/09	159	22	R2 152	R246
2009/10	143	13	R2 259	R107
2010/11	136	20	R1 162	R127
2011/12	184	24	R1 959	R170
Total	**1 497**	**(7.9%) 119**	**R12 541**	**R919**

The number of SMMEs funded over this period shows a meaningful contribution of the IDC to economic growth; however, the rate of success of these SMMEs has not been confirmed. Of the 1 497 SMMEs funded of which 7.9% was in KZN, their performance was not assessed.

5.2.19 The opinion of the external auditors on the performance targets

On the performance indicators and reporting thereon, the external auditors' opinion was that the information provided is reliable.

5.2.20 Customer satisfaction survey

The study confirmed that IDC conducts customer satisfaction surveys yearly. In each of the years, the biggest complaint is the turnaround time for applications. For this reason, IDC made a decision to include turnaround of application as part of the performance scorecard of managers.

5.2.21 Stakeholder interaction

The IDC is structured in terms of the PFMA, with the executing authority being the Minister of Economic Development. The Minister appoints the board of directors, which is the accounting authority for the entity. The board reports to the minister as the representative of the shareholder. The board has sub-committees that are delegated by the board to focus on specific areas to facilitate all the fiduciary duties of the board. The sub-committees make recommendations to the board for any decision to be made. The CEO is appointed by the minister on the recommendations of the board. The CEO reports to the board.

There are monthly interactions between IDC and the officials of the department, while the interaction of the board and the CEO is dictated by the work that needs to be done on an on-going basis. The board's interaction with the shareholder (minister) is on a yearly basis, but, special meetings are arranged to discuss certain important performance strategic decisions and also for the board to update the minister on the activities of the DFI. The study did not reveal any discrepancy in the protocol or difficulties in interrelations.

5.2.22 Role clarity between parent department and board

The governance of the IDC is guided by IDC Act No. 22 of 1940, the PFMA and the 2009 King Report on Governance for South Africa. The study confirmed compliance with a number of these

requirements. The respondent indicated that there is good relationship between the board and the minister and that the board understood its role. In terms of the role of 'giving direction' to the IDC, the respondent felt both the minister and the board have roles to play. The minister gives direction in terms of policies, and the board through its strategies attempts to achieve the policy outcomes.

The respondent indicated 90% confidence that the minister and board are not involved in operational decisions of the IDC. There are no tensions between the board and the minister.

5.2.23 IDC's independence in operational decision making

IDC's operational environment is influenced largely by the political decisions that are made by Parliament on an on-going basis. For instance, the setting up of specific funds to address political imperatives is decided by Parliament. It then becomes the role of the IDC to implement. For example, in the 2007/08 financial year, a transformation and entrepreneurial scheme (TES), to the value of R1 billion, was set up and in 2008/09, the distress fund was set up. Both these decisions were made by Parliament for IDC to implement. The TES focuses on specific sectors, e.g. the women's entrepreneurial fund, the disabled people's fund, the equity contribution fund, the development fund, and the community fund.

The IDC's operations are therefore directed from time to time by the political agenda of the day. Nonetheless, the respondent indicated a 100% level of satisfaction that none of the two stakeholders (board or minister) have any influence in the operational decisions of IDC.

5.2.24 Allegations of maladministration and corruption

With respect to allegations of maladministration and corruption, contradictory information was obtained. From the questionnaire, the respondent indicated that there had been no allegation of maladministration or corruption within IDC. During the face-to-face interview, the respondent indicated that issues of corruption within the organisation take place now and then. They mainly relate to a number of officials that source bribes from potential businesses in exchange for assisting

them with their applications. These cases are dealt with following the Labour Relations Act, and sanctions differ depending on the outcomes of the disciplinary hearings.

5.2.25 Alternative model for delivering IDC's services

The respondent felt it was a good decision to have IDC operating independently of a government department. The model was justified by the fact that IDC is self-funding and therefore places a low burden on taxpayers. Various reasons advanced in support of the existing model included availability of skills, salary packages that are attractive, and efficiency due to less bureaucratic procedures compared to departments. The respondent believed that the Department can never be able to run IDC business, as it has too much red tape and bureaucratic procedures. There are cases where approvals required from the department by IDC take as long as 12 months to be done.

5.3 Summary of the findings

The study aims at establishing whether IDC has been effective in delivering services as a DFI in KZN. This has been assessed by investigating the performance and operational environment of the IDC in KZN, such impact being measured by the quality of the performance indicators used, by whether IDC achieved its performance targets, IDC's contribution to job creation, and creation of sustainable businesses, all of which had to be confirmed by the external auditors. The effectiveness of the IDC was also measured by its success rate in creating sustainable businesses, the usefulness of its funding criteria, the support mechanisms that IDC offers to funded enterprises, and investigation into the general performance environment. The indicators of effectiveness have been linked to the research questions in order to respond to the research questions.

Table 5.18: Linking research questions to the findings

No.	Research Question	Indicator
1.	Have the DFIs made a positive contribution to growth and development in KZN based on their performance indicators?	What is the quality of the performance indicators used by the IDC?
		Does IDC achieve its annual performance targets (90% and above)
		What has been the impact of IDC on job creation in KZN?
		What has been the impact of IDC in creating sustainable SMMEs?
		What has been the success rate of IDC in fulfilling its mandates (success = 90%)?
		Is IDC complying with its mandates
		What has been the opinion of the external auditors on the performance of IDC?
2.	What is the success rate of the DFIs in creating sustainable businesses?	Is the state and size of the loan book acceptable (KZN)?
		Are the debt write-offs within an acceptable level?
		How much is IDC investing in KZN compared to national investment?
		Number of funded businesses in KZN as percentage of nationally funded businesses?
		The level of impairment over the period
3.	How do the DFIs take funding decisions?	Are the IDC funding criteria in line with development finance principles?
		Are the funding criteria adhered to at all times?
		Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)
		Are the allegations of maladministration and corruption addressed? (perception of the DFI by the community)
4.	What support and monitoring mechanisms are in place?	Number of distressed businesses provided with support
		What support is provided to funded enterprises?
5.	What general performance issues face DFIs?	Is the reporting consistent with the Strategic and Annual Performance plans?
		What has been the opinion of external auditors on the annual financial statements?
		What is the level of annual operational costs compared to the KZN funded businesses?
		What has been the success rate in fulfilling the mandate of the entity?

5.3.1 The impact of IDC in KZN

The question of whether IDC has made a positive development impact in KZN based on its performance indicators can be answered from the findings with the legends as given below:

- *Poor:* Unacceptable level of performance;
- *Average:* Some improvement is noticeable; and
- *Good:* The level of performance is acceptable.

Table 5.19: Impact of IDC on growth

No.	Indicator of performance	Results	Comment
1.	What is the quality of the performance indicators used by the IDC?	Good	External auditors accepted the indicators as reliable and accurate.
2.	Does IDC achieve its annual performance targets? (90% and above)	Average	Its achievement level ranged between 56% and 86%.
3.	What has been the impact of IDC on job creation in KZN?	Average	Jobs were created for each of the years.
4.	What has been the impact of IDC in creating sustainable SMME businesses in KZN?	Average	119 SMMEs over a seven-year period. (could do better)
5.	What has been the success rate of IDC in fulfilling its mandates? (success = 90%)	Average	Average of 80% was indicated.
6.	Is IDC complying with its mandates?	Good	All activities fit within the mandate.
7.	What has been the opinion of the external auditors on the performance of IDC?	Good	There have been no negative findings to report on.

Conclusion – Effective

The overall conclusion from the respondent on the effectiveness of IDC in creating jobs and sustainable SMMEs and building industrial capacity was that it has done well. While challenges always exist, the DFI has been able to perform adequately over the years.

5.3.2 Success rate of the IDC as a DFI playing a role in KZN

The success of IDC can be deduced from the performance areas that were surveyed, which include the state and size of the loan book, the size of KZN investment, and amounts written-off. Questions and answers have been created based on the findings.

Table 5.20: IDC success rate

No.	Indicator of performance	Results	Comment
1.	Is the state and size of the loan book acceptable?	Yes	More than 80% repaid on time.
2.	Are the debt write-offs within an acceptable level?	Yes	R1.9 billion over 9-year period.
3.	Is IDC investing adequately in KZN compared to other provinces?	Yes	9.4% of investment went to KZN.
4.	Is the loan book performing well? Are the annual impairments on advances and loans comparable to the standards?	Yes	IDC is self-sustainable, impairment provision average rate is 18%.
5.	Is the IDC investment in KZN performing well compared to national performance?	No	1.4% of the KZN loans and advances were written off compared to 0.8% nationally.

Conclusion – Effective

5.3.3 Basis for funding decisions

How does IDC decide on what project or business ideas to fund? Based on the findings in Table 5.20, questions and answers have been formulated as per Table 5.21.

Table 5.21: Basis for funding decisions

No.	Indicator of performance	Results	Comment
1.	Are the IDC's funding criteria in line with development finance principles?	Yes	Funding guidelines in line with objectives of various Funds are adhered to.
2.	Are the funding criteria adhered to at all times?	No	5% deviation reported to accommodate black businesses.
3.	Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)	Yes	The board and executives and shareholder roles are clearly defined and followed as much as possible.
4.	Are the allegations of maladministration and corruption addressed? (perception of the DFI by the community)	n/a	Disciplinary hearings are held and appropriate sanctions made.

Conclusion – Complies with criteria and therefore effective

5.3.4 Support and monitoring mechanisms for funded enterprises

Table 5.22: Support and mentorship to funded enterprises

No.	Indicator of performance	Results	Comment
1.	Is there a monitoring mechanism for all funded businesses?	Yes	Business support programme unit in place.
2.	Are the funded businesses provided with non-financial support to assist them with skills to grow their business and ensure sustainability?	Yes	Post-investment monitoring department is functional.
2.	Are the customers satisfied? (Funded enterprises)	No	They complain about turnaround time of applications.

Conclusion – Effective

5.3.5 The performance levels of IDC

Table 5.23: IDC's performance level

No.	Indicator of performance	Results	Comment
1.	Is the reporting consistent with the Strategic and Annual Performance plans?	Yes	The content of the annual reports has been consistent.
2.	What has been the opinion of external auditors on the annual financial statements	Unqualified	For the entire period under review, the AFS were not qualified.
3.	What is the level of annual spending (operational costs of the KZN Office) compared to the level of disbursements in KZN?	Favourable	R30.6m to chase R21.4billion – the ratio is not bad.
4.	What has been the success rate in fulfilling the mandate of the entity?	60%	Overall rating by the respondent.

Conclusion – Effective

5.4 Conclusion

The aim of this chapter was to present findings from IDC as a DFI that plays an important role in the KZN economy with a view to getting answers to the research questions presented in Chapter 1. The findings relating to the effectiveness of IDC were that the capacity to deliver on the mandate was evident in the level of performance shown in the annual reports. The IDC's level of achievement of its set performance targets improved over the years from 56.2% to 87% in 2011/12. The quality of the performance indicators used by the IDC was found to be acceptable and reliable to provide useful information by the external auditors over the entire period under review. The IDC's contribution to the government development agenda was evident in the number of jobs created and saved; however, the impact of IDC in creating sustainable SMMEs could not be verified, except that significant funding went to SMMEs. The average success rate of IDC in furthering development goals of government was rated at 80%. The average results of the IDC assessment based on the indicators given above is that the IDC remained effective in delivering on its mandate to the RSA and KZN specifically.

Chapter 6: National Empowerment Fund (NEF)

6.1 Introduction

The NEF was established as a trust by the NEF Act, which provides for the establishment of the framework for the broad promotion and facilitation of ownership of income generating assets by black people. The main objective of the NEF is to facilitate the redress of economic inequalities, which resulted from the unfair discrimination of black people in the past. The NEF achieves its objectives through a range of investment products, which are utilised to invest in black businesses that are at different stages of economic development.

The NEF has functioned on a national level since its inception. The KZN office was opened in March 2011. However, it was not given financial resources, so its role was limited to receiving applications and transferring them to the head office in Sandton. Operations in KZN started in November 2011, with the following responsibilities:

- Source deals;
- Screen deals for mandate fit and viability;
- Stakeholder management and awareness of the brand; and
- Training sessions for entrepreneurs.

6.2 Findings

6.2.1 Respondent profile

The initial interview was held with the KZN regional manager. During this interview basic information on the operations of the NEF was obtained and the relevant respondent was identified as the executive manager responsible for strategy and planning at the head office. Hence, the

executive manager became the respondent to the questionnaire and subsequent interviews. The respondent had been with NEF for a period of three years.

6.2.2 Budget and disbursement levels

NEF did not have regional budgets. The budget for disbursing (loans and advances) is per fund and centralised.

6.2.3 The size and state of the loan book and level of defaulters

In order to understand whether funded enterprises are repaying loans, the respondent had to describe the state of their loan book based on whether it is good, average or bad, wherein:

- *Good:* 80% of the loans are repaid within the stipulated time;
- *Average:* 50% of the loans are repaid within the stipulated time; and
- *Bad:* 20% of the loans are repaid within the stipulated time.

At the end of 2011/12 financial year, the NEF loan book was R2.7 billion. The share of KZN could not be established. The respondent rated the state of the loan book as 'good' meaning that about 80% of the loans and advances are repaid within the stipulated time. Defaulters were defined for the respondents as businesses that failed to make repayments for a period of over three months. The respondent indicated that the collection rate was 73% nationally, while the percentage of defaulters was less than 20% per annum.

6.2.4 *Loans and advances compared to debtors written-off*

Table 6.1: Performance of loans and advances

Financial years	Value of disbursements (R million)		Write-offs (R million)		Non-Performing loans (R million)		Impairments (R million)
	RSA	KZN	RSA	KZN	RSA	KZN	
2003/04	R5	0	n/a	n/a	n/a	n/a	n/a
2004/05	R20	R7.0	n/a	n/a	n/a	n/a	n/a
2005/06	R251	R21.2	R38.1	R9.5	n/a	n/a	R106.2
2006/07	R219	R8.6	R14.9	R3.7	R37	R3.5	R120.5
2007/08	R203	R5.2	R52.8	R13.2	R25	R2.1	R38.4
2008/09	R279	R141.9	R74.7	R19.4	R120	R58.2	R53.3
2009/10	R549	R102.6	R56.0	R14.0	R315	R42.1	R217.7
2010/11	R552	R96.5	R92.4	R24.0	R250	R39.6	R199.7
2011/12	R620	R94.4	R118.0	R30.7	R218	R38.7	R170.5
	R1 698	**R447.9**	**R446.9**	**R117.2**	**R965**	**R183.6**	**R906.3**

Note: non-performing loans in KZN estimated based on 41% average non-performance rate. Over the period under review, 41% of the loans granted for KZN did not perform. Write-offs for 2006 to 2008 are estimates based on impairment figures in the AFS.

Table 6.1 indicates that from 2005/06 to 2011/12, the total amount for loans and advances disbursed was R1.7 billion, of which R446.9 million was written-off over the same period. This means that 26.3% of loans were written off over the eight-year period. Impairments totalled R906.3 million for the period under review, indicating the existence of some challenges on the repayment rate on a year on year basis. Of the R1.7 billion disbursed, R447.9 million (26.4%) was disbursed to KZN enterprises. The total amount of non-performing loans stood at R965 million, of which R183.6 million were KZN transactions, while the total impairments amounted to R906.3 million. The study revealed that of all the KZN transactions, only 59% were successful as of November 2012. Of the R446.9 million written off nationally, 26% was from KZN.

6.2.5 *Debt to equity ratio*

The study established that as the NEF is a DFI with a mandate bias towards black empowerment, the debt to equity ratio is not always applicable. Most of the transactions did not require equity from the investee companies. While this is a noble idea in empowering previously disadvantaged entrepreneurs, it has its limitations as well, some of which lead to difficulties in making repayments.

6.2.6 External audit opinion on annual financial statements

Parliament, in playing its oversight role over government departments and entities, places more reliance on the findings of the external auditors. This practice has made it important for all departments and government entities to ensure that they obtain clean audit reports. NEF's annual financial statements have not been qualified for the period under review. This has a positive impact on the state of financial affairs of NEF and gives some level of comfort to government on the sustainability of NEF as a going concern.

6.2.7 NEF's compliance with mandate and the focus of its activities

The NEF is regarded as a driver and thought-leader in promoting and facilitating black economic participation by providing financial and non-financial support to black entrepreneurs. It implements its mandate in three ways: first, asset management, which mainly includes structuring accessible retail savings products for black people; second, fund management, which refers to the NEF's role as a facilitator of the Codes of Good Practice of the Broad-Based Black Economic Empowerment Act to support the pillars of black enterprise by providing finance and financial solutions across a range of sectors; and third, strategic projects, which is a unit that enables the NEF to act as a provider of project finance which allows black entrepreneurs to participate in high growth strategic projects at an early stage without paying a premium for equity (NEF 2012 Annual Report). All the activities of the NEF are aimed at the fulfilment of its mandate.

6.2.8 Consistency of corporate plans and reporting

It was important to establish consistency between the approved plans and those reported, i.e. does the NEF do what has been approved by Parliament for each financial year?

The respondents were required to indicate their level of confidence on the consistency and compliance of their entities to this legislative requirement, using the following legend.

- *Good:* Performance targets contained in the strategic plan and annual performance plan are reported on in each quarterly report and the annual reports.
- *Average:* Some of the performance targets/ performance indicators do carry through from the strategic plan to the annual reports.
- *Poor:* The entity has not been able to link performance indicators and performance targets from strategic plan to annual reports.

For the period 2008/09 to 2011/12, the respondent indicated 'good'. This meant that the respondent is confident that the NEF performance targets contained in the strategic plans were reported upon quarterly and in the annual reports. NEF focuses on executing targets that are planned at the beginning of each financial year and the progress thereon is reported throughout the year.

6.2.9 The quality of the performance indicators

During the period 2004 to 2006, the NEF did not set performance targets. The key performance areas as per the dividend model (Social Internal Rate of Return –SIRR) were used to guide and measure the entity's performance. The external auditors reported in the annual reports from 2007 to 2012 that performance objectives and reported performance were adequate; hence, no findings were reported.

On the question of whether the performance indicators used by NEF are true indicators of actual performance, the respondents were requested to indicate their level of confidence that most of the performance indicators used measure the actual performance of the entity and individuals and that they indicate the level of achievement of the objectives and broader goals of the entity. This is indicated in that some of the performance indicators do measure actual performance and lead to the achievement of the objectives of the entity; or performance indicators and performance targets are mainly not indicators of the performance or achievement of the objectives of the entity.

Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives. The legend below was used for the rating:

- *80%*: Most of the performance indicators used measure the actual performance of the entity and individuals and indicate level of achievement of the objectives and broader goals of the entity.
- *50%*: Some of the performance indicators measure the actual performance and lead to the achievement of the objectives of the entity.
- *20%*: Performance indicators and performance targets are not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives.

The respondent gave an 80% confidence level on the performance indicators used by the NEF, which means that performance indicators are true measures of the actual performance.

6.2.10 The level of achievement of performance targets

Considering that the respondent showed satisfaction with the quality of performance indicators used by the NEF, which are linked to performance targets, it became necessary to assess the level of achievement of the performance targets over the period under review. For the financial years 2008/9 to 2010/11, the respondent indicated that more than 70% of the performance targets were achieved, while for the 2011/12 financial year, more than 80% were achieved. Tables 6.2 to 6.4 provide details of the performance targets set and achieved in each year from 2009/10 to 2011/12. The data for the three years was extracted from the annual reports.

Table 6.2: Targets versus actual performance (2009/10 financial year)

No.	Strategic goal	Performance target	Actual performance achieved	% deviation
1.	Promote and support business ventures by blacks	06	02	33.3% achieved
2.	Contribute to participation by black women	01	01	100% achieved
3.	Contribute to employment creation	None set	2 351 jobs	n/a
4.	Ensure geographical spread of projects across provinces	01	Not measurable	
5.	Investment return	04	03	75% achieved
6.	Encourage Investee sustainability	02	02	100% achieved
7.	Maximise financial sustainability	02	01	50% achieved
8.	Pioneer new products	No target	n/a	
9.	Strengthen operational efficiencies	06	05	83% achieved
	Average level of achievement	**22**	**14**	**63.6% achieved**

Table 6.2 shows that the NEF had nine strategic goals for which 22 performance targets were set. Of the 22 performance targets set, 14 were achieved, i.e. 63.6%. While this may be regarded as a fair level of performance, it does not give a good impression as the NEF failed to achieve more than 30% of its objectives approved by Parliament. The mandate of the NEF is critical in addressing economic disparities and therefore the pressure to perform at 100% is high. This level of performance can be regarded as rendering the NEF ineffective in delivering services and creating sustainable enterprises from previously disadvantaged communities.

Table 6.3: Targets versus actual performance (2010/11 financial year)

No.	Strategic goal	Performance target	Actual performance achieved	% deviation
1.	Promote and support business ventures by blacks	06	01	17% achieved
2.	Contribute to participation by black women	01	01	100% achieved
3.	Contribute to employment creation	No target	3 982 job created	
4.	Ensure geographical spread of projects across provinces	In line with provincial GDP contribution	All provinces covered	
5.	Investment return	02	01	50% achieved
6.	Encourage Investee sustainability	01	01	100% achieved
7.	Maximise financial sustainability	02	02	100% achieved
8.	Pioneer new products	01	0	0 achieved
9.	Strengthen operational efficiencies	Various	Not measurable	
	Average level of achievement	**14**	**7**	**50.0% achieved**

Note: There are multiple areas where performance targets are not clearly stated and not numerical, therefore the level of achievement is difficult to assess.

Table 6.3 shows that for the same nine strategic goals as for 2009/10, a lower number of performance targets was set. However, the level of performance declined further from 63.6% in 2009/10 to 50.0% in 2010/11. The decline in the level of performance has a negative impact on the effectiveness of NEF. Considering that organisational effectiveness is defined as the ability to achieve the desired results /outputs, the non-achievement of pre-determined objectives in any particular year is a cause for concern.

Table 6.4: Targets versus actual performance (2011/12 financial year)

No.	Strategic goal	Performance target	Actual performance achieved	% deviation
1.	Promote and support business ventures by blacks	05	02	40% achieved
2.	Contribute to participation by black women	Not set	Not reported	
3.	Contribute to employment creation	01 (8 800)	0 (3 124)	100% deviation
4.	Ensure geographical spread of projects across provinces	Not set	Not reported	
5.	Investment return	Not set	Not reported	
6.	Encourage Investee sustainability	03	03	100% achieved
7.	Maximise financial sustainability	05	03	60% achieved
8.	Pioneer new products*	01	0	100% deviation
9.	Strengthen operational efficiencies	11	09	82% achieved
	Average level of achievement	**26**	**17**	**65.3%**

Note: *Where target was set and different initiative pursued – it is reported as not achieved.

Table 6.4 shows an increase in the number of performance targets set in 2011/12. The change of performance targets from 14 in 2010/11 to 26 in 2011/12, translates into an increase of 85.7%. Of the 26 targets set, 17 were achieved, giving a 65.3% achievement rate, which is an improvement from the 50% in 2010/11.

Based on Tables 6.2 to 6.4, the rate of achievement of annual targets ranged between 50% and 65.3%. This level of performance does not constitute good performance, given expectations of service delivery by the public. It also contradicts the results of the questionnaire and interview where the respondent believed that the performance of the entity was between 70% and 80% during the same period. If the performance targets serve as a true measure of the performance of the NEF, the 50% level of achievement in 2010/11 means that 50% of the performance targets were

not achieved. This reduces the NEF's impact on the development of SMMEs, job creation and poverty alleviation, thereby threatening the contribution of the NEF to the growth and development in the country and KZN specifically.

6.2.11 Funding criteria and the level of deviation

The NEF uses the empowerment dividend model, which contains its objectives. The dividend model (Social Internal Rate of Return –SIRR) encompasses criteria that the NEF uses to measure its performance and to a greater extent as criteria for funding. The elements of the model are Broad-Based Black Economic Empowerment, participation by black women, job creation, investment in priority growth industry sectors, geographic spread, investment return, and value of investment disbursed. The funding criteria differ slightly on a product-by-product basis; for instance, the criteria used to evaluate applications to the entrepreneur fund are not exactly the same as those used for applications to the procurement fund, the franchise fund or for project equity finance. Criteria are set per fund and the main criterion is around black economic empowerment. The absolute minimum for funding eligibility is generally 25% BEE though the details differ from fund to fund.

6.2.12 Approved deals and disbursements

Table 6.5: Approved deals and disbursements

Period	Approved deals				Disbursement Facilities			
	Amount approved (R million)	Target (R million)	No. approved	Target to approve	Amount disbursed (R million)	Target to disburse (R million)	No. of disburse-ments	Target for disburse-ments
2002/03	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2003/04	R5	-	1	-	R5	-	1	-
2004/05	R30	-	16	-	R20	-	10	-
2005/06	R357	-	54	-	R251	-	52	-
2006/07	R205	-	23	-	R219	-	23	-
2007/08	R128	R587	23	75	R203	450	31	60
2008/09	R329	R687	46	74	R279	525	43	69
2009/10	R749	R1 020	61	77	R549	950	48	67
2010/11	R749	R835	62	70	R552	710	49	62
2011/12	R1 162	R897	98	115	R620	750	73	95
Total	**R3 716**	**R4 026**	**384(290)**	**411**	**R2 698**	**3 385**	**330 (244)**	**353**

Table 6.5 indicates that from the 2007/08 financial year the NEF set performance targets for the number of deals to be approved and disbursed and the amount to be approved and disbursed. For this five-year period, the amount targeted to be approved was only achieved in the 2011/12 financial year; for the rest of the period there was under-spending. With respect to the disbursements for the five years reviewed, the target was never met. The level of disbursements annually is on average less than 65% of the target, (from 2007/8, the target R3.4 billion but, actual disbursements were R2.7 billion).

With respect to the number of deals and disbursements set as annual targets to be achieved, the NEF was never able to achieve its targets for the five-year period. For instance, the target was to approve 411 deals in the period from 2007/08 to 2011/12, but only 290 were approved. For the same period, the target was to disburse 353 advances or loans, but only 244 were disbursed. The study did not probe the reasons for non-achievement of these targets. However, it can be deduced that the performance is below the expected level, which raises doubts about the effectiveness of the NEF in achieving the broader DFI objectives.

Table 6.6: KZN approvals and disbursements

Period	Amount approved (R million)	KZN approvals (R million)	KZN as % of National approvals	Amount disbursed (R million)	KZN Disbursements (R million)	KZN disbursements as % of national
2002/03	N/A			N/A		
2003/04	R 5	0	0	R5	0	
2004/05	R30	R8.6	28.7	R20	R7.0	35.
2005/06	R357	R20.2	5.7	R251	R21.2	8.4
2006/07	R205	R2.9	1.4	R219	R8.6	3.9
2007/08	R128	R54.8	42.8	R203	R5.2	2.6
2008/09	R329	R154.3	46.9	R279	R141.9	50.8
2009/10	R749	R81.6	10.9	R549	R102.6	18.7
2010/11	R749	R68.6	9.2	R552	R96.5	17.5
2011/12	R1 162	R338.7	29.1	R620	R94.4	15.2
Total	**R3 716**	**R729.7**	**19.6**	**R2 698**	**R477.4**	**17.7**

NEF investment in KZN averaged 19.6% of national loans and advances approved and 17.7% of the disbursements made. The investment of R729m over eight years is not significant. However, it should have a positive development impact when funded projects are sustainable. The

effectiveness of the NEF comes from the returns from the investment of the R729 million in KZN. The study revealed that this amount of investment has not performed as expected as only 59% is still active, while 41% of portfolios are no longer in existence. The deals made went sour and businesses closed down mostly without being able to repay loans and advances received to start the businesses.

6.2.13 Loan and advance per economic sector

NEF funding covers all economic sectors where empowerment opportunities were identified. The sectors start from agro processing, chemicals and pharmaceuticals, construction materials, energy, engineering, franchising, food and beverages, manufacturing, mining, printing and textile and property and tourism. During the period under review, deals were approved for all these sectors from the different provinces including KZN. Table 6.7 shows that the highly funded economic sectors were construction, ICT and media, retail, and franchise.

Table 6.7: Ranking of funded economic sectors

Economic sector	Ranking
Construction and materials	1
ICT and media	2
Retail	3
Franchise	4

6.2.14 Number of loans and advances for KZN

Table 6.8: Number of businesses funded in KZN

Period	KZN share (R million)	No. of businesses funded in KZN
2002/03	n/a	n/a
2003/04	0	n/a
2004/05	R7	2
2005/06	R21.2	2
2006/07	R8.6	3
2007/08	R5.2	3
2008/09	R141.9	13
2009/10	R102.6	9
2010/11	R96.5	7
2011/12	R94.4	21
Total	**R477.4**	**60**

Table 6.8 indicates that over the nine-year period, the NEF disbursed R477.4 million to 60 enterprises in KZN. This is contrary to the interview and questionnaire results that show NEF had made 34 transactions for KZN over its entire life span. From the 34 transactions, 13 closed down and the active portfolios as at 31 October 2012 were 20 transactions. The 60 businesses indicated as funded in Table 6.8 is based on the transactions in each year; however, some of the transactions were granted and disbursed to the same enterprises, which constitute one portfolio with more than one approval.

6.2.15 Main reasons for business failures

As with the other DFIs, the research found the main reason for business failure is lack of business management skills. Of all the possible reasons for business failures, the lack of business management skills is the most common one among the DFIs. This implies that DFIs have not or may still not be able to pay attention to the need to assess the business management skills of the applicants prior to the disbursements of the loans. This also indicates that the lack of business management skills was not regarded as a valid criterion for exclusion. To improve the performance of the DFIs and the NEF in particular, it will be important to include a criterion to assess this aspect and find ways to address it. The impact of business failures is severe in the economy and when such enterprises fail to repay taxpayers' money, it becomes fruitless and wasteful expenditure on the part of the government.

6.2.16 Number of businesses supported

According to the NEF Annual Report (2009:54), "Many businesses collapse in the first two years of operation, and the mentorship programme, which provides on-going support, guidance and monitoring, is an important support service which the NEF provides at no cost to its investees". The NEF has a pre-investment unit and a post-investment unit. The pre-investment unit provides customer interface to support improved quality of business plans, screening all the enquiries. The key in the process of screening applications is reducing turnaround time. The post-investment unit

has to ensure that all the transactions NEF enters into are supported mainly through the mentorship programme. The purpose of the mentorship programme is to assist investee companies requiring technical assistance following the NEF's investment. The work includes assistance that is provided to distressed investee companies. This unit also manages the performance of the NEF's loans book.

The mentorship programme is meant to encourage investee sustainability. For instance, during the 2010/11 financial year, over R4 million was spent on mentorship, coaching, and technical support. Almost the same amount (R4.1 million) was spent in the 2009/10 financial year. The NEF's post-investment unit made 326 site visits in 2010/11 and 290 site visits in 2009/10.

A number of achievements over the period 2006/07 to 2011/12 are reported in the 2011/12 annual report. Among the achievements is that 1 319 site visits were conducted, over 679 formal investee progress reports were produced, and spending on mentorship to support investees totalled R14.7 million. The interventions through the post-investment unit resulted in an improved collection rate and the lowest impairment ratio in the history of the NEF.

6.2.17 NEF's success rate in furthering the development agenda

The reason for the establishment of DFIs is to close the gap that is created by commercial banks in funding socio-economic development programmes. The success of DFIs should therefore be measured by the extent to which they succeed in addressing socio-economic issues. The Minister of Trade and Industry reported in 2009 that,

> No-one can dispute that the economy's performance, especially as regards the pace of job creation, the quality of jobs, and reduction of poverty and inequality, has fallen far short of our expectations and aspirations. Our efforts have not sufficiently addressed severe structural imbalances and constraints that impede the economy from developing to its full potential. It is clear that these imbalances and constraints cannot

be overcome by the market on its own, and requires an appropriate strategic role for the state.

The NEF's focus areas in the period under review included empowerment of previously disadvantaged black businesses to acquire stakes in big companies, funding of SMMEs, and job creation. A similar question was asked of the NEF respondent to indicate the success rate of the NEF in funding and supporting viable businesses that contribute to job creation and economic growth of the KZN Province. The respondent rated the NEF level of success at 59%, based on the fact that the NEF invested in 34 transactions in KZN Province since its inception. Thirteen (13) of these companies have since been closed down, NEF exited on one transaction, and the active portfolio in KZN is 20, as at 31 October 2012.

Table 6.9: Job creation and SME support

Period	No. of Jobs created		Rand per job		No. of SMEs funded	
	RSA	KZN	RSA	KZN	RSA	KZN
2002/03	n/a	n/a	n/a	n/a	n/a	n/a
2003/04	n/a	n/a	n/a		1	n/a
2004/05	n/a	n/a	n/a		10	1
2005/06	n/a	n/a	n/a		52	3
2006/07	2 928	614	R54 500		23	1
2007/08	4 687	301	R45 699		31	2
2008/09	4 951	742	R53 060		43	2
2009/10	2 351	447	R72 000		48	5
2010/11	3 982	557	R138 000		49	2
2011/12	2 367	237	R262 000		73	7
Totals	**21 266**	**2 898**			**330**	**23**

Table 6.9 indicates that NEF facilitated the creation of 21 266 job opportunities between 2002/03 and 2011/12 of which 3 393 were in KZN (13.6%). During the same period, the number of SMMEs funded in KZN reached 23 out of the 330 funded nationally (6.9%).

6.2.18 The opinion of the external auditors on the performance targets

The external auditors have audited performance information for the last three years. The NEF received an unqualified opinion in each of these years. An unqualified opinion indicates that the performance information as contained in the annual reports is reliable and there is evidence to support information provided.

6.2.19 Customer satisfaction survey

The NEF has never conducted customer satisfaction surveys.

6.2.20 Stakeholder interaction

Interaction between the NEF and its mother department takes place on a monthly basis for various work related issues, mainly between the senior officials of NEF and those of the department. The interaction between the NEF and its board happens on a weekly basis through the CEO and the company secretary. The board meets with the minister on a quarterly basis to report on progress with NEF business. The respondent rated the relationship between the board and the minister as 'good'.

6.2.21 Role clarity between the department and the board

The NEF reports to the Department of Trade and Industry and its executive authority is the Board of Trustees. The board of trustees operates in the same way as a board of directors in compliance with the Code of Good Governance, King III Report. The board of trustees has committees that focus on all the critical areas of board oversight such as investment, human resources, risk management, and audit. In the annual reports, there are reports from all the stakeholders and executives of the NEF. The study established that the board is clear on its role and responsibilities. Board members are provided with an induction programme to educate them about their role and responsibilities. The NEF also has a secretariat keeping the board informed about its role and all matters of governance. The minister is not directly involved in the matters of the NEF, other than through the board or issuing of legislative and policy related directives.

6.2.22 NEF's independence in operational decision making

Based on the audit committee reports for 2003/04 and 2004/05, the operational environment was not adequately secured. The audit committee of the NEF reported dissatisfaction with the internal controls and indicated reports of significant weaknesses in the operational environment. In the

same period, two instances of financial misconduct were reported. Despite these findings, there has been no evidence of interference by the minister or the board in the operational decisions.

6.2.23 Allegations of maladministration or corruption

NEF has had allegations of corruption in the past; for instance, the former CEO was convicted on charges of theft. The breakdown of internal controls was severe in the early days of the NEF; hence, a restructuring of the NEF took place in order to correct and strengthen the controls around approvals and disbursements of loans and advances.

6.2.24 Alternative model for delivering NEF's services

The respondent felt that the establishment of the NEF outside government was a good decision, for operational efficiency. Operating as an independent entity allows for specialisation of skills, objectives and rigorous assessment of performance. The NEF would not have been able to operate as it is currently operating within a government department.

6.3 Summary of the findings

The study aims at establishing whether the NEF has been effective in delivering services as a DFI in KZN. This was assessed by investigating the development impact of the NEF in KZN. Development impact was measured by the quality of the performance indicators used, by whether the NEF achieved its performance targets, the NEF's contribution to job creation and its creation of sustainable businesses. All this had to be confirmed by the external auditors. The effectiveness of the NEF was also measured by its success rate in creating sustainable businesses, the usefulness of its funding criteria, the support mechanisms that the NEF offers to funded enterprises, and investigation into the general performance environment.

Table 6.10: Linking research questions to the findings

No.	Research Question	Indicator
1.	Have the DFIs made a positive development impact in KZN based on its performance indicators?	What is the quality of the performance indicators used by the NEF?
		Does NEF achieve its annual performance targets (90% and above)?
		What has been the impact of NEF on job creation in KZN?
		What has been the impact of NEF in creating sustainable SMMEs?
		What has been the success rate of NEF in fulfilling its mandates? (success = 90%)
		Is NEF complying with its mandates?
		What has been the opinion of the external auditors on the performance of NEF?
2.	What is the success rate of the DFIs in creating sustainable businesses?	Is the state and size of the loan book acceptable (KZN)?
		Are the debt write-offs within an acceptable level?
		How much is NEF investing in KZN compared to national investment?
		Number of funded businesses in KZN as % of Nationally funded businesses?
		The level of impairment over the period?
3.	How do the DFIs take funding decisions?	Are the NEF funding criteria in line with development finance principles?
		Are the funding criteria adhered to at all times?
		Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)
		Are the allegations of maladministration and corruption addressed? (perception of the DFI by the community)
4.	What support and monitoring mechanisms are in place?	What support is provided to funded enterprises?
5.	What general performance issues face DFIs?	Is the reporting consistent with the Strategic and Annual Performance plans?
		What has been the opinion of external auditors on the annual financial statements?
		What is the level of annual operational costs compared to the KZN funded businesses?
		What has been the success rate in fulfilling the mandate of the entity?

6.3.1 The development impact of the NEF in KZN

The question of whether the NEF has made a positive development impact in KZN, based on its performance indicators, can be answered from the findings with the legend as given below.

- *Poor:* Unacceptable level of performance;
- *Average:* Some improvement is noticeable;

- *Good:* The level of performance is acceptable.

Table 6.11: NEF's impact on KZN growth and development

No.	Indicator of performance	Results	Comment
1.	What is the quality of the performance indicators used by the NEF?	Good	External auditors accepted the indicators as reliable and accurate.
2.	Does NEF achieve its annual performance targets? (90% and above)	Average	Its achievement level ranged between 50% and 65.3%.
3.	What has been the impact of NEF on job creation in KZN?	Average	Jobs were created for each of the years. (13.6% in KZN)
4.	What has been the impact of NEF in creating sustainable SMME businesses in KZN?	Poor	Only 6.9% of SMMEs funded were in KZN, of this 6.9% failure rate is 41%.
5.	What has been the success rate of NEF in fulfilling its mandates? (success = 90%)	Average	Average of 59 % was indicated.
6.	Is NEF complying with its mandates?	Good	All activities fit within the mandate.
7.	What has been the opinion of the external auditors on the performance of NEF?	Good	There have been no findings to report on.

Conclusion – Partially effective

The overall conclusion from the respondent on the effectiveness of NEF in creating jobs and sustainable SMMEs is that there is a noticeable contribution, with worse performance in creating sustainable SMMEs.

6.3.2 Success rate of the NEF as a DFI playing a role in KZN

The success of the NEF can be deduced from the performance areas that were surveyed, which include the state and size of the loan book, the size of KZN investment, and amounts written-off. Questions and answers have been created based on the findings.

Table 6.12: NEF's success rate

No.	Indicator of performance	Results	Comment
1.	Is the state and size of the loan book acceptable?	Yes	Nationally the Loan book is not bad.
2.	Are the debt write-offs within an acceptable level?	Yes	R447 million (17.6% of the loans disbursed) over period. In KZN 26% loans were written-off.
3.	Is NEF investing adequately in KZN compared to other provinces?	Yes	19.% of investment went to KZN.
4.	Are the annual impairments on advances and loans comparable to the standards?	No	NEF is self-sustainable, impairment provision average rate is 30%.
5.	Is the NEF investment in KZN performing well compared to national performance?	No	41% of KZN portfolio failed since NEF inception.

Conclusion- Effective

6.3.3 Basis for funding decisions

How does the NEF decide on what project or business ideas to fund? Questions and answers have been formulated as per Table 6.13.

Table 6.13: NEF's criteria for funding

No.	Indicator of performance	Results	Comment
1.	Are the NEF's funding criteria in line with development finance principles?	Yes	Funding guidelines in line with fund objectives are adhered to.
2.	Are the funding criteria adhered to at all times?	Yes	The model is followed broadly with special compliance to each fund criteria.
3.	Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)	Yes	The board, executives and shareholder roles are clearly defined and followed as much as possible.
4.	Are the allegations of maladministration and corruption addressed? (perception of the DFI by the community)	Yes	Disciplinary hearings are held and appropriate sanctions made.

Conclusion – complies with criteria and therefore effective

6.3.4 Support and monitoring mechanisms for funded enterprises

Table 6.14: Non-financial support

No.	Indicator of performance	Results	Comment
1.	Is there a monitoring mechanism for all funded businesses?	Yes	Post Investment Unit exist and functional.
2.	Are the funded businesses provided with non-financial support to assist them with skills to grow their business and ensure sustainability?	Yes	Mentoring Programme in place with panel of mentors across the country.
2.	Are the customers satisfied? (Funded enterprises)	n/a	Survey not conducted.

Conclusion – Effective

6.3.5 *The performance levels of NEF*

Table 6.15: NEF's performance levels

No.	Indicator of performance	Results	Comment
1.	Is the reporting consistent with the Strategic and Annual Performance plans?	Yes	The content of the annual reports has been consistent.
2.	What has been the opinion of external auditors on the annual financial statements?	Unqualified	For the entire period under review the AFS were not qualified.
3.	What is the level of annual spending (operational costs of the KZN Office) compared to the level of disbursements in KZN?	n/a	Budget centralised.
4.	What has been the success rate in fulfilling the mandate of the entity?	59%	Overall rating by the respondent.

Conclusion – Effective

6.4 Conclusion

The overall success rate of the NEF in KZN was rated as 59%, based on the performance of the KZN portfolio. The quality of the performance indicators used by NEF was acceptable in terms of audit standards; they were found to be reliable and useful. There is a positive contribution to job creation; each year disbursed funds are linked to a certain number of jobs to be created. The achievement of pre-determined objectives remains a challenge, as the highest level of achievement on the performance target was 65%. The impact of the NEF in creating sustainable SMMEs in KZN was seen as minimal due to the high rate of failed portfolios.

Chapter 7: Trade and Investment KwaZulu-Natal (TIKZN))

7.1 Introduction

The mandate of TIKZN is to attract foreign direct investment and domestic investment and to generate exports and export capacity in KZN. Unlike other DFIs, the TIKZN does not offer loans and advances, but has a mandate to promote economic growth through providing support to local businesses. Its strategic objectives are: to promote and facilitate fixed investment, facilitate investor after-care and retention programmes, package large (>R50 million) sector opportunities, facilitate market awareness and programmes and export opportunities, increase awareness of TIKZN as an entity, increase BEE transactions in committed projects and trade promotion, and advocate for a conducive trade and investment environment (TIKZN Annual Report, 2010).

Due to TIKZN's role being different from that of other DFIs, the questionnaire was re-designed in order to gather comparable data.

7.2 Findings

7.2.1 Profile of the respondents

The first respondent was the CEO, who introduced TIKZN and gave a very broad overview of the mandate and objectives. The second respondent was the senior executive with the designation of general manager responsible for investment promotion. He responded first, through the questionnaire and second in the face-to-face interview. He was with the organisation for almost four years and reported to the CEO.

7.2.2 Operational budget versus agency costs

Among the claims levelled against public entities is that more costs are incurred in the upkeep of the entities (agency costs) compared with what is spent on rendering actual services. It was therefore considered important to ascertain the agency costs and operational budget, i.e. the ratio

of the spending between the operations (core function) and the support function. TIKZN was able to provide data for the six-year period, which is considered adequate to make a conclusion on the budget split. Table 7.1 indicates the budget split per financial year from 2006/07 to 20011/12.

Table 7.1: Budget split between operational and support functions

Period	Total annual budget (R million)	Operations budget (core business) (R million)	Support function (agency costs) (R million)	% difference
2006/07	R30.0	R12.7	R17.3	57.6%
2007/08	R40.7	R20.1	R20.6	50.6%
2008/09	R42.0	R15.2	R26.8	63.8%
2009/10	R54.4	R22.5	R31.9	58.6%
2010/11	R56.6	R21.4	R35.2	62.2%
2011/12	R61.5	R23.1	R38.4	62.4%
Total	**R285.2**	**R115.0**	**R170.2**	**59.7%**

Table 7.1 shows that in each of the six years, the agency costs exceeded the operational costs. The percentage difference ranged between 50.6% and 63.8% over the six-year period. On average, the support function budget was 59.7% of the total budget of TIKZN for the period 2006/07 to 2011/12. The key question was: Can the service not be rendered at lower costs using a different vehicle to a public entity? Would it be more affordable to render the TIKZN services from the Department of Economic Development and Tourism in the province? The details of the possible alternatives are discussed in detail in Chapter 8.

Level of spending annually

TIKZN's operational budget has not been fully spent in any of the years. The level of under-spending over the six-year period is indicated in Table 7.2. The data in Table 7.2 was obtained through the questionnaire and the interview process.

Table 7.2: Level of under-spending

Rate	<2%	<5%	6-10%	11-15%
2006/07				✓
2007/08	✓			
2008/09	✓			
2009/10			✓	
2010/11		✓		
2011/12		✓		

Table 7.2 indicates that in the 2006/07 financial year, TIKZN under-spent its budget by over 11% and for the last two years reviewed (2010/11 and 2011/12), the level of under-spending was approximately 5%.

Percentage of the budget spent on financial support to local businesses

TIKZN spent a very small amount assisting companies on a financial basis from two grant funds:

i) *BEE Financial Support Fund:* This fund is from the operational budget and is used for providing support to SMMEs when they want to travel abroad or run exhibitions. TIKZN mainly assists them with their travelling and accommodation costs. The money is used as a grant to defray costs associated with travel and accommodation in the context of promoting exports and international trade.

ii) *Technical Assistance Fund:* An amount of R10 million from the Department of Economic Development and Tourism was received in 2010 to provide technical assistance to projects that are viable or business ideas that are bankable but need improvement in terms of business plans or research. The amount of R10 million has been used over a three-year period. A new motivation has been made for further money to continue with technical assistance.

7.2.3 Foreign direct investment in KZN

Table 7.3: Investors and value of foreign direct investment in KZN

Period	Number of investors	Size of investment (R million)
2002/03	02	R1 656.5
2003/04	05	R1 474.5
2004/05	08	R2 586.5
2005/06	03	R1 189.5
2006/07	01	R115.9
2007/08	04	R1 130.3
2008/09	05	R817.3
2009/10	03	R1 248.1
2010/11	07	R3 257.5
2011/12	05	R1 905.3
Total	**43**	**R15 381.4**

Source: TIKZN Impact study report, 2011; TIKZN Annual report, 2012

Foreign direct investment is an important ingredient for economic growth and development of any state or region. It is regarded as an integral part of an effective and open international economic system and mostly as a catalyst for development. The size and extent of foreign direct investment is affected by national policies and the international investment architecture. Most developing countries work tirelessly to attract foreign direct investment, most of which originate from the OECD countries (TIKZN, 2011). Foreign direct investment assists with human capital formation, contributes to international trade, and triggers technology spillovers while helping to create a competitive business environment and enhancing enterprise development. All these benefits are considered to contribute to higher economic growth, which is critical for alleviating poverty in developing countries like South Africa. It is against this imperative that in South Africa each province has an agency to promote exports and attract international investors.

For the ten year period 2002/03 to 2011/12, TIKZN attracted 43 investors with R15.4 billion into the KZN Province. This amount over a ten-year period appears to be minimal compared to the national figures; however, the contribution of various agencies towards one geographic area has the potential to create a positive economic and developmental impact.

7.2.4 Number of companies attracted to the province per sector

Table 7.4 indicates the size of investment and estimated number of jobs to be created per company and economic sector. The seventeen companies listed in Table 7.4 created 12 090 jobs, 95.6% of them in business process outsourcing, mainly call centre companies, where each call centre appoints a number of call operators.

Table 7.4: Investment per sector

No.	Company details	Value (R million)	No. of jobs
	Business Process Outsourcing	**R1 717.8**	**11 550**
1.	The Unlimited World	R48.0	550
2.	MDB Holdings	R30.0	250
3.	BizWorks	R28.0	250
4.	Rewards Co. International	R76.8	1 500
5.	First Call Solution	R300.0	1 000
6.	Talk International	R1 000.0	3 000
7.	CCI	R112.0	4 500
8.	The Brodsky Trading	R123.0	500
	Automotive	**R255.0**	**170**
9.	Montherson Sumi	R220.0	90
10.	The Design Group	R35.0	80
	Chemicals	**R217.4**	**35**
11.	BASF	R21.0	25
12.	PPI Limited Co.	R7.4	10
	Banking	**R90.0**	**02**
13.	Lioyds TSB Project	R90.0	02
	Transport and Logistics	**R45.0**	**180**
14.	Commuter Transport Engineering	R45.0	180
	Manufacturing	**R14.0**	**83**
15.	Kraft Investments	R14.0	83
	Clothing and Textile	**R7.0**	**27**
16.	Wesco International	R7.0	27
	Industrial	**R6.0**	**45**
17.	LC Packaging	R6.0	45
	Total number of jobs		**12 090**

Source: TIKZN Impact Study report, 2011

Table 7.4 shows that business process outsourcing has been the most attractive sector both in terms of the size of investment and the number of jobs created. In the automotive, chemicals and banking sectors the size of investments are higher (R225 million, R217 million, and R90 million respectively), but their potential to create job opportunities is lower than that of the transport and logistics where R45 million was invested to create 180 jobs.

7.2.5 External audit opinion on annual financial statements

TIKZN received a qualification on its annual financial statement in the 2005/06 financial year; since then, it has not been qualified in the period under review. This indicates improvement in the internal control environment over the period.

7.2.6 TIKZN's compliance with mandate and the focus of activities

TIKZN was established in 2001 as a section 21 company to promote trade and investment in KZN. During the 2010/11 financial year, new founding legislation was enacted as the KZN Trade and Investment Agency Act No. 5 of 2010. The major change that came with this Act was the registering of the entity as the PFMA schedule 3C entity from being a section 21 company. This act confirms that the mandate of the TIKZN is 'to attract foreign and domestic investment and to generate exports and export capacity in the KZN Province'. The powers, duties and functions of TIKZN are clearly spelled out in the Act as 'to identify, develop, market and promote investment opportunities in the province to international and domestic investors, to develop the export capacity of the province, to develop the export market for the province, and to keep a database of investment opportunities within the province'.

Based on the analysis of the mandate of TIKZN, the quarterly and annual reports, and the corporate strategy, TIKZN goals, strategic objectives and activities are aligned to its mandate. Due to its status being changed from a section 21 company to PFMA, to a schedule 3C public entity during 2011, the organisation has not yet attained 100% adherence.

7.2.7 Consistency of corporate plans and reporting

The important aspect in this question was to establish consistency between approved plans and reports, i.e. does TIKZN do what has been approved by the shareholder in each financial year?

The respondents were required to indicate their level of confidence on the consistency and compliance of their entities to this legislative requirement, using the legend as indicated below.

- *Good:* Performance targets contained in the strategic plan and annual performance plan are reported on in each quarterly report and the annual reports.
- *Average:* Some of the performance targets/ performance indicators do carry through from the strategic plan to the annual reports.
- *Poor:* The entity has not been able to link performance indicators and performance targets from strategic plan to annual reports.

The respondent rated TIKZN as 'average' due to the process of developing KPIs being recent and work in progress. The annual reports do not always focus on reporting on performance targets set in the annual performance plans. TIKZN had strategic plans (macro plans) from 2006/07. The strategy has been the same from that financial year. The annual performance plans, previously documented as business plans, have been prepared for each of the years with performance targets. There is a consistent link between the strategic plan and the business plan documents. TIKZN started preparing the annual performance plans with performance measures and targets in the 2009/10 financial year. The annual reports have evolved over the years to include reporting actual performance against performance targets as contained in the annual performance plans. The performance targets set in the annual performance plans for 2009/10 and 2011/12 are reported in quarterly and annual reports for 2009/10 to 2011/12.

7.2.8 The quality of the performance indicators

The quality of performance indicators refers to the usefulness, consistency, relevance and measurability of the indicators in assessing the performance. Based on the Auditor-Generals' report for the 2009/10 financial year, the KPIs were not defined to allow for data to be collected consistently. Concerning the reliability in terms of validity, accuracy and completeness, the performance indicators were found by the Auditor-General not to be specific and clearly identifying the nature and required level of performance. The situation however, changed in the 2010/11 and

2011/12 financial years as the Auditor-General stated that there were no material findings on the annual performance report.

On the question of whether the performance indicators used by TIKZN were true indicators of actual performance, the respondents were requested to indicate their level of confidence that most of the performance indicators used measure the actual performance of the entity and individuals and indicate level of achievement of the objectives and broader goals of the entity. Some of the performance indicators do measure the actual performance and lead to the achievement of the objectives of the entity; or performance indicators and performance targets are not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives. The legend below was used for the rating:

- *80%:* Most of the performance indicators used measure the actual performance of the entity and individuals and indicate the level of achievement of the objectives and broader goals of the entity.
- *50%:* Some of the performance indicators do measure the actual performance and lead to the achievement of the objectives of the entity.
- *20%:* Performance indicators and performance targets are mainly not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives.

The respondent indicated 80% as a level of confidence, meaning that most of the performance indicators used measure the actual performance of the entity and the level of attainment of objectives and broader goals of the entity.

7.2.9 The level of achievement of performance targets

The respondent indicated during the interview that more than 80% of the targets set are achieved annually; however, there are concerns that the targets maybe too low. The document analysis shows that most of the performance targets set for the period 2009 to 2012 were achieved with an average achievement rate of 84.7% over the three-year period which confirms the above 80% rating given during the interview and responded to in the questionnaire.

Table 7.5: Performance targets versus actual performance

Period	No. of targets	Achieved	Deviation
2009/10	59	47	12 not achieved; 79.6% rate of achievement.
2010/11	59	51	Eight targets not achieved, 86.4% rate of achievement.
2011/12	42	37	Five targets not achieved, 88% level of achievement.

Source: TIKZN Annual Reports, 2009 to 2012

7.2.10 Commitments made to the province over the period

Commitment refers to the promises made by various companies to invest in KZN. In 2008/09, four companies, as shown in Table 7.6, made commitments to invest a total of R405 million to create about 390 jobs. These companies are currently operational, which means the commitment moved to actual investment. Tables 7.6 to 7.9 are constructed based on TIKZN internal reports on annual commitments. The reports were made available by the management of TIKZN.

Table 7.6: 2008/09 commitments

Project	Sector	Value (R million)	Jobs	Location	Status
Imvusa Shoes	Manufacturing	R10	80	Chatsworth	Operational
Safintra	Manufacturing	R240	110	Cato Ridge	Operational
Shu Powders	Manufacturing	R85	150	Hammersdale	Operational
Somkhanda Game Reserve	Tourism	R70	50	Pongola	Operational
Total		**R405**	**390**		

Table 7.7: 2009/10 commitments

Project	Sector	Value (R million)	Jobs	Location	Status
Hotel Izulu	Tourism	R15	15	Ballito	Operational
Nantong Sen Li DaFibre	Textiles	R80	30	Newcastle	Operational
Ugu Sports Complex	Tourism	R87	277	Hibiscus	Operational
Ntingwe Tea	Agro-Processing	R21	200	Nkandla	Operational
Total		**R203**	**522**		

During the 2009/10 financial year, the value of commitments dropped to R203 million, but the number of jobs increased from 390 to 522, (Table 7.6 and 7.7).

Table 7.8: 2010/11 commitments

Project	Sector	Value (R million)	Jobs	Location	Status
The Unlimited World	BPO	R48.0	550	Howick and Hillcrest	Operational
MBD Holdings	BPO	R30.0	250	Umhlanga	Operational
Longain Group	BPO	R85.0	860	Pietermaritzburg	Operational
BizWorks	BPO	R28.0	250	Durban	Operational
Rewards co International	BPO	R76.8	1500	Durban	Operational
ZDM and ZAC Projects	Tourism and Agro-Processing	R76.6	n/a	Zululand	Operational
Wesco International	Clothing and Textiles	R7.0	27	Jacobs	Operational
PPI Limited Company	Chemicals	R7.4	6	Jacobs	Operational
Future Coal	Mining	R500.0	250	Newcastle	Not operational
Total		**R359.3**	**3 693**		

The 2010/11 financial year saw an increase in the number of commitments to eight companies with investment of R359.3 million and a dramatic increase in the number of jobs from 522 in 2009/10 (Table 7.7) to 3 696 in 2010/11 as shown in Table 7.8.

Table 7.9: 2011/12 commitments

Project	Sector	Value (R million)	Jobs	Location	Status
Kraft Investments	Manufacturing	R14	86	Ndwedwe	
1st Call Solutions	BPO and O	R300	1000	Mount Edgecombe	Operational
Talk International	BPO and O	R1 000	3000	Umhlali	Operational
Commute Transport Engineering (CTE) Project	Transport and Logistics	R45	180	Pietermaritzburg	
CCI	BPO and O	R112	4500	Durban	
Lloyds TSB Project	Banking	R90	2	Durban	Operational
Total		**R1.561**	**8 768**		

Commitments made in 2011/12 financial year totalled R1.5 billion, with potential jobs of 8 768. Of the six companies that made commitments, three were already operational before the end of the year. The trend from 2008/09 to 2011/12 is a positive one showing a significant increase in the investment amounts and number of jobs.

7.2.11 Most attractive economic sectors in KZN

Table 7.10: Most attractive economic sectors for foreign direct investment

Economic sector	Percentage
Manufacturing	0.6%
Financial services/business services/ Business processes outsourcing	73.0%
Transportation and logistics	2.0%
Automotive	10.8%
Chemicals	9.2%
Clothing and textile	0.3%
Banking	3.8%
Industrial/packaging	0.3%
Total	**100.0%**

Table 7.10 shows that financial services and business processes outsourcing took over 73% of the commitment/investment made to KZN, followed by the automotive sector and chemicals in third place.

7.2.12 TIKZN's success rate in furthering the development agenda

The respondent felt that TIKZN on average rated between 80% and 90%. This is based on the number of export markets created and companies assisted, the growth pattern on qualified leads, which yield export orders, including capacity-building programmes to assist emerging exporters.

Based on the annual reports for the past seven years, TIKZN has made a positive contribution to job creation through the commitments (projects) that have been made by various companies in the province. Job creation is linked to the economic sector projects with some sectors having a higher potential to generate employment, compared with others. The trade and investment impact is very small since the organisation only measures where it is involved. It is reported that the province received about R30 billion investment annually; yet, TIKZN's target for attracting investment is only R1 billion per annum. While the TIKZN scale of operation is small, its impact and effectiveness can be measured by the extent to which its objectives are achieved.

Table 7.11: Job creation based on foreign investment received

Period	No of jobs based on actual investment	No. of jobs based on commitments	Accumulated no. of jobs per sector
2006/07	2800	358	12 090
2007/08	1065	298	
2008/09	1172	390	
2009/10	2636	522	
2010/11	1240	3 693	
2011/12	9 382	8 768	
Totals	**18 295**	**14 029**	**12 090**

Table 7.11 shows the number of jobs created from 2006 to 2012. The numbers differ by source. Based on the foreign direct investment schedule per company and sector of the TIKZN, a total of 12 090 jobs were created over the period, compared to the commitment project schedule where 14 029 jobs were created. On the other hand the annual reports indicated that 18 295 jobs created over the six-year period. Of the three sources with different figures, the public document is the annual report, therefore for the purpose of the study the total jobs created will be taken as 18 295 since the performance information in the annual report is audited as opposed to the entity's internal documents.

7.2.13 The opinion of the external auditors on the performance targets

The external auditors regarded the performance indicators and targets of the TIKZN as reliable and useful. The entity achieved more than 80% of each year's target starting from 2006/07 financial year. This indicates effectiveness on the delivery of services based on performance indicators.

7.2.14 Customer satisfaction survey

The entity conducted a brand awareness survey, which included questions relating to customer satisfaction. The results of the survey indicated the following:

- 88.5% of respondents indicated they were aware of the TIKZN;
- 79.4% indicated that the name TIKZN is appropriate;
- 35% have dealt with TIKZN or similar agencies in other provinces;

- 55.8% indicated that their experience with TIKZN is better than with other agencies, while 4.7% indicated that it is worse;
- 55% indicated that the mandate of TIKZN is marketing;
- 68.5% indicated they do not have enough information about the services of TIKZN; and
- 36% indicated they were very satisfied with the services they receive; while 45.3% were satisfied, 8% dissatisfied, 2.7% very dissatisfied and 8% did not know.

7.2.15 Stakeholder interaction

The interaction between the department and the institution was reported to be taking place on a weekly basis, through emails, meetings and telephonic enquiries. The board and the CEO meets on average bi-weekly. The board and the member of the executive council (MEC) meet four times a year for updates and by invitation for departmental activities driven from the MEC's office.

7.2.16 Role clarity between department and the board

TIKZN governance arrangements are contained in its enabling legislation. The executing authority of the entity is the MEC. The executive authority of the entity is the board appointed by the MEC of the province. The term of office of the executive authority is three years. The CEO is the ex officio member of the board. The Act stipulates that the members of the board must collectively possess the skills and expertise necessary for the TIKZN agency to execute its mandate successfully. The CEO reports to the board, which in turn reports to the MEC. The board has its sub-committees as per the King III Code of Good Governance. The study established through the interview that there is clear role definition and scope for each of the stakeholders. The board and the MEC interact quarterly and have a good relationship. Each of the stakeholders understands its role. The board gives direction to the organisation.

7.2.17 TIKZN's independence in operational decision making

The respondent indicated 100% satisfaction that the board and MEC have no influence on operational decisions. There have been no allegations of maladministration and corruption.

7.2.18 TIKZN Performance environment

From the interview conducted, the operational environment of TIKZN is characterised by low staff turnover, a favourable atmosphere and stretched targets to be met with minimum budgets. For instance, the operational budget for the investment promotion division is R6 million, which must be used to attract R1 billion of investment and create at least 2 000 job opportunities.

The study revealed through the interview that best practices based on experience from other countries have been studied. One of the countries where the mandate of the TIKZN is best performed, is Mauritius, which is reported to have done well to attract investments worldwide. Singapore has a high rate as well but it continues to engage in investment promotion activities irrespective of its level of achievement to date, so that the world should always know that they can invest and maintain an environment conducive to business. The investment promotion agency in Singapore has 400 staff members compared to 49 staff members in TIKZN. The government is hands-on in producing an environment conducive to business. They provide training up to PhD level to ensure that the skills for chemical manufacturing is available before the chemical firm is invited to invest.

7.2.19 Alternative models for delivering TIKZN's services

The respondent indicated that it was appropriate to have TIKZN operating as an entity outside government department structures as it allows for decentralisation of functions, which promotes efficiency and quick turnaround times for service delivery. This also promotes accountability and makes it easier to manage performance.

7.3 Summary of the findings

The study aimed at establishing whether TIKZN has been effective in delivering on its mandate. The effectiveness of TIKZN was measured by the quality of the performance indicators used, by whether TIKZN achieved its performance targets, its contribution to job creation, and its attainment of performance targets. The effectiveness of TIKZN was also measured by its success rate in attracting foreign direct investment, promoting exports and the resultant number of jobs created in the province.

Table 7.12: Linking research questions to the findings

No.	Research Question	Indicator
1.	Have the DFIs made a positive development impact in KZN based on their performance indicators?	What is the quality of the performance indicators used by the TIKZN?
		Does TIKZN achieve its annual performance targets? (90% and above)
		What has been the impact of TIKZN on job creation in KZN?
		What has been the success rate of TIKZN in fulfilling its mandates? (success = 90%)
		Is TIKZN complying with its mandates?
		What has been the opinion of the external auditors on the performance of TIKZN?
2.	What is the success rate of the DFIs in attracting investment and promoting exports?	What has been the impact of TIKZN in attracting investment? (number of companies investing, FDI)
		What is the number of commitments made?
3.	How do the DFIs take funding decisions?	Are the TIKZN funding criteria in line with development finance principles?
		Are the funding criteria adhered to at all times?
		Are the good governance principles adhered to in the approval of loans? (Clearly defined structures and roles for all the stakeholders)
		Are the allegations of maladministration and corruption addressed? (perception of the DFI by the community)
4.	What support and monitoring mechanisms are in place?	What support is provided to local companies or SMMEs to export their products?
5.	What general performance issues face DFIs?	Is the reporting consistent with the Strategic and Annual Performance plans?
		What has been the opinion of external auditors on the annual financial statements?

7.3.1 The development impact of TIKZN in KZN

The question of whether TIKZN has made a positive development impact in KZN, based on its performance indicators, can be answered from the findings with the legend as given below.

- *Poor:* Unacceptable level of performance

- *Average:* Some improvement are noticeable
- *Good:* The level of performance is acceptable

Table 7.13: Impact of TIKZN

No.	Indicator of performance	Results	Comment
1.	What is the quality of the performance indicators used by the TIKZN?	Good	The external auditors accepted the quality thereof.
2.	Does TIKZN achieve its annual performance targets? (90% and above)	Average	Average of 84.7%, with highest targets achieved = 88% in 2011/12.
3.	What has been the impact of TIKZN on job creation in KZN?	Good	Over 18 000 jobs facilitated over the period under review.
4.	What has been the impact of TIKZN in attracting FDI into KZN?	Good	R15.4 billion from 43 companies.
5.	What has been the success rate of TIKZN in fulfilling its mandates? (success = 90%)	Good	90% rating.
6.	Is TIKZN complying with its mandates?	Good	All TIKZN activities are mandate driven.
7.	What has been the opinion of the external auditors on the performance of TIKZN?	Good	No findings made.

Conclusion – Effective

The overall conclusion from the respondent on the effectiveness of TIKZN in creating jobs and attracting investments and supporting SMMEs is that the level of performance is acceptable.

7.3.2 Success rate of the TIKZN in promoting exports and attracting investment

The success of TIKZN lies in its ability to attract foreign direct investment into the province and giving local companies, especially SMMEs, exposure to international trade, through exports.

Table 7.14: TIKZN success rate

No.	Indicator of performance	Results	Comment
1.	Are there local (KZN based) businesses that are exporting products to other countries through TIKZN initiatives?	Yes	TIKZN has a division dedicated to promote exports.
2.	Does KZN Province have international investors facilitated by the TIKZN?	Yes	Over 43 attracted over 10 years.
3.	The foreign companies attracted to KZN province – do they stay for long (5-10 years)? (sustainability)	Yes	The 2007/8 commitments turned to actual investment and are currently active.
4.	Do international investors invest significantly to create jobs?	Yes	Over R15.4 billion invested.

Conclusion- Effective

7.3.3 Basis for funding decisions

TIKZN does not fund businesses; therefore, this question was not applicable.

7.3.4 Support and monitoring mechanisms for foreign investors and local exporters

Table 7.15: TIKZN support and monitoring of investors

No.	Indicator of performance	Results	Comment
1.	Is there a monitoring mechanism for investors – how much did they invest? How many jobs they create? How long they stay in business?	Yes	Research reports with information were analysed during data collection stage.
2.	Are the customers satisfied? (Funded enterprises)	Yes	The survey conducted showed 81% of the customers were satisfied, 10.7% were not satisfied and the 8% did not know.

Conclusion – Effective

7.3.5 The performance levels of TIKZN

Table 7.16: TIKZN general performance

No.	Indicator of performance	Results	Comment
1.	Is the reporting consistent with the Strategic and Annual Performance plans?	Yes	There is room for improvement.
2.	What was the opinion of external auditors on the annual financial statements?	Unqualified	Positive.
3.	What is the level of annual spending (operational cost versus support costs). Are the agency costs comparable with the benefits reaped?	No	The annual expenditure on support function is higher than that of core function (operations). The budget is under-spent yearly.

Conclusion – Effective

7.4 Conclusion

TIKZN contributes positively to economic growth in KZN based on the level of foreign direct investment received by the Province each year. The FDI comes with job creation for the KZN community. The external auditors regarded the quality of the performance indicators used by TIKZN as useful in providing reliable information. TIKZN achieved more than 80% of its set objectives over the six-year period reviewed. TIKZN has not had much impact in supporting SMMEs to export and create meaningful export markets compared with the potential of the province and other initiatives taking place outside TIKZN. The overall success rate of TIKZN in furthering the

development agenda was rated as between 80% and 90%. TIKZN is therefore regarded as an effective organisation.

Chapter 8: Data Analysis and Interpretation (Horizontal Analysis)

8.1 Introduction

Glynn (1993) defines effectiveness as involving an examination of the relationship between output and objectives of a department or institution. The management control process should endeavour to measure whether predetermined goals are being achieved. Effectiveness indicates whether results have been achieved, irrespective of the resources used to achieve those results. Glynn (1993) further argues that assessing the effectiveness of programs in a systematic way is the newest and most difficult area of work to which public sector management must adapt.

With this in mind, this chapter aims to provide in depth analysis on the surveyed DFIs and determine whether they have achieved their predetermined objectives. In the last four chapters, findings were presented with respect to each of the indicators of effectiveness. This chapter is aimed at consolidating the findings from all the entities surveyed in order to make recommendations that will contribute towards the enhancement of the effectiveness of the DFIs. Among the data collection instruments used was the questionnaire that was slightly adapted for all four DFIs. Broadly, the questions from the questionnaires were able to capture the responses that are relevant in responding to the broader research questions of this study.

8.2 The impact of DFIs in KZN

DFIs can be regarded as effective if their existence creates or makes an impact developmentally. Impact is measured by outcomes, which is the change brought about by public programmes on individuals or social structures. For instance, the number of successful funding applications processed is the output, whereas the number of successful and thriving funded firms is the outcome, which has a development impact. DFIs are regarded as financial intermediaries that are positioned to play critical economic development roles. Economic development should involve a substantive and sustained change in the condition of poor people. The question therefore is the

following: have the DFIs made a substantive and sustained change in the business community, especially the SMMEs operating in poor communities? The contribution of the DFIs as evidenced in Chapters 4 to 7 is positive; however, the substantiveness and sustained change of the funded enterprises cannot be confirmed, as there is some evidence of failed portfolios. The DFF (2004) found that the constraints that keep customers from building wealth are not only access to credit, but also include poor workforce skills and education, inappropriate government policies, and ineffective social organisations. In order to address the forum's concerns, the study investigated non-financial support that the DFIs were giving to funded enterprises. The result was that theoretically all the DFIs offer some non-financial support or mentoring programme; however, the extent, relevance and effectiveness of these programmes are questionable.

To ascertain whether the DFIs have had such an impact, indicators of development were identified as the following: the quality of the performance indicators used by the DFIs to measure their performance, whether the DFIs set performance targets, and whether the set performance targets were achieved year-on-year. Job creation capability and the number of businesses that are supported were all considered relevant to make conclusions on the development impact of DFIs. The key findings across the entities are discussed below.

8.2.1 The quality of performance indicators used by DFIs

Performance indicators are quantitative measures, which provide information on the effectiveness and efficiency of programmes and organisations (Parmenter, 2010). There is no difference between a performance measure and a performance indicator. There is still confusion among public officials on the meaning of some of these terms, such as objectives, indicators and targets. Performance indicators should be selected according to the extent to which they are relevant, representative, and comparable, and minimise perverse effects (Parmenter, 2010). An indicator is relevant when the aspect of performance it seeks to measure is important to the objective of its users as seen in the Performance-Based Budgeting. Relevance depends on who the user is, in selecting indicators

to use and presenting to Parliament or the public; for instance, indicators of internal processes such as 'turnaround time to fill positions' are not relevant.

A performance indicator is representative to the degree to which it succeeds in measuring the dimension of performance, which it seeks to measure (Schreiner, 1999). Representative indicators are good proxies for what they are trying to measure; for example, the number of site visits to SMMEs is a poor proxy for the quality of non-financial support provided to SMMEs. Many site visits can take place without any mentoring or support being provided and the intended results can still not be achieved, i.e. visited SMMEs can still fail and their business can still close-down. The performance indicator should be unambiguous. It should be clear whether a change in the indicator means that performance has improved or deteriorated. The study discovered that some DFIs are still struggling to get this aspect right.

Perverse effects are adverse consequences of performance measures; for example, indicators such as 'number of funding applications processed within 14 days'. This can produce the perverse effect that those applications that cannot be processed within 14 days and may be kept for a longer period than necessary, with priority being given to those that came later but could be processed within the 14-day time limit.

Performance management in a public sector context has been standardised using KPIs. Marr (2011) defined KPIs as measures that provide managers with the most important performance information to enable them or their stakeholders to understand the performance level of the organisation. The emphasis is on the need for KPIs to link to the strategic objectives of the organisation, in order to be useful in monitoring the execution of the business strategy.

Meyer and Gupta (1994) state that performance measurement in the public sector is a paradox, i.e. there is a weak correlation between performance indicators and performance itself. In view of these kinds of concerns, the study had to ascertain from the executives of the DFIs whether they had confidence that their performance indicators were real measures of actual performance. This

concern always prevails when organisations report best achievement internally when evidence of organisational failure is blatantly clear from stakeholders' point of view. In most instances, from the surveyed DFIs, the quality of the performance indicators was acceptable considering also the opinion from external auditors. According to Parmenter (2010), KPIs are quantifiable measurements determined during the planning stage that reflect the critical success factors of an organisation. The KPIs selected must reflect the organisation's goals, be a key element to its success, and be quantifiable.

The study revealed that most of the DFIs started setting pre-determined objectives (performance targets) between 2008/09 and 2009/10, even when such performance targets were set during the planning stage, reporting against them started later than 2009/10. The quality of the indicators needed improvement especially at Ithala and the NEF. Some of the performance indicators did not meet the criteria of the specific, measurable, attainable, realistic and timely (SMART) principle. When indicators of performance need improvement, it is unlikely that the monitoring or management of the performance takes place as it should.

According to Parmenter (2010), as stated earlier, organisations with over 20 KPIs lack focus and alignment, and under achieve. He argues that there are normally less than 10 true KPIs in an organisation and these are measured and reported daily or weekly. The study found that most DFIs had numerous KPIs leading to a low level of achievement on the targets set. For instance, Ithala had more than 70 performance targets and NEF had more than 26 in one year. In line with Parmenter's argument, it became difficult to monitor and manage; hence, poor results. As the saying goes 'what is not measured is not done', when performance targets are too many and not measurable, performance management does not take place.

The quality of the performance indicators refers to the degree to which the performance indicators are useful, reliable, consistent, relevant and measurable. This definition commonly used by external auditors when auditing performance information, means that it is possible to have performance

indicators that are not useful, not consistent and not measurable. Based on the findings from Ithala, for instance, there has been an evolution of performance indicators from the standard ones used between 2002/03 and 2008/09 to the ones developed in 2009/10. From 2002 to 2008, Ithala had measurable, relevant and useful indicators of performance. However, from 2009/10, it appears that performance indicators have not been of the required quality to indicate actual performance. This view is supported by the findings from the external auditors. TIKZN experienced the same difficulty in 2009/10 with developing performance indicators that were not considered reliable and useful for measuring the performance of the entity. However, the performance indicators improved for the last two years reviewed, 2010/11 and 2011/12.

For the two national DFIs, IDC and NEF, their performance indicators were changed over the years in an attempt to get real measures of the actual performance required to fulfil their mandates. While data could not be obtained for some of the years, the available data indicated acceptable quality of performance indicators from both DFIs. Overall, there is no consistency in the type and nature of performance indicators used by the DFIs, except for two indicators, number of jobs created and the debt to equity ratio. All four DFIs used 'number of jobs created' as a measure of performance. The absence of the uniformity on the performance indicators poses a challenge to measuring performance of the DFIs as a sector.

8.2.2 Performance management to achieve performance targets

Performance management should have been institutionalised in the broader public service considering the promises of government post-1994. Institutionalising performance management relates to improving compliance with frameworks that are deemed appropriate for enhanced and productive performance. Efforts have been made by the Department of Public Service and Administration to institutionalise performance management within the public service. This emanates from the post-1994 period where political promises were made to hold the public service accountable. Naidoo (2011) argues that the increased call for measurement of results was an

outcome of the democratic period, where South Africa became a signatory to international accords on good governance like the New Partnership for Africa's Development (NEPAD), and this has translated into developing monitoring and evaluation systems within the public service. Naidoo (2011) further argues that theoretically, the post-1994 period was intended to be a period where individual performance needed to be aligned with institutional performance. This means that the performance contracts of the CEOs should have key result areas that are linked to political mandates of the relevant departments. The downward contracting of the CEO should follow the same pattern where executive performance contracts are linked to those of the CEO, so it cascades downwards.

Performance improvement is a generic term used both in public and private organisations in order to move from one level of operation to the next. Barker and Rubycz (1996) state that managers are always searching for ways to cut costs while increasing productivity and quality of service to customers. A number of performance improvement techniques exist, such as business process re-engineering, benchmarking, activity-based management, priority-based budgeting, and change management processes. The effort made by management within the DFIs to improve performance can be assumed from the visible changes in their planning documents. The corporate plans, although supposedly fixed for five years reflected changes year-on-year. One can therefore conclude that such changes were management attempts to increase productivity and quality of service to be rendered to clients, though such attempts were not always successful.

Good management is important in making organisations more effective. There is a clear link between management quality and the performance of companies. Studies show that firms with large improvements in management also saw large improvements in productivity. Achieving performance targets by the DFIs is a management responsibility. Good management works tirelessly to achieve performance targets because performance targets are linked to productivity that is linked to the profitability of the firms. Why then are the DFIs not able to achieve their performance targets?

Turlea et al. (2008) argue that it is difficult to undertake performance measurements in public sector entities due to public system dynamics and complexity. They argue that the complexity of performance measurement in the public sector results from the fact that entities try to accomplish both commercial and non-commercial objectives. In this study, attempts were made to simplify the measurements of effectiveness and the selection of the indicators of effectiveness were chosen in line with government requirements for performance management. From the four institutions surveyed, only Ithala operated as a commercial bank and a development corporation. Even though Ithala has a dual responsibility, the two objectives are completely segregated, with the commercial division registered separately with the Reserve Bank for that purpose. In the data collected, there was no evidence of competing objectives as the study focused only on the development corporation entity.

Most of the DFIs surveyed did not set performance targets prior to the 2009/10 financial year. Their reporting comprised comparing performance of the current period with that of the previous period. As a result, the comparison of targets to the actual level of achievement was not possible for the three entities, TIKZN, IDC and NEF. Ithala's level of performance was below average for most of the years reviewed. The highest level of achievement of the targets set for the entire 10-year period was 57%, which was in the 2004/05 and 2006/07 financial years. In 2009/10 for instance, the lowest proportion of performance targets was achieved, which was 20%. TIKZN showed an incremental trend from 79.6% in 2009/10 to 88.0% in 2011/12. The number of performance targets achieved by IDC increased for the last two years reviewed, while the NEF performance had no trend as it started with 63.6% in 2009/10 and went down to 50.0% in 2010/11 and up to 65.3% again in 2011/12. Table 8.1 gives a summary of the number of performance targets achieved by each of the respondent entities. The data in Table 8.1 is taken from the annual reports of the entities.

Table 8.1: Annual performance targets achieved by the 4 DFIs

DFI	2008/09 Level of achievement	2009/10 Level of achievement	2010/11 Level of achievement	2011/12 Level of achievement
Ithala	Nil	20%	33.3%	45.5%
TIKZN	n/a	79.6%	86.4%	88%
IDC	58.3%	56.2%	75%	85.7%
NEF	n/a	63.6%	50%	65.3%

Overall, in the period where the four DFIs had set performance targets, from 2009/10 to 2011/12, the levels of achievement of such targets were 54.8%, 61.2% and 71.1% respectively. This shows an overall increasing trend towards the achievement of performance targets for the group as a whole.

Since the study has shown positive governance trends, for instance, there is no interference in the operations of the DFIs; the question remains as to why DFIs are not achieving their performance targets. Perhaps the non-achievement of targets may be a symptom of other operational deficiencies that are outside the focus of the study and yet performance management is a key element in the achievement of performance targets.

Key management questions on the kind of management development programmes offered by DFIs, such as modelling of good management practices, support and mentorship for young managers and support by DFIs systems and processes of culture of accountability, personal drive and results orientation, remain relevant. In one of the DFIs for instance, it was discovered that the poor quality of performance indicators results from management not being adequately trained. Non-achievement of objectives or performance targets is not a risk for DFIs but translate into how DFIs are generally managed.

On the next level of performance management are the boards of the DFIs. The boards are required to review the performance of the DFIs by among other things, assessing progress with achievement of the objectives and performance targets on a quarterly basis. When there is a consistent pattern of non-achievement of performance targets, it raises questions about the effectiveness of the

boards as well. The study does not suggest that boards are ineffective but there was no evidence in the annual reports that boards acknowledged non-achievement of targets as an area of concern.

As part of the post-apartheid reforms, government introduced performance budgeting as an instrument to improve efficiency and effectiveness of public expenditure by linking the funding of public sector organisations to the results they deliver. It uses systematic performance information (indicators) to make the link. The impact of performance budgeting may be felt in improved prioritisation of expenditure and service effectiveness. However, it would appear that these reforms have not yet had the intended impact on service delivery of the DFIs; hence, performance targets have not been achieved.

Performance budgeting is about giving government agencies and their managers greater flexibility in the use of resources than they would have under traditional tightly controlled public management systems. Government interest in performance budgeting came from the recognition that it is easy in government to lose sight of the fundamental objective of delivering positive outcomes to the community. The main point is that public sector organisations, which are financed through taxes, lack the market discipline that compels commercial enterprises to be customer-oriented. While political accountability through the electoral process is extremely important, it is not necessarily sufficient to ensure that public sector organisations are highly focused upon the results they deliver. The kind of performance published by the DFIs in their annual reports is the confirmation that political accountability is necessary but not sufficient for government agencies to excel in their performance.

Performance budgeting is also known as managing for results (MFR). MFR refers to the use of formal performance information to improve public sector efficiency and effectiveness. Its starting point is absolute clarity on the outcomes that government is attempting to achieve and about the relationship of outputs, activities and resources used for those desired outcomes. Good strategic planning and business planning are an essential element of MFR, as it emphasises the *ex ante*

stipulation of performance expectations for agencies, work units and individuals with performance targets and standards. While the public sector adopted this performance management model over the past 15 years, government agencies, as reflected in the performance of the DFIs, have not reaped maximum results due to internal limitations on implementation.

The MFR model included the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. However, this is accompanied by greater flexibility of employment, greater capacity to sanction or dismiss poor performers and greater ease in transferring or terminating employees. This is all in line with broader reforms as encapsulated in the PFMA whose objective is to allow managers to manage and hold them accountable. This raises the questions of holding executives accountable for non-achievement of performance targets. While there is clear evidence of non-achievement and poor quality of performance targets, there is no evidence of sanctions applied or indication of how the CEOs or executives were held to account.

8.2.3 DFIs and key government objectives

Key government objectives relate to poverty alleviation, job creation and SMME development. Development impact is considered the result of increasing the income of historically disadvantaged individuals by reducing poverty levels. Most of the DFIs' performances are measured in terms of both the extent of their development impact and their financial sustainability. Sustainability reflects on the DFI's ability to exist, based on its own effort and taking into consideration all forms of funding received. Thorne and du Toit (2009) argue that the success of the early development banks was attributed to the aspects such as private sector co-ownership, co-financing of projects, commitments to skills dissemination, autonomy, hard budget constraints, and highly professional staff. Assessment of the DFIs against these aspects finds that there is a shift from these aspects. For instance, none of the surveyed DFIs were co-owned by government and the private sector. These DFIs are government entities with government as the sole shareholder. With regard to the

DFIs' level of autonomy, they are only autonomous administratively, as they are required to follow government policy and pursue the agenda of government, following the prescripts of government in their implementation. Hence, corporate plans are tabled in and approved by Parliament. These DFIs account to the dedicated government departments on an on-going basis. The provincial institutions (TIKZN and Ithala) surveyed are not subject to hard budget constraints; they are budgeted for annually. For instance, the study revealed that government provides an annual disbursement budget for Ithala and the target is to ensure that the budget is disbursed within a financial year. On the other hand, the national DFIs seemed to be self-sustainable; there are no yearly budgets from government for disbursements and government allocations are made with respect to targeted programmes being introduced. Government has to ensure adequate initial capitalisation, which is always debatable. The existence of professional staff in the DFIs could not be confirmed by this study; however, during the interviews it was established that executives within the DFIs believe they have more professional and technical skills compared to government departments.

8.2.4 DFIs and job creation

Employment generation is one of the most important macro challenges in South Africa. Therefore, it is crucial to understand linkages between DFIs and job creation. The World Bank (2012) found that only productivity change, structural transformation and innovation could secure development and reduce poverty in the long-term. A low-income country that does not increase its level of productivity in its economy will eventually limit its own growth and income generating potential. Job creation is central to the development agenda of South Africa. Every rand that government spends is expected to have a multiplier effect, which directly or indirectly should result in the creation of jobs. The amount of money spent in financing DFIs and their infrastructure maintenance can be justified somewhat by job creation and/or poverty alleviation.

DFIs can affect employment and productivity change through a number of channels. Jouanjean and te Velde (2013) distinguish between static and dynamic channels of effects. The DFIs affect job creation directly by being additional to other financial flows and domestic investment, i.e. the DFI mandate includes solving market failures and providing finance in frontier markers where the private sector does not go or does not reach sufficiently. To the extent that DFIs are additional, they should increase the overall level of economic activity and increase employment depending on technologies used. The number of jobs created by firms supported by DFIs is limited to employment generation that is based on direct effects. For instance, the study revealed that the size of capital invested *per se* does not determine the number of jobs to be created. For instance, with TIKZN foreign direct investment of over R90 million resulted in the creation of two job opportunities whereas in other sectors R45 million was able to create job opportunities in excess of 180. Therefore, the sectors where DFIs are investing are important contributors to employment creation.

In a dynamic sense, DFIs create jobs through forward and backward linkages and can foster technical change in companies, with possible spillover effects for the sector and the whole economy (Jouanjean and te Velde, 2013). DFIs can support activities that have indirect effects through the need for inputs provided by suppliers (backward linkage). This can lead to employment changes in suppliers who in turn can generate spending and employment effects.

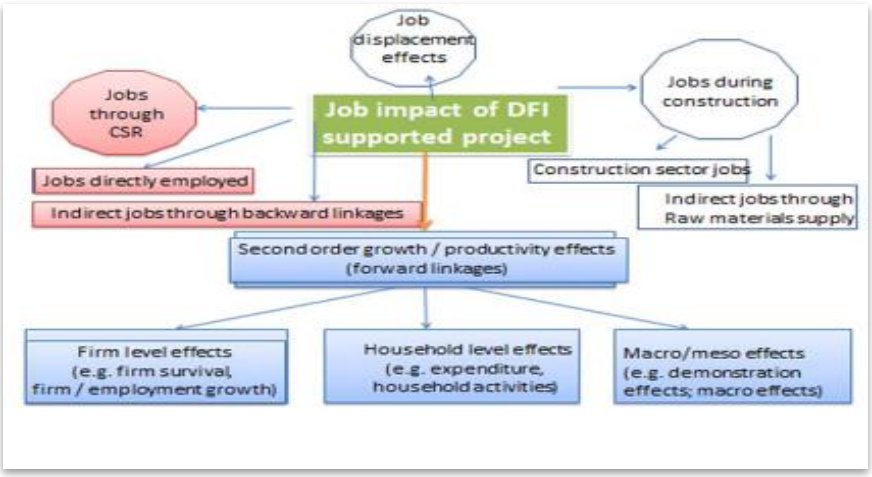


Figure 8.1: Job creation through DFI mechanism

Source: Jouanjean and te Velde, 2013: page 6

While the four DFIs surveyed reported on the number of jobs created, how these jobs were created was outside the scope of this study. Even though Ithala appeared to be the lowest performing of the four DFIs as it still depended on government for funding of its disbursements, it nevertheless was able to create new jobs in each of the years in the period reviewed. The challenge relates to self-sustainability, which was not evident in the data collected. The rate of return from the disbursed funds is very low; hence, the provincial government injects new money each year for funding private enterprises. Table 8.2 is a summation of the jobs created by the four entities surveyed.

Table 8.2: The number of jobs created per DFI

Sector	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Ithala	7 930	7 853	3 418	2 045	2 733	1 508	1 966
TIKZN		2 800	1 065	1 172	2 636	1 240	9 386
IDC	1 107	4 995	2 336	3 776	705	1 366	1 466
NEF		114	47	2 515	439	697	359
Total	**9 037**	**15 762**	**6 866**	**9 508**	**6 513**	**4 811**	**13 177**

The number of jobs created by TIKZN differed between document analysis and those obtained during the face-to-face interview. The numbers used above are those confirmed during the interview.

There was also a significant increase for TIKZN in 2011/12 due to the opening of call centres by businesses attracted by the TIKZN. There are clear changes in the number of jobs created by the DFIs in the period under review with 15 762 jobs being created in 2006/07 while the following year the figure went down to 6 866 and then up again in 2008/09 to 9 508. This implies that the jobs created are linked to the number of successful transactions each year, which differs from year-to-year.

Studies of employment trends suggest that large companies are also vulnerable to failure, as sustained profitability does not correlate with a company's size. As companies grow, they tend to shed jobs. By contrast, small businesses tend to be big employment multipliers, creating substantial employment as they grow and profit growth correlates with factors other than size. The literature suggests that as big and successful companies grow, they become more productive but they do not generate employment; jobs are created when small companies survive and thrive. The study's focus is on the very same aspect, the effectiveness of the DFIs in, among other things, making the small companies thrive so that employment can be created. While it is recognised that the economic environment has a direct bearing on an enterprise's success in achieving growth, and achieving sustained growth is a rare outcome, the DFIs are the structures created to address such factors by providing funding and support to funded enterprises, big and small. The number of DFIs in South Africa is an indication of the realisation that the survival of firms or enterprises is critical to creating economic growth, job opportunities and economic stability. The studies confirm that companies that survive are important providers of jobs, but it is the small thriving companies that are true creators of jobs. Therefore, SMMEs do need special attention from government to ensure as much as possible that they do thrive.

DFIs are expected to identify and develop strategic and long-term profitable sectors to assist in expanding infrastructure development, to promote their countries interests in the international arena and to provide leadership in development coalitions while also taking part in institutional capacity building (Development Forum, 2004). There is no evidence in this study that DFIs identify profitable sectors for assistance. Instead, government identifies empowerment areas based on its political agenda and allocates funding through the DFIs targeting those sectors for assistance irrespective of their productivity. The women's entrepreneurship fund, disability entrepreneurial fund, and youth development fund are some examples. While the focus of government in empowering the previously disadvantaged groups is a noble idea, unfortunately it does not always yield the intended results.

8.2.5 Conclusion

Since DFIs in South Africa are the creation of government, they form part of the broader public service and therefore there is an expectation that they should adhere to constitutional values and principles of public administration. The discussion about their effectiveness cannot be concluded without assessing their level of adherence to these values and principles. The Department of Public Service and Administration is responsible for testing the compliance of the public service to these values and principles and after each testing, reports are published. Hundreds of these reports have been published over the past 15 years. These values and principles, while focusing on performance of the public service, are also a bedrock for good governance. They are illustrated in Table 8.3.

Table 8.3: DFIs and constitutional values

Value and principle	Contribution to performance of DFI	Observation from the study
Ethical performance (high standard of professional ethics must be maintained)	The DFI environment does not always promote ethical conduct.	Cases of unethical behaviour surface from time to time including at the CEO level.
Efficient, economic and effective use of resources must be promoted	Disbursing of public funds by DFIs must be done with prudence with sufficient probity. Tracking of spending and avoiding wastage of resources.	DFIs experience fruitless expenditure due to non-performing loans.
Public administration must be development oriented	DFIs are development oriented by their very nature.	DFIs partly contribute to development through employment creation; their systems to create sustainable companies need to be strengthened.
Services must be provided impartially, fairly and without bias	Criteria and purpose of such funds must be adhered to irrespective of who applies for funding.	Purpose of the fund is rated higher than the criteria. Criteria used normally as guide.
Public administration must be accountable	Accountable public service means public actions are subject to review and scrutiny. DFIs account to government departments that account to Parliament.	DFIs have macro plans approved by government and Parliament and they report to Parliament via their respective government departments.
People's needs must be responded to	This principle seeks to make public service accountable to the citizens themselves. Public fora are organised for inputs to the plans of government and entities.	For DFIs when applications are turned down, transparency and reasons should form part of the feedback and mechanisms to improve this should be suggested.
Transparency must be fostered –public to access accurate information timely	DFIs must be transparent in their actions subject to the relevant legislation. The public must be clear how funding decisions are made or why specific projects cannot be funded.	The public is not always aware how funding decisions are made. There is a need to be more transparent in an empowerment fashion to improve quality of funding applications and reputation of DFIs.
Good human resource practices and career development must be cultivated	The delivery of DFIs is largely dependent on the quality of leadership and management. Good leaders deliver good results.	The human resource capacity of the DFIs is not always optimised. Performance management systems need improvement.
Public administration must be broadly representative of the South African people	This element seeks to reverse racial stereotypes around competence and helps promote more inclusive public service to meet the needs of the democratic society.	DFIs differ in this regard; some are fully representative while others still need improvement.

Source: Naidoo, 2011: page 211

In order to ascertain whether the DFIs have had a positive development impact, the responses have been categorised into the three aspects as follows:

i) *No impact:* Where one or two DFIs had a positive response;

ii) *Notable impact:* Where three DFIs had a positive response; and

iii) *Sufficient impact:* Where the four DFIs had a positive response.

Table 8.4: Combined impact of DFIs in KZN

No.	Indicator of performance	Results	Comment
1.	Was the quality of the performance indicators used by the DFIs useful and reliable?	Notable impact	Improved for the last three years
2.	Do the DFIs achieve their annual performance targets? (90% and above)	No impact	None of the DFIs ever reached 90% of their targets
3.	Have the DFIs facilitated the creation of jobs?	Sufficient impact	Jobs were created for each of the years
4.	Have the DFIs made an impact in creating sustainable businesses?	No impact	A significant number of businesses funded closed down
5.	What was the success rate of the DFIs in fulfilling their mandates? (success = 90%)	No impact	Only one DFI rated up to 90%
6.	Are the DFIs complying with their mandates?	Sufficient impact	All the four DFIs complied
7.	What was the opinion of the external auditors on the performance information of the DFIs?	Notable impact	Only one DFI had a negative comment from external auditors

In summary, the quality of the performance indicators used by the DFIs is improving. Mostly the DFIs contributed positively to job creation, the average success rate of the DFIs in achieving this mandate was rated between 60% and 80%. This requires much improvement on the part of the management of the DFIs to achieve the performance targets set each year. The non-achievement of performance targets set in the planning documents may imply that planning is done haphazardly or that there is no consistent monitoring of performance to ensure that what is planned is pursued and achieved. Another critical role of DFIs is that of creating sustainable businesses; there was not enough evidence in the data collected that funded businesses are sustainable except to say non-performing loans are an indicator of business failure.

8.3 Success rate of DFIs in creating sustainable businesses

One of the major tasks of DFIs is to create sustainable enterprises in order to create employment and increase earnings thereby contributing to economic growth. However, before the DFIs can create sustainable businesses they themselves have to be sustainable. A strategy for sustainability means understanding the cost of transactions in order to build a pricing model that works. At the level of an organisation, a sustainability strategy means being able to re-create the business model including which products are offered, how markets are identified, how capital is raised and what

alliances are formed (Schreiner, 1999). Some studies show that DFIs are not profitable because their prices are too low and their costs too high. In most instances where DFIs are established by government they survive only with the help of government or donors. However, there is a general understanding that sustainable organisations must have structure and incentives to repeat transactions. Sustainable organisations are permanent because their operations are stable as they can meet their obligations without shrinking in real terms.

Following Schreiner's (1999) argument, the sustainability of DFIs needs the application of meta-rules, i.e. rules for changing the rules. Good meta-rules let the DFI perform well over time without extraordinary labour, luck or leadership. If the market changes so must the DFIs if they are to do well. The surveyed DFIs are mostly not sustainable as they are state funded except for the IDC, while NEF is partially funded by the state. They therefore have not reached a level of self-sustainability. For TIKZN there are no plans for self-sustainability, as the core business requires government funding on a continuous basis due to its mandate to promote the province to attract foreign direct investment and to promote local enterprises to export their goods and services. On the other hand, Ithala would do well to work towards being self-sustainable. This will require a review of the funding criteria and government conditions of the budget for loans and advances.

On the sustainability of the enterprises funded, the study revealed a challenge from the three DFIs that offer loans and advances (disbursements). While many governments embrace the value of development finance, there are too many examples of short-term capital access strategies that have limited impact (Schreiner, 1999). In some loan programmes run by governments, the political logic of the programme dominates product delivery and operating style. Some short-term programmes, while focusing on the poorest have limited impact, resulting at best in a temporary improvement in cash flow. DFIs in South Africa are not immune to this.

The study revealed that significant amounts of loans and advances are written off yearly by DFIs. Their financial statements have higher provisions for bad debt and impairments for both

performing and non-performing loans. This is a challenge that needs attention. Since its inception, the NEC has experienced a 41% failure rate of the portfolios due to funded enterprises closing-down. When enterprises close down it is unlikely that they have completed repaying their loans. The implication is a loss of income for the DFI and loss of the potential jobs that were earmarked when funding was granted. The average rate of non-performing loans from the surveyed DFIs is high.

The study further revealed that the failure of funded enterprises results from three factors, the main one being the lack of business management skills on the part of the recipients. The other reasons relate to fraud, where recipients of loans use the funds for purposes other than for what they were approved, and the attitude of entitlement that recipients have toward government funding. This means there are cases where loans are not repaid mainly because there is a belief that it should be grant funding as opposed to loan funding. The study revealed three causes for failure of funded enterprises:

i) Lack of business management skills;

ii) Fraud, diverting funding from its purpose to do other things; and

iii) The entitlement culture of mostly black entrepreneurs (government should provide grants not loans).

What can the DFIs do to mitigate these kinds of risks that are threatening economic growth and contributing to fruitless expenditure? As the study shows that each of the DFIs have Business Support Units that are meant to assist and monitor funded enterprises, it suffices to conclude that there are missing links in term of operations. There is a need therefore to strengthen the support units and set targets for them relating directly to the importance of successful enterprises. The three reasons for business failures are also associated with governance within the DFIs. The governance arrangements within the DFIs, as found during the data collection stage, are detailed in the next section.

The respondents were asked to rate their entity's success rate (on a scale between 10% and 100%) in being effective in achieving development objectives, such as job creation, sustainable businesses, and contribution to economic growth. Ithala achieved a 60% rating from the respondent, while NEF got a rating of 59% which was explained as being due to the percentage of the portfolios that failed in KZN; IDC got a 80% rating and TIKZN's was over 84%.

These ratings indicate that a challenge exists for the DFIs in this regard. The rating of less than 90% needs the attention of the authorities to improve the effectiveness of the DFIs. The respondents felt they were doing very well with these ratings especially the TIKZN and the IDC. For example, the TIKZN justified the rating of between 80% and 90% by the number of export markets they create and the number of companies they are able to assist. This however, contrasts with the assertion that TIKZN's contribution to the job market is very small due to its limited focus.

8.4 How do DFIs make funding decisions

According to Chavis et al. (2011) access to external finance and the ability to undertake profitable investment opportunities is an important ingredient for the success of any new business and for economic growth and development. Liquidity constraints hinder potential entrepreneurs from starting businesses, thereby leading to reduced growth rates, especially with small businesses (Evans and Javanovic, 1989). Attending to these constraints can lead to growth in start-up businesses. It is the mandate of the DFIs to close such gaps; however, the failure rate of funded enterprises makes the question of funding decisions very crucial in this study. Theoretically, the DFIs must have funding criteria, and expert and professional staff able to evaluate and interrogate funding applications. They are expected to have several lines of defence in the process of approving loans and advances and after the loans are approved, further control is expected to be in place to mentor and coach funded enterprises.

With all these kinds of controls, the high number of businesses that are closing down, especially the SMMEs, is unexpected. While we can acknowledge that with empowerment deals it may not

always be possible to have skilled people, there is the option of mentorship and coaching. According to Thorne and du Toit (2009), the success of DFIs depends on a variety of dimensions, and failure in any one of the dimensions can significantly undermine the institution. The next section focuses on evaluating the surveyed DFIs against the framework for successful DFIs developed by Thorne and du Toit (2009). This framework requires DFIs to have a clear mandate, regulations, an enabling environment, good governance, financial sustainability and performance assessment.

8.4.1 Mandate of DFIs

The mandate, vision and mission statements of all the DFIs are similar and it appears that there is no confusion about the direction the DFIs should be taking. While their mandates are similar, their focus is slightly different. While the IDC's focus is on industrial capacity building, the NEF's is on empowerment and Ithala's emphasis is on SMME development, which shrank over time to black SMME development. A review of their activities revealed that they are indeed focused on their mandate, which is clearly defined from their enabling legislation, shareholder compact, and organisational macro plans.

8.4.2 DFIs and enabling environment

An enabling environment refers to attitudes, policies and practices that stimulate and support effective and efficient functioning of organisations and individuals (Jones and George, 2009). According to Jarvis (2013) an enabling environment is a set of interrelated conditions, such as legal, organisational, political and cultural, that has an impact on the capacity of DFIs to achieve their objectives. It is true that a flourishing business sector and civil society requires an enabling environment, which depends upon the actions and policies of different stakeholders such as government and donors.

The DFF (2004) found that strengthening the enabling environment enhances the ability of DFIs to reach scale and have an impact on poverty. The DFF (2004) further found that dysfunctionality in the legal and regulatory environment constrains social and capital mobility, and limits the long-term effectiveness of DFIs.

For DFIs, an enabling environment is comprised of a complex set of conditions. These include administrative factors affecting the way in which government deals with DFIs; a general legal and judicial system and related mechanisms affecting the establishment, capitalisation and monitoring of DFI performance; and political factors and other circumstances that influence the recognition and operations of the DFIs (Jones and George, 2009). Based on this, it is apparent that respecting DFIs as development actors in their own right and allowing them autonomy even when it might be inconsistent with mother department priorities can go a long way to creating an enabling environment.

There is a need to transform a constraining environment into an enabling one. The DFIs in South Africa operate in a regulated environment, each DFI has enabling legislation, shareholder compact and other government legislation that they are expected to follow. The study established that the executives within the DFIs are mostly satisfied with their operating environments; for instance, the fact that they are required to comply with government legislation, such as the PFMA is not seen as a hindrance to their operations other than additional compliance requirements. It is not seen as related to core business operations. Some levels of frustration on the turnaround time for decision-making by government departments was evident from some executives. The study did not find any elements that suggest that the environment within which DFIs operate is not enabling.

8.4.3 DFIs and good governance

Good corporate governance helps businesses to operate more efficiently, attract capital, and safeguard against corruption and mismanagement. It makes businesses more accountable and transparent and builds investor confidence in public and private companies in developing

countries. It is therefore expected that DFIs, as stewards of taxpayers' funds, integrate corporate governance in their investment operations by having procedures, tools and policies that are aligned to their mandate, by conducting corporate governance assessments of their investment clients, and developing action plans when required.

Good corporate governance dictates that even state-owned enterprises with commercial objectives or social objectives must focus on the 'triple bottom line', integrated economic, social and environmental performance criteria. Often governance weaknesses are identified with respect to a lack of role clarity, the absence of a fair process to appoint boards, disempowered boards and undue interference by government in the management of enterprises. The study confirmed that DFIs have mostly the required governance structures, such as functioning boards, board committees, and operational policies. Reporting lines are clearly defined and there are generally no threats from external forces. The annual reports of the surveyed DFIs confirmed that boards hold statutory meetings, and that each of the boards has various committees that provide guidance on various aspects of DFI business, such as investment committees and audit committees.

At the policies and procedure level, the study confirmed the existence of key policies. However, the quality in terms of the correctness of the content was not investigated. One of the interesting findings is the flexibility of the funding criteria for all the DFIs surveyed. The study shows that the DFIs use the funding criteria more as a guideline document. This finding was interrogated during the interview with IDC and was justified because of the changes in government policy and on-going policy initiatives. Using the example of the debt to equity ratio, it was discovered that for some projects it goes as far as 40% to 50%, whereas for other clients it is as low as 2.5% and sometimes zero. In most cases, this was justified along BEE lines, that there are cases where BEE clients must be approved as they qualify for specific funds; yet, such clients do not have equity to put forward.

8.4.4 Regulation and supervision of DFIs

Thorne and du Toit (2009) maintained that the manner in which DFIs are controlled matters and that the ownership role of the state should be recognised and carried out cautiously so that the entity retains some meaningful autonomy operationally, while executing its mandate. The DFIs account to government through the responsible ministers or member of executive council. This covers the manner in which they are controlled. DFIs are expected to report monthly, quarterly and annually to government. The study confirmed that reporting takes place accordingly. When government put conditions on the funding, it had a direct bearing on the autonomy of the DFIs. The study found that in most cases the government agenda that is pushed through the DFIs is mostly attached as conditions to the funding. For instance, Ithala inspite of its professional expertise, does not develop funding criteria; instead, government determines the criteria which serve as conditions for funding. This has an impact on the operational environment, because while Ithala may be of the view that zero collateral for loans is detrimental to its business as the DFI, it has no power to change that unless the government agrees to it. Therefore, the level of control offered may not always allow operational autonomy for DFIs.

8.4.5 DFIs and financial sustainability

The DFF (2004) defines financial self-sufficiency as the ability of a public entity to cover the financial and operating costs of its lending and investment operations, including the cost of loan losses without using external grant funds. The DFIs in South Africa are the creation of government. They were established for specific economic purposes and were formed to close the gap that would have been identified at the time. The DFIs by their very nature are forward looking; this requires leadership to create not only the vision but also adequate capital required to obtain the desired results. It is important for government to adequately capitalise these entities and then limit additional fiscal support. DFIs should be encouraged to approach donors and obtain a credit rating to enable them to raise their own funds. Of the surveyed DFIs, IDC appeared to be the only DFI that

has reached self-sustainability. A lot of work is still needed for NEF and Ithala to reach a similar level of self-sustainability.

8.4.6 DFIs and performance assessment

Performance assessment is one of the important principles to assess whether DFIs make a difference. There has to be objectives that are set up-front, and regular assessment of the level of achievement is a fundamental activity. This study discovered that most of the DFIs started in 2009/10 to set up-front performance targets, while government departments started setting performance targets in 1998/99 with the introduction of performance budgeting; this was not followed up with DFIs on time. As the results of the delayed start, the DFIs have not reached a level of maturity in the development of performance indicators and setting measurable performance targets.

8.5 Support and monitoring of funded enterprises

The chairman of the NEF reported in the annual report, (NEF, 2009:54) that "many businesses collapse in the first two years of operation, and a mentorship programme, which provides on-going support, guidance and monitoring is an important support service which the NEF provides at no cost to its investees". The results of the implementation of this programme are not yet visible because as indicated in Chapter 6, 41% of the NEF funded enterprises in KZN failed. In its annual report, Ithala reports the number of enterprises provided with non-financial support. For the 10-year period reviewed, 5 638 enterprises were reported to have been provided with non-financial support. For the very same period 2 841 enterprises funded by Ithala failed to settle their loans as they closed-down. Over the 10-year period reviewed the IDC wrote off an amount of about R1.9 billion due to non-repayment of loans. This is despite the fact that the IDC has a department called 'post-investment monitoring', whose aim is to ensure effective and timeous implementation of approved transactions, monitoring of business partners and protection of IDC's interest until the relationship between the IDC and its business partners terminates.

The IDC also has a panel of business consultants that are deployed to follow each investment made to ensure its success and the same goes for the NEF, which has both pre-investment and post-investment units. The pre-investment unit provides customer interface to support and improve the quality of business plans and screen all enquiries. The key in the process of screening applications is reducing turnaround time. The post-investment unit has to ensure that all those transactions the NEF enter into are supported, while the purpose of the mentorship programme is to assist investee companies requiring technical assistance following the NEF's investment. Their work includes providing assistance to distressed investee companies. This unit also manages the performance of the NEF's loan book. As for Ithala, the interview confirmed that the figures of non-financial support published in the annual reports refer to the monitoring work done, which is different from providing support. Monitoring refers to keeping the statistics of the numbers of loans granted and to whom they are granted. Therefore, for the period reviewed Ithala did not have a support programme for funded enterprises.

The rate of failure of funded enterprises of both large and small companies is a concern that requires attention. The study established that lack of business management skills is the main reason for failure, cutting across size of enterprises and DFIs. Business management skills include understanding the importance and need for good governance. The literature suggests that governance and SMMEs are not compatible, i.e. governance is thought of as a practice reserved for larger corporates beyond the reach of the SMME; yet, governance is the key driver for building successful SMMEs and is an important tool to mitigate the risk of total business failure. Realising that governance is an enabler for improving business performance, it would be helpful if the DFIs funding these enterprises were able to provide support in this regard. For instance, when entrepreneurs are using their business loans for things other than what the loans were intended for, that is a governance issue. The culture of non-payment of loans can also be indirectly related to the lack of governance systems and implementation. The nature of entrepreneurs is such that they will resist the implementation of systems and processes. Entrepreneurs have an innate

tendency to buck the system. The DFIs can close this gap, as they have the power through the funding process. While the content of mentoring and coaching provided by the IDC and NEF was not evaluated, it is likely that it does not cover these aspects of governance.

PART 3: Conclusion and Recommendations

Chapter 9: Conclusion and Recommendations

9.1 Introduction

This chapter presents a summary of the key findings emanating from the research. It starts by reflecting on the overall research question, which is the effectiveness of DFIs in KZN. In order to assess the effectiveness of the DFIs, the study produced a set of effectiveness indicators. These indicators of performance were developed from the document analysis. These indicators formed the basis for the development of questions for the questionnaire and face-to-face interviews with the respondents. The same indicators were later linked to the key concepts that emanated from the literature particularly the theories behind organisational effectiveness and performance management that sought to answer the research questions as contained in Chapter 1. Four theories were examined in Chapter 2. Of these, the performance management theory provided the main framework to analyse the effectiveness of the DFIs, mainly because academically the concept of organisational effectiveness is the same as organisational performance, as per the goal setting and expectancy theories of performance management. The conceptual framework section delves in detail into the concept of organisational effectiveness and the various models of organisational effectiveness. Due to the sensitivity of the study and potential misrepresentation by respondents, data was collected using three instruments to increase reliability (triangulation), which involves document analysis, the questionnaire and semi-structured face-to-face interviews. The study presented the data in a thematic fashion in order to link the findings to the research questions. The data was presented and analysed vertically (per entity surveyed, Chapters 4 to 7) and horizontally (Chapter 8), selecting common themes that prevailed and with reference to the research questions.

The objective of the study was to explore the effectiveness of the DFIs by reviewing their performance and compliance to their mandate as assigned by government. This was done by

reviewing their level of performance using their performance indicators and targets over a five- to 10-year period. Central to the problem with DFIs is the failure rate of funded enterprises that raises doubts about whether the intended goal of growth and development in the economy is being achieved. Linked to the failure rate is the question of the role of DFIs in providing support, mentorship, and monitoring to funded enterprises as a mitigation strategy to business failure and enhancing government return on investment. The study therefore focused on the value for money spent in funding business ventures by the DFIs as opposed to the internal efficiency or inefficiency of their operations. The data gathered on the DFIs was also used to assess how South African DFIs fare against models for successful DFIs around the world.

The study addressed five broad questions, i) Have the DFIs made a positive contribution to economic growth in KZN Province based on their performance levels? ii) How are DFI funding decisions made? iii) Do the DFIs have the ability to create sustainable enterprises? iv) Is there support and monitoring provided by DFIs to the funded enterprises? v) What other performance issues face DFIs?

As an attempt to assess the effectiveness of the DFIs, their performance became a major focus. As a result, the performance management theory as applicable to the DFI environment was used extensively to frame the analysis as can be seen in Chapter 8. The public sector performance management frameworks formed part of the instruments to analyse DFI performance with respect to performance indicators, targets and overall achievement of objectives.

9.2 Reflection on the theoretical framework

Four theories were considered in the study, namely, the agency, bureaucracy, accountability, and performance management theories. All four theories were found to be useful as they explained some part of DFI environment patterns and behavioural aspects. However, the performance management theory served as a framework for the analysis due to the study being focused on the effectiveness of the DFIs.

9.2.1 Agency theory

The agency theory addresses the role of information in leading and managing organisations. It recognises that at all times management knows more than the shareholder or the board, and for this reason, the latter are likely to be misled in order for management to further its own interests. The principal-agent problem refers to conflict of interest and moral hazard issues that arise when a principal hires an agent to perform specific duties that are in the best interest of the principal but may be costly, or not in the best interests of the agent (Carrington et al., 2008). In the DFI environment, the matter is much more complicated in that the shareholder is government, whose role is exercised through relevant mother departments. The appointment of boards for the DFIs is therefore intended to provide oversight to the executives and management of the DFIs on behalf of government as a shareholder. The appointment of the boards of directors is based on the assumption that they will represent the interest of the shareholder (government).

This theory provided insight into the inherent risk of a possibility of conflicting interest and focus between mother departments and their DFIs and how such risk can be mitigated. To avoid these potential conflicts, all the DFI relationships with their mother departments are managed by service level agreements (SLAs) and shareholder compacts, where the mandates and roles of the DFIs are assigned and monitoring mechanisms in the form of reporting arrangements are stipulated. This was found to be the case with all the DFIs surveyed in this study. Over and above the written quarterly reports by DFIs to mother departments, DFIs hold annual general meetings with the shareholder, where the content of the annual reports are supposed to be discussed and concerns raised on performance standards.

The emphasis of this theory on the role of information in regulating relationships and shaping the focus of all stakeholders provide further insight on how the information assystemetry can be better managed or improved. For instance, the study found that each side (management and shareholder or board) has knowledge of itself and knowledge about the other side, but each side has a blind

spot. The shareholder or board blind spot is larger than that of management and this has the potential of limiting their influence on management and priorities of the organisation. Effective oversight by the boards of directors requires genuine and honest interactions between the board, management and shareholder. The study did not delve into the details of the interactions at this level, but it is safe to say that, consistent non-achievement of DFI performance targets and the quality of their indicators of performance is symptomatic of a lack of the board's quest for information and action leading to a governance gap at the top.

The study found that in some instances, the shareholders dictate to the DFIs, the conditions for funding private enterprises. The shareholders decide and create funds to address political objectives, such as BEE-oriented targets for empowerment, gender or youth related funds. When these funds are created within the DFIs they mostly come with criteria from the shareholder. While there are no issues with shareholders deciding on the various funds to be created, DFIs are better placed and resourced than departments to decide on the funding criteria that are likely to yield the desired results without defeating the larger objective of the DFIs. The research found that some of the funding criteria are not designed for loans but instead they are more applicable for grant funding. While DFIs are aware of this shortcoming, they are however obliged to comply as they are only the agent of the principal. In this case the DFIs do not pursue different objectives instead they comply with the principal's conditions at the peril of the DFI, which shows in the rate of the non-performing loans on their books.

Smyth (2011) proposes various solutions to the principal-agent problem. Among them is the need to construct the principal-agent relationship as a rule-based delegation by the principal to the agent, limiting the agent's discretion. Government seems to have adopted Smyth's (2011) solution of limiting the agent's discretion; unfortunately, this means limiting the agent's expertise and professional application that distinguishes public entities from government departments. In other words, the value-add of the DFIs is limited by this approach from government. The structure of the DFIs is supposed to allow them to have in-house expertise on development finance, such that their

decisions to finance business operations are informed by their technical knowledge. The quest to comply with government conditions of the funding renders their expertise less useful in promoting sound business principles to those that are funded.

This theory is not without limitations. According to Hawkins et al. (2006), the key concern of the principals is 'agency slack', which refers to an independent action of the agent that is contrary to the principal's requirements. Slack may occur in two forms, 'shirking', which occurs when an agent adopts a 'go-slow' approach in delivering on the results desired by the principal; and 'slippage', which is when the agent drifts away from the outcomes of the principal (Hawkins et al., 2006). The theory assumes that the principal is always right in his demands of the agent and as a result, the agent has no recourse mechanism except to resign. This study revealed that agents, in this case the DFIs, experience various levels of frustration with the principals, which are their mother departments, yet there is little they can do. The principal-agent relationship as described and discussed by various authors is one sided and the entire failure risk is associated with the agent. Shirking, for instance, can be on the side of the principal (the principal can adopt a 'go-slow' attitude in playing its role towards enabling the agent to achieve the common goal). The study found that when DFIs are established and service level agreements signed, there are responsibilities for both parties; but, the existence and pursuance of common goals do not guarantee the delivery of the desired results and the failure thereon can come from either party.

There is room to improve the usefulness of this theory because the agency theory, while providing a very good basis for understanding the dynamics between principals and agents, is biased towards the principal. There is a need to extend its application towards managing the relationships effectively to ensure achievement of the common goals. It is not only about the agent not pursuing the goals of the principal, it is also about the principal failing to fulfil its role towards the achievement of the goal. Research has shown that the agency problem (conflicts arising from divergence between agents' and principals' desires and goals) is real and intractable (Lan and

Heracleous, 2010). However, a large and growing body of empirical research has failed to define or describe the efficacy of the ways to mitigate the agency problem.

9.2.2 Accountability theory

Accountability is only possible when the governed are separated from the governors (Grant and Keohane, 2005). According to Carrington et al. (2008), accountability is one of the several methods of constraining power for the benefit of those represented. The relevance and importance of the theory of accountability for DFIs comes from the understanding derived from Bentham's principle that "the more strictly we are watched, the better we behave –we give an account only when it is requested, and only when that request is backed up by power" (Butler, 2005:11).

DFIs are government entities established and given a mandate by government. They are funded with taxpayers' money. When government uses taxpayers' money, Parliament requires government to account. For this reason, government has the responsibility to monitor all the resources for the purpose of safe guarding state resources with which it is entrusted. It therefore follows that when DFIs are established by government and entrusted with resources for a specific purpose, government has to monitor them to ensure that both specific and broader government objectives are achieved.

The study revealed that all DFIs report on a quarterly basis to government on their performance; reporting is the accountability mechanism established for the DFIs. When government requires DFIs to set performance targets in their plans for approval by the mother departments, the rationale is to keep the DFIs in check with regard to their performance. Quarterly and annual reporting become the monitoring mechanism for DFIs to account for their existence as an extension of government. According to Butler (2005), DFIs are likely to perform well, knowing that they have to report on a quarterly basis.

The success of this theory lies in the expertise of the authority responsible for monitoring those who are governing. For instance, holding DFIs to account to government departments requires that

departments should have the expertise to monitor the work and performance of the DFIs. However, the theory lacks depth in this area since it has been made clear that mere reporting does not prevent non-achievement of targets and objectives. The theory of accountability does not define accountability arrangements or any kind of framework to assist the accounting authority to hold those governing accountable for their actions.

Accountability is very relevant to the public sector due to its susceptibility to fraud and corruption. There is a need to detail the specifics relating to the depth of experience and expertise required from those responsible for monitoring others. For instance, the recurrence of non-achievement of targets reflects badly on those responsible for holding DFIs to account. No evidence of consequence management by the shareholder was found when conducting this study.

9.2.3 Bureaucracy theory

Weber regarded bureaucracy as the most efficient form of organisation because of clear lines of authority. In other words, bureaucracy is a rational and effective mode for organising activities of large numbers of employees as decisions are made according to general rules rather than the whims of officials or experts. Bureaucratic organisations have common features such as a high degree of division of labour, a well-defined hierarchy of authority, and formal and impersonal relations among the members of the organisation. Also common are interpersonal relations based on positions and not on personalities; the idea that all rules must be strictly followed and that only legal power is given importance.

The establishment of public entities including DFIs by government continues to be justified based on the action of efficiency arising from their operations outside government red tape. It is an admission that government is notorious for ‘bureaucratic blockages’, which is bad for institutions that should make quick decisions. Hence, the term bureaucracy has a negative connotation; it is presently perceived as synonymous with inefficiency.

This study found that while DFIs were created to be an efficient and effective arm of government to deliver on services, they are now stuck in their own bureaucracy. According to Miller (2008), the term bureaucracy in terms of organisation and management functions refers to the manner in which organisations work internally, i.e. how they are structured.

The DFIs in their attempt to improve on governance and eliminate or reduce the level of corruption and fraud in the approval of funding applications created internal structures that do not facilitate the efficiency and effectiveness so desired. Over and above their own processes and systems, DFIs in South Africa are expected to comply with government legislation, such as the PFMA, the Labour Relations Act, and supply chain management and treasury regulations. It is true that DFIs must have internal controls that are adequate and effective; however, it appears that in order to address such requirements they had to trade off efficiency and to some extent effectiveness. On the question of whether the DFIs are susceptible to bureaucracy like government departments, the answer is a resounding “yes”. The study confirmed that the DFIs lack internal capacity with some units that are dysfunctional with frequent complaints from customers on the turnaround time for funding applications.

This theory has attracted more criticism than affirmation. The fact that all decisions, rules and actions taken by the organisation are formulated and recorded in writing is both an advantage and disadvantage. Written documents ensure that there is continuity of the organisation’s policies and procedures, while at the same time for DFIs, it is important to have written criteria for funding enterprises. DFIs operate in this kind of environment and therefore they are bureaucratic in the same way as government departments. For instance, the limitation on this theory is its focus on the responsibilities of individuals as opposed to the organisation as a whole. It is rigid and therefore lacks flexibility to be responsive to the rapid changes in the business environment. Following rules strictly may not always be practical and best suited for efficiency and effectiveness in the DFI environment. It is true that the existence of internal rules and policies is important for good governance purposes; organisations like DFIs are expected to enable the private sector or

businesses to seize opportunities by responding promptly to the opportunities presented. For instance, a DFI policy may say 'all loan applications should follow a particular path and sequence' such as first-in-first-out. Overall, such a policy is good to protect all applicants (community being served). However, when one considers that applications target different areas, it becomes clear that applications for funding by DFIs cannot be treated in the same way. For instance, an application for bridging finance requires speedy processing to ensure that the opportunity is not missed, compared with an application for a start-up capital loan. Following the rule of first-in-first-out may result in lost opportunities due to longer waiting periods. One may argue that such practices should also be developed into a policy for the DFIs; however, it is not always possible to document all actions required to be followed to be effective. To be driven by rules may compromise innovation and creativity.

An improvement is therefore necessary to allow discretion within certain parameters. The application of innovations and allowing creativity aspects will improve the content and usefulness of the bureaucracy theory. Some applications for funding are rejected based on non-compliance with the instruction to complete the form. Completing application forms for funding is a very technical issue that is not easy for all the potential entrepreneurs requiring assistance from DFIs. Inadequate or poor completion of application forms bears no relation to the business idea and a catalytic project or the business idea can be overlooked due to technicalities in the application form. An important improvement therefore to the bureaucracy within DFIs would be to add criteria for exercising discretion by a delegated authority.

9.2.4 Performance management theory

Definition

Bucher (2007) defined performance management as management's systematic application of processes aimed at optimising performance in an organisation. In this definition, there is an emphasis on process that carries a negative connotation in the performer's perspective. Another

definition, by Weiss and Hartle (1997), is that performance is a process for establishing a shared understanding about what is to be achieved, and how it is to be achieved, and an approach to managing people that increases the probability of achieving success. Aguinis (2009) further argues that performance management is controlling all the steps of a process to ensure an efficient and effective result. This involves studying a process from beginning to end.

Contribution of the theory

The performance of the DFIs was reviewed against the performance management systems as defined by various performance management theorists. The goal setting and expectancy theories set out in this study posit that the involvement of employees in setting own goals in organisations will push them to work harder in order to achieve goals and performance targets. The study confirmed that in the DFI environment, employees are involved in developing performance targets for themselves and for the organisation as a whole. Despite this involvement, performance targets are not always achieved and yet these employees, especially at the executive levels, expect performance bonuses at the end of the year, in line with the expectancy theory. There was no evidence at all of a change in behaviour directed towards ensuring that performance targets were achieved on the part of employees. The assumption of these two theories is that employee involvement in setting goals and performance targets will elicit commitment to achieve targets, which did not hold for this study.

Performance management approaches are generally described within the context of a 'managing by objectives framework' (MBO). The MBO system includes factors such as the development of vision and mission statements, establishing strategic plans, defining key results areas, establishing goals or organisational objectives, establishing performance standards for each objective, and periodic measurement and assessment of status of each objective/standard. All these aspects of a performance management framework were found to be in existence within the DFIs. There is

compliance with the development of the performance management frameworks; however, the limitation was evident in the quality of these documents.

The literature on performance management, e.g. Barker and Rubycz, 1996; Rudman, 1995; Kaplan and Norton, 1996; Parmenter, 2010; and Marr, 2011 suggests a plethora of benefits and purposes that are designed to make organisations more effective. Among them is the notion that performance management increases management control over work and results, increases management ability to identify 'red-flag' issues early, while linking employee objectives and functions to overall organisation objectives, thereby creating a sense of contribution for the employee. More benefits include the motivation of employees by allowing them input into and ownership of their objectives and standards of performance and the enhancement of communication by ensuring that there is clear understanding of management expectations about results. Support of remedial action or disciplinary action because of a breach of standards can be defined objectively and in a measurable way. It is an added benefit, along with the provision of a system where feedback can be given to employees on a more objective basis, and not on management's subjective criteria, while providing objective criteria that management can use to make decisions regarding pay scale and promotion.

The public service performance budgeting framework is crafted along the same lines as performance management theories. Public sector organisations are required to have strategic plans, annual performance plans, quarterly reporting, performance contracts, and quarterly performance assessments. The government framework and the theories assume that the existence of these documents will lead to the attainment of the strategic objectives and outputs and eventually ideal outcomes from the institutions. The research shows that the mere existence of these documents does not translate into the attainment of the objectives. The DFIs' level of compliance, as far as compilation of documents, showed improvement over the years, yet the achievement of strategic objectives and performance targets is not comparable.

The research found that DFI annual performance targets were mostly not achieved and those achieved were not directly linked to the objectives of the DFI. Performance indicators were not always true indicators of the performance required and even where the performance targets were achieved, the overall organisational objectives were not achieved. One can therefore argue that those DFIs did not have an effective performance management system. In other words, management was not able to identify problems early and did not have control over the work and results that were to be delivered. Performance management requires management to focus on results and people in order to succeed. Focusing on results *per se* or on people *per se* is unlikely to bring the desired level of performance by the organisation. The non-achievement of performance targets by the DFIs can therefore be attributed to poor performance management system implementation, a weak governance system, and lack of management capacity to monitor performance.

Limitation of the theory (new insights from data)

Marr (2011) found that the lack of understanding of performance measures has led to most monitoring and reporting of measures failing to deliver. The casualty has often been the "balanced scorecard", a brilliant tool that can only work if the appropriate measures are in it. This view links directly to the findings of this study in that based on the data collected, the quality of performance indicators is a challenge for most DFIs. This translates into lack of understanding of performance measures or indicators. The gaps identified in the data relate mostly to the gaps in the development of performance indicators and their translation into actual performance, leading to the achievement of organisational goals and objectives. For DFIs, setting performance targets does not guarantee good performance, yet performance management theorists maintain that when organisations set performance targets and conduct reporting or performance appraisal sessions, performance will improve. This study revealed that organisational culture plays an important role in driving performance. The existence of a performance management system *per se* does not

improve performance. In short, the application of the performance management theories exposed limitations in two areas:

i) Lack of qualification of performance indicators that will link directly to the actual performance of an entity, i.e., performance indicators are only useful and reliable to the extent to which they measure actual performance; and

ii) The role of the organisational culture in influencing performance or effectiveness.

Improvement on the theory

Unlike private sector organisations, the public service performance environment is unique. There has to be a clear link between the culture of the organisation and leadership, which influences the performance environment with the performance management systems that are in place. When the leadership is unable to develop good performance indicators that link directly to the organisational objectives, the achievement of such targets remain meaningless in defining the effectiveness of the organisation. Integrity, ethics and culture in organisations is a key element for effective performance and therefore effective organisations. The fall of many private companies has resulted from poor governance that emanate from issues of management integrity and ethics. DFIs are also susceptible to these issues and in their attempt to look good in the eyes of the shareholder and the public, their reporting was not always supported by a portfolio of verifiable evidence and in some cases contradictory information was provided. Performance management theories can better define the DFI performance environment when the aspects of management integrity and ethical culture are included.

9.3 Reflecting on the research questions

Development finance focuses on the provision of public goods on which full or partial cost recovery is possible, contrary to public finance, which focuses on non-revenue generating public goods. Development finance therefore seeks to address market failures. The idea is that DFIs mobilise

resources for development purposes through investing in risky markets that are essential for growth. However, according to Gumede (2011), the role of DFIs has over time, evolved to include addressing development failures. Development failure refers to different types of failure, such as institutional failure, capacity failure, origination failure, information failure and failure to facilitate strategic partnerships.

According to Gumede (2011), institutional failure occurs when organisations do not implement the services that they ought to. When a DFI sets objectives and fails to accomplish such objectives it becomes an institutional failure. Capacity failure is due to lack of appropriate skills in the public institutions managing development as was evident in some of the DFIs. Origination failure arises when the public and market players fail to originate innovative ideas for development. Information failure exists when there is failure to overcome information asymmetry between the role players in development. Overall, this study found that most of these failures exist in some of the DFIs surveyed. This requires interventions, some of which are recommended in this study.

9.3.1 The contribution of DFIs to the economy based on their performance indicators

The interest in the role of DFIs in promoting development has increased, partly because their exposure has risen rapidly and partly because there is a growing recognition that aid agencies and DFIs need to create more impact with less funding (Jouanjean and te Velde, 2013). The studies show that there has been an increase in impact assessments of the activities of DFIs at the micro and macro levels. However, there is, still very little evidence of the effects of DFIs on job creation and profitability of funded enterprises. The study aimed to close this information gap by assessing the effectiveness of DFIs in achieving their objectives (job creation and profitability or sustainability of funded enterprises).

The performance indicators used by the DFIs relate to their outputs as opposed to outcomes, for instance, ‘the number of businesses funded’. This kind of indicator does not relate to the impact

such as the level of success of those funded firms or businesses. To make a conclusion on the contribution made by DFIs, the study looked at three major themes: the quality of the performance indicators and the opinion of the external auditors on the performance indicators and targets; the level of achievement of the performance targets; and job creation.

On the quality of performance indicators, the DFIs developed a myriad of performance indicators and targets that did not always measure performance, as it matters to the stakeholders. A number of indicators related to their internal operations. For those DFIs that had this challenge, it affected their delivery capacity. Though some performance targets linked to the indicators were achieved, there were cases of a complete disconnect between the indicator and the objective. This confirmed Meyer and Gupta's (2004) assertion that there is weak correlation between performance indicators and actual performance. The study found that there were officials (respondents) that were aware of the challenges relating to the quality of the performance indicators as they rated their organisations poorly. Performance indicators within DFIs did not always reflect organisational goals and were not therefore central to DFI success, as Parmenter (2010) suggests. While the auditors did not make negative findings on the usefulness, measurability and reliability of the performance indicators for some of the DFIs, the need to improve in this area was clearly evident. The DFIs need to improve their capacity to be able to develop pre-determined objectives, and performance indicators, and set targets that are quantifiable and meet the standard as set out in the programme performance management framework developed by the Department of Public Service and Administration.

On the achievement of performance targets, DFIs progressively achieved targets starting as low as 20% and reaching a high of 86%. With the service delivery challenges and the anticipation of the DFIs to provide countercyclical support for the business community and create or save jobs, one performance target not achieved is too many. Working with percentages, the performance of two DFIs was better than the other two, in terms of the rate at which performance targets were achieved. Linked to the non-achievement of the performance target is the issue of performance

management within the DFIs. When there are performance management systems in place and they are activated, one would expect the level of achievement of targets to reach at least 90%, given that DFIs set these targets based on historical information and their existing capacity.

With all the oversight structures that are in place in terms of good governance, this should be the main agenda item for audit committees and boards. The study finds that performance management processes within the DFIs need to be improved and all the stakeholders should play a role in ensuring that once Parliament approves annual performance plans they are implemented and visible efforts to achieve the set targets should be monitored.

On job creation, DFIs used to report only the number of employees in DFI supported firms/enterprises. However, job creation measures have become more sophisticated over time. Of late DFIs are examining the indirect jobs generated and also induced effects and second order growth effects. This is critical because the employment effects in other projects are mostly indirect; therefore, reporting only direct jobs created is an inappropriate measure. All the DFIs contribute to the creation of employment opportunities and it is evident that all DFIs assess the potential of job creation from the enterprises they fund.

However, the challenge is that the reported numbers on job creation are based on funding applications or business plans. Assuming that the reported numbers in the annual reports of the DFIs are a true reflection of the jobs created and/or saved each year, funding of firms especially the SMMEs, created more than 13 000 jobs in the 2011/12 financial year. The study revealed also that job creation numbers are not proportionately related to the amount of the loan approved, instead it depends on the sector. There are cases where R100 million is used to fund businesses that only yield three to five jobs. Overall, the DFIs have made an impact developmentally as there are a handful of successful entrepreneurs created by them. However, there is room for improvement in the formulation of performance indicators, setting of performance targets, and monitoring the achievement of the set targets.

The PFMA enacted over a decade ago sets the foundation for public sector governance in South Africa and was quite revolutionary. The PFMA establishes clear roles and responsibilities and assigns the duty of utmost care and skill not only to the executives but also to directors. The poor performance of some DFIs makes it difficult to confirm that "duty of care" was carried out by executives and directors. The success of government legislation is determined by the ability of authorities to ensure proper implementation and compliance and to utilise the mechanism within that legislation to address non-implementation. The study did not show any evidence of directors, executives, and accounting authorities held liable for not achieving performance targets. It is therefore necessary for the DFIs to invoke relevant clauses from applicable legislation to deal with performance challenges.

The effectiveness of the DFIs lies in their ability to close the funding gaps in the market. Despite all the post-1994 arrangements to cater for SMMEs and previously disadvantaged individuals, it is clear that government still sees the establishment of DFIs as a solution to growth and development particularly in the SMME sector, evidenced by government action to establish another DFI in 2012. This new entity aimed at addressing funding constraints for small, micro and medium enterprises has been named the Small Enterprise Finance Agency (SEFA). This DFI is a 100% IDC owned subsidiary, aimed at servicing small businesses in need of funding of up to R3 million. This shows government's realisation of the potential of SMMEs to create the jobs that are desired. From this study, a possible blind spot from government's perspective, was the establishment of the DFIs without ensuring their effectiveness, which may not yield the expected results in terms of growth and development.

Studies conducted by e.g. Business Partners, 2014; Ladzani and Netswera, 2009; Carpenter and Rondi, 2000) indicate that more than 50% of people in formal jobs are employed by SMMEs and more than 60% of new jobs created every year are created by SMMEs. It is therefore not surprising that government continues nurturing SMMEs; however, increasing the effectiveness of the existing

DFIs will yield more results in job creation and increase the number of profitable private enterprises.

9.3.2 DFIs and funding criteria

An important aspect of the study included finding answers on how DFIs make funding decisions. The study showed that all DFIs had funding criteria, but such criteria are not always applied or adhered to rigidly. It revealed that funding criteria were used as guidelines and that they differ from fund to fund. The study confirmed that the objective of the fund supersedes the set criteria in most cases. For instance, the requirement for equity can be waived in order to finance an application for a youth group from the youth entrepreneurship fund. This means that even if the set criteria states that the applicant must have 20% equity in order to qualify for loan funding, such criteria can be waived if a youth applicant does not have the equity required. Funding decisions are often made based on the purpose of the funds. It is therefore possible that errors on the viability of projects or businesses will be due to the importance that is placed on the objectives of the funds and who is making the application as opposed to the quality of the applications and the viability of the business concept. The effectiveness of the DFIs can be improved by adhering to the funding criteria that has been approved, taking into consideration the purpose of each fund.

9.3.3 DFIs' ability to create sustainable firms or enterprises

The third research question asks whether DFIs have the ability to create sustainable or profitable enterprises. The effectiveness of DFIs depends on various dimensions, as presented in Chapter 8. The identified performance indicators combined with the Thorne and Du Toit (2011) model provides an enhanced and detailed framework to assess the contribution of DFIs in the economy and their effectiveness as state entities. This question can be answered by using the combination of factors that contribute to the success of DFI operations. The financial standing of DFIs themselves is important in determining their ability to create sustainable enterprises. Looking at the model in

Figure 9.1, the focus for this question is on the performance assessment and financial sustainability dimensions that examine whether DFIs make a difference and how they are funded.

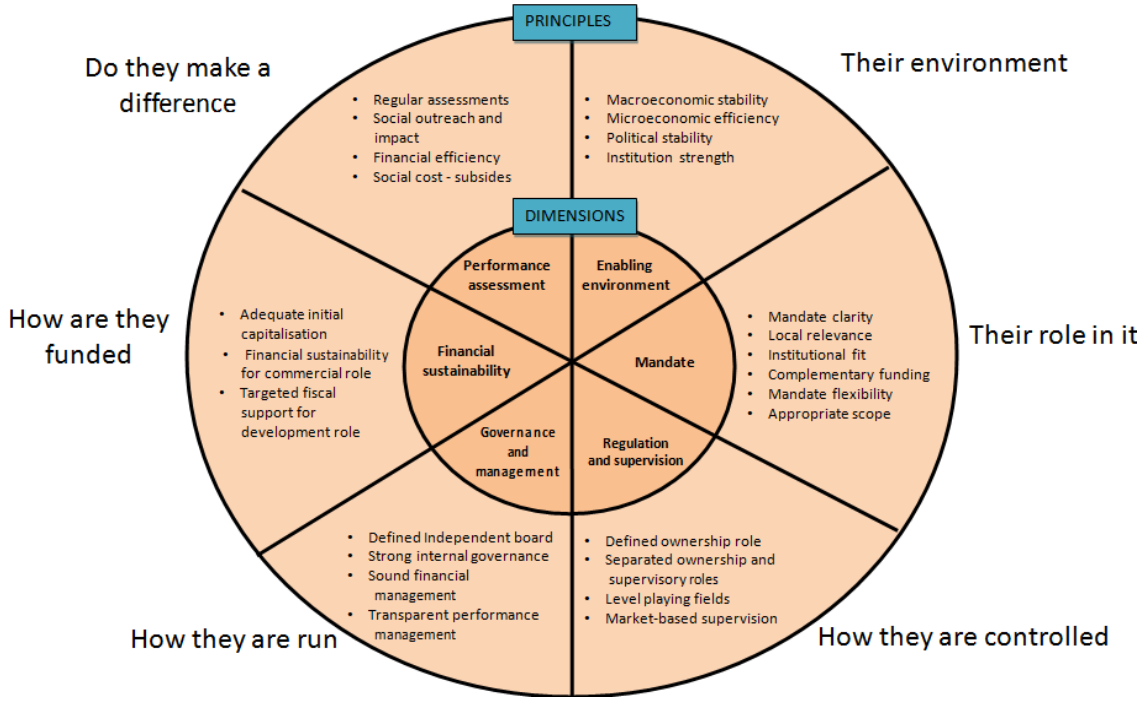


Figure 9.1: Dimensions, principles and performance measures for DFIs

Source: Adapted from Jarvis, 2013

The study revealed that DFIs do make a difference; however, the manner in which they are funded differs. While they were all capitalised at the inception stages, there are differing views on the adequacy of such capitalisation particularly for NEF and Ithala. The study also reviewed the level of their profitability. The findings on this aspect differed greatly as some DFIs posted profits as high as 22% in 2011/12 whereas others had loses. The concept of the profitability of DFIs was examined in detailed to separate "true profits" from "perceived profits" as a strategy to ensure that DFIs take steps to remain as 'going concerns' and continuously improve their level of profitability to reach self-sufficiency.

Five levels of performance of the DFIs are necessary to reach the stage of self-sufficiency (Schreiner, 1999). Each level is necessary but not sufficient; the lowest level is that of accounting profitability.

This implies positive net income before tax, and it means the DFI met its obligation and maintained its normal size. Most DFIs suffer from poor profitability such that when this level of profitability is reached, it is over-exaggerated. Accounting profitability is usually misleading as it excludes other costs and taxes, but without this level of profitability a DFI is dying. Even with the grants or subsidies, this DFI is shrinking in nominal terms; it might also be shrinking in real terms. Based on this study, 75% of the DFIs met this level of profitability. The second level is operational profitability; this refers to true profits, i.e. accounting profit less taxes and discounts. An operationally profitable DFI could have met its obligations and maintained its nominal size even without subsidies, but it might still be shrinking in real terms. Financial profitability is the third highest level; a DFI is financially profitable if true profits are positive even after compensating for the effects of inflation. However, it might still shrink in real terms if it replaced debt from donors with debt from the market. Financial self-sufficiency is the fourth level; a DFI is financially self-sufficient if true profits are positive even after compensating for the effects of inflation on subsidised resources and after replacing debt from donors with debt from the market. It could meet its obligation without shrinking even without government budgets or donors. This level of profitability makes managers comfortable because they can keep their jobs even if government has not been providing any budget. Financial self-sufficiency matters from all points of view even though it is not adequate for good performance for society or investors. From the surveyed DFIs, only the IDC has reached this level of financial self-sufficiency. The highest level of profitability is that of private profitability. It means true profits are high such that the DFI could have replaced all of its subsidised resources with market resources and still meet its obligations without shrinking in real terms. There is a need for all DFIs to improve on this aspect.

The ability of the DFIs to create sustainable enterprises exists, but a number of factors contribute to business sustainability. Some DFIs were found to be lacking in the area of providing non-financial support to funded enterprises. Even in those DFIs where non-financial support units are provided for, they were not functional. The surveyed DFIs lack greatly on the mentoring and coaching

aspects. Providing funding to enterprises without providing skills support will continue to lead to the failure of funded enterprises. There is a need for all the DFIs to improve their support, mentoring and coaching of enterprises during the funding stage.

Nonetheless, it would be unrealistic to judge the effectiveness of the DFIs by the number of firms that have existed for a number years. For this reason, the sustainability or viability of funded firms was assessed mainly from their ability to settle their loan debts and the amount of debts that DFIs wrote-off due to non-repayments. The NEF had the highest incidence of failed ventures or firms in KZN, which equalled 41% over its term.

While Ithala wrote-off over 7% (R635 million) of its loans over the 10-year period, IDC wrote-off less than 1% (R1.9 billion) of its loans. Based on these numbers, it can be concluded that DFIs have been able to create sustainable enterprises; though the success rate is not satisfactory due to the relatively large amounts of money written-off, contributing to fruitless expenditure.

The role of DFIs is to close the finance gap by providing risk capital to crowd-in private sector investment; this considered, the perception of DFI failures changes. Jarvis (2013) suggests that DFIs are a form of government intervention in the financial system, with the aim of addressing market failures in the provision of finance; therefore, a failure risk is inherent. The tolerance rate of such risk needs to be factored into the calculations before a judgment is made on the ability of DFIs to create sustainable firms. DFIs, by virtue of their mandate, provide finance in the market segments that commercial financiers will not enter. Their mandate includes segments or projects with social benefit exceeding commercial benefit or those projects with long lead times, new or risky ventures, such as financing start-up businesses with no experience or technological requirements and those with no collateral at all. The operating environment of the DFIs is diagrammatically represented in Figure 9.2.

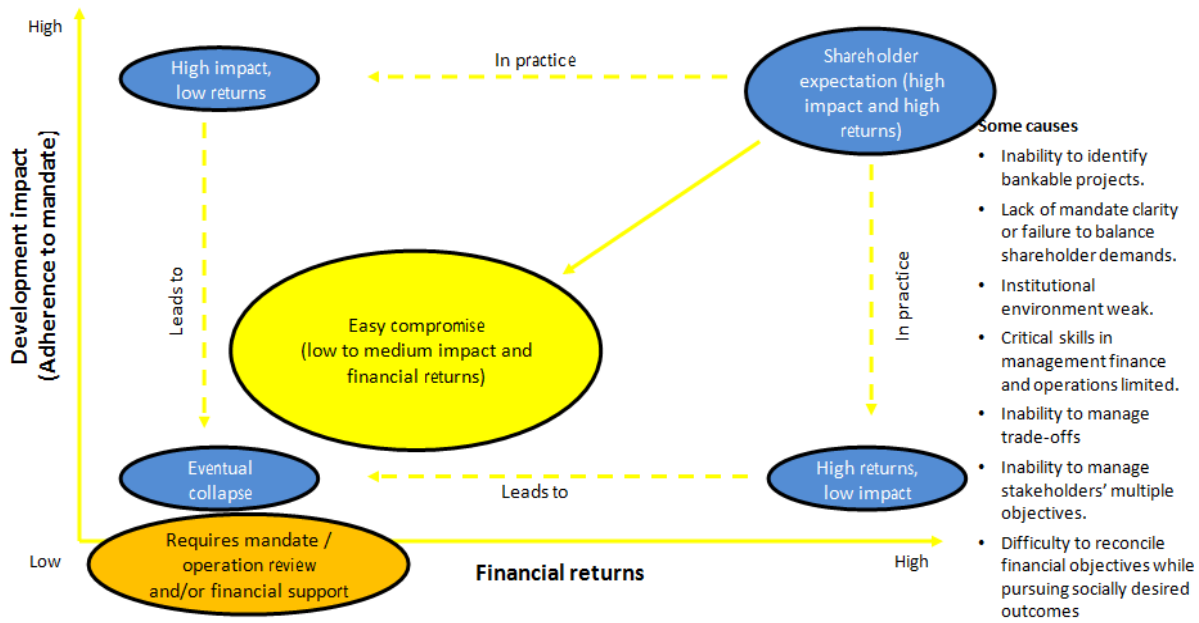


Figure 9.2: DFIs operating environment

Source: Adapted from Jarvis, 2013

Figure 9.2 shows the relationship between development impact and financial returns from DFIs and the expectations of shareholders. It provides a clear picture of the role of the DFIs, i.e. they are not designed to offer grants, or to operate as commercial banks that offer loans at market related rates and require stringent criteria and collateral. They are established to take risk in the financial market to facilitate economic growth and development.

Given this kind of environment, it is important to recognise the DFI paradox to support development objectives of government (creating sustainable enterprises that generate employment and eradicate poverty), yet remain financially sustainable. The ability of DFIs to create the required sustainable enterprises has to be discussed in the context of the development programmes, which they are supposed to execute.

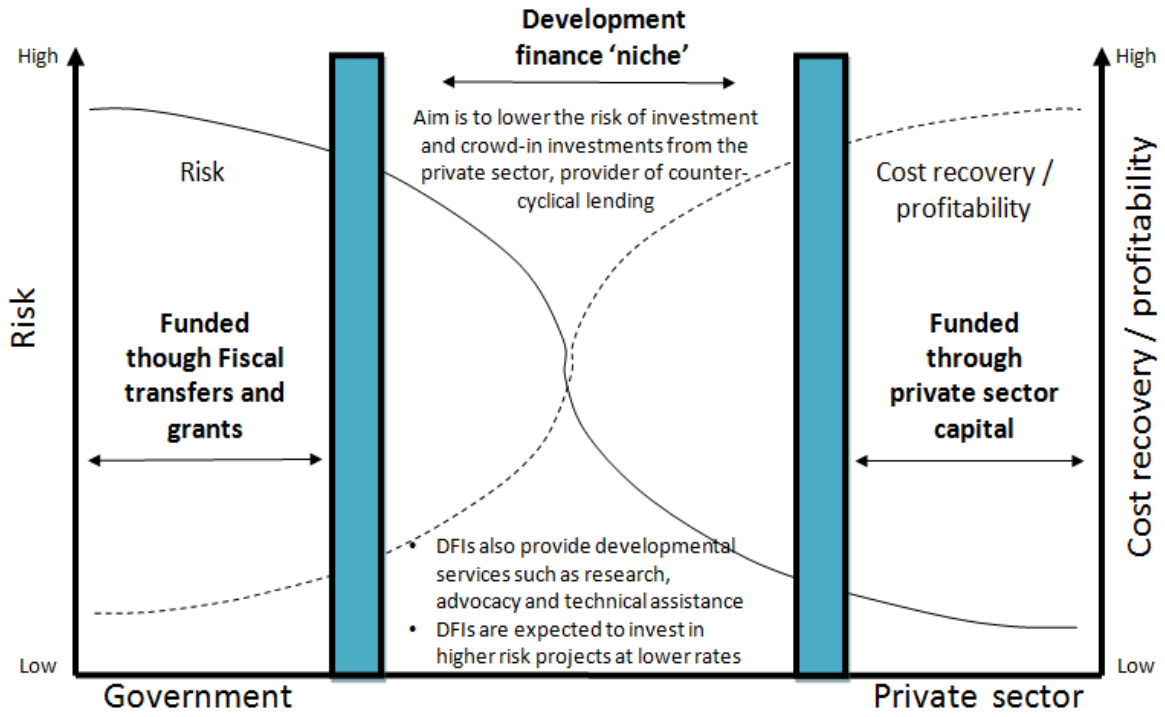


Figure 9.3: DFI paradox/dilemma

Source: Adapted from Jarvis, 2013

Figure 9.3 represents the kind of environment where DFIs operate; DFI involved in capital projects suffer from shareholder pressure to engage in projects with high impact and high return. Figgure 9.3 shows that this is mostly not possible; if it happens, the projects do not last long enough, and instead they collapse. This is also the case with DFIs involved with business financing and development, there is a need for high economic impact projects, which should yield high returns in a short space of time. It is therefore considered more effective to accommodate smaller projects or businesses that start with a very low external financing requirement. The DFI can provide the support, not only financial but technical as well, for the enterprise to move from being a micro enterprise to one that is medium sized.

Because of the risk that DFIs take in the financing market, one expects that they will not achieve a 100% success rate in terms of the performance of the loans. Therefore, it should not be surprising that their loan books are not always good. Even if only 40% of the funded enterprises succeed, the

economic impact of such enterprises far exceed the 60% loss in the form of enterprises that failed to reach sustainability in the market.

9.3.4 Support and monitoring of funded enterprises

The fourth research question asked whether DFIs offer non-financial support to funded enterprises and if not, what kind of support is needed. The study confirmed that all the DFIs have within their organisational establishments, units that are meant to provide non-financial support to funded enterprises. This confirms the understanding that their mandates do not end with providing finance, but involve providing relevant skills and mentorship to make the enterprises succeed in achieving the objectives and targets as contained in their business plans. Due to red tape and capacity issues, most of the DFIs have not provided adequate support to funded enterprises. This study found that the reason for failure of funded enterprises is mainly lack of business management skills. This falls squarely in the radar of the DFIs to train and provide mentorship to all the enterprises funded. The existence of mentorship, supporting and coaching facilities within DFIs raises the question about why there is a consistent failure of businesses as the study has confirmed. The study revealed that the kind of mentorship and business support provided may have not been effective or it could have been limited in terms of scale as enterprises failed because of lack of business management skills.

9.3.5 DFIs general performance

The study confirmed that the DFIs work within a structured environment. All the DFIs had ministers or MECs, or government departments that they report to and boards that served as accounting authorities. The boards have committees that are delegated to provide closer guidance and oversight to the CEOs and executive management. The annual reports provide clear insight into the governance arrangements within the DFIs. Operationally, the DFI environment is characterised by a clear divide between the DFIs themselves and the shareholder (government). During the interviews, the respondents often referred to the government requirements with which DFIs have

to comply, irrespective of how such requirements affect their operations. There are cases where it appeared that DFIs believe certain things have to be done in a particular way; however, they cannot do so as the government requires them to function in another way. For instance with Ithala, the respondent indicated that the conditions of the funding used as criteria are developed by the government; the conditions do not support the vision of Ithala as a DFI, but Ithala continues to implement. TIKZN, for instance, is of the view that their funding limits their ability to attract FDI and promote exports, but government decides their budget; hence, they have to work within that budget. The respondents from the DFIs were of the view that the kind of expertise within DFIs cannot be replicated within government departments. However, this was not evident in their performance as the study revealed that some of the DFIs were not able to develop appropriate performance targets and indicators due to lack of training.

9.4 Reflection on the research objectives

The study had three broad objectives:

i) To inform government about the level of achievement of the DFIs;

ii) To review the effectiveness of the DFIs in pursuing their mandates; and

iii) To establish value for money on the DFIs spent.

The study investigated the three areas in detail. For instance, Chapter 8 is the summary of the performance levels of the DFIs surveyed. Of particular interest is the finding that DFIs are not always achieving their performance targets and that they are not fully equipped in selecting performance indicators that always measure their core functions and level of service delivery. This presents an opportunity for the transformation of the DFI operating environment. How can government as the shareholder of these entities ensure that they select appropriate performance indicators and set targets that measure the actual level of performance and that such targets are achieved? Recommendations for improvement in this area are presented in the next section.

Different viewpoints were presented on the value for money spent by DFIs. The argument of DFIs not being effective due to their failure in funding only the enterprises that succeed at the end may not be justified fully, because the handful that do succeed make a meaningful contribution to the economy that would have been overlooked if the focus of the DFIs was the same as that of commercial banks.

Those firms that close down, for whatever reason, can be regarded as a cost incurred by the DFI to have those that succeed and thrive. There is value in the DFI's spending that translates into a portion of successful entrepreneurs. On the question of whether government should continue to fund DFIs even though there are no comparable benefits to the costs of running them, it is clear that development is a process that takes time and resources to yield intended benefits to full scale. It is likely that if government pulls out, it will have adverse effects on the economy; rather a gradual process of working on various mechanisms to increase the rate of success of funded firms should be followed.

In the public service, effectiveness refers to the degree to which a government agency meets the need for services at an acceptable level of service delivery. Declaring DFIs as ineffective due to the number of firms that fail after receiving funding would imply that they should operate in the same way as commercial banks, while they are meant to invest in risky markets. When government assumes the risk, there is an understanding that there are chances of not succeeding. The relevant question is, what minimum acceptable level of service delivery by the DFIs (failure tolerance rate) should be?. This study has revealed that there is more to the DFIs' role than a debtors' book; therefore, when DFIs are able to create a handful of thriving and successful entrepreneurs, the spin-offs are much more than the costs of those enterprises that fail. The economic benefits from successful enterprises create value-add for DFIs.

9.5 Recommendations

There is a need to boost DFI capacity to enhance their contribution to growth and development. Enhancing the capacity of the DFIs includes the review of funding mechanisms, a review of the governance arrangements, securing the best talent irrespective of race, and introducing working collaboration among the DFIs as a sector, and mechanisms for sharing information and learning. In successful developmental states, a partnership exists between the public and private sectors from which resources are pooled for growth purposes. As indicated in Chapter 1, development finance aims to lower the risks of investment by crowding-in private sector investment. This study revealed that not all the DFIs in KZN have been able to crowd-in private sector investment. Therefore, there is a need to steer DFIs along this route by creating an enabling environment and boosting their capacity to do so.

The enormous investment made by government in DFIs is evident. DFIs have a competitive advantage over commercial banks as they are capitalised by the state and therefore they should have high levels of liquidity. The research shows that while some DFIs were capitalised and able to adapt and move to a level of self-sufficiency from sources of funding other than government, most still depend to a larger extent on government for their survival. This is particularly true for the DFIs whose mandate is to service SMMEs with smaller loan amounts. Like any business, return on investment is important. For the DFIs, the government as the shareholder and public at large who are taxpayers are interested in the returns that should come, in the form of thriving firms who are able to create job opportunities that lead to the alleviation of poverty. It is therefore crucial for the DFIs to produce thriving firms and SMMEs in particular. This requires DFIs to work hard in their attempts to ensure that all those entrepreneurs with a potential to thrive are assisted to do so. If 40% of funded entrepreneurs can reach a thriving stage, the results thereof in the form of job creation and increased income and reduced poverty levels will compensate for the 60% of enterprises that closed down.

When government introduces reforms that are aimed at enhancing performance of the public service, all government entities should be introduced to such reforms in the early stages. During the interviews, it was discovered that when the PFMA was introduced, DFIs were not included in the government implementation programme resulting in delayed systems and controls to comply with this legislation. A number of other reforms were subsequently introduced, including performance based budgeting and performance management development systems, while other accountability frameworks were not formally introduced but made compulsory for the DFIs. This led to the DFIs lacking capacity to implement these reforms since they were not formally introduced and no assessment was made of the resource requirements to implement such reforms.

The late start of the DFIs to prepare annual performance plans compared to government departments is a symptom of this challenge. This led to delayed capacity to develop predetermined objectives and performance indicators that meet the standard. While government departments started in the late 1990s, developing capacity and working on the annual performance plans, this study showed that DFIs only started three to four years ago (2008/09).

Achieving organisational objectives and targets is largely shaped by leadership and management. The findings that DFIs were consistently not able to achieve their performance targets can be interpreted to mean weak leadership and poor management. As a best practice it is recommended that the review of organisational performance be done at all levels of management from the supervisory level, to management, executives and CEOs. The performance scorecards of the CEOs should be taken directly from the annual performance plans of the DFIs. This will assist the boards to manage the performance of the DFIs at two levels; organisational performance for reporting to the executive authority (shareholder); and managing the performance of the CEO on a quarterly basis. This will mean that when the DFIs have not achieved their performance targets, the CEOs would have not met their performance targets in terms of their performance contracts. Those in leadership positions, such as the CEOs of the DFIs have the ability to exert greater influence by virtue of the greater authority, power, visibility and easier access to resources afforded to them

due to their roles in ensuring that DFI performance reaches acceptable levels. Considering that leaders teach others what is acceptable and desirable by what they say and do, when CEOs are not monitoring performance as often as possible, others learn that it is not important to monitor performance. Poor performance in organisations is associated with bad or poor leadership. Good leadership, as seen in the effectiveness of organisations, is often referred to as effective leadership, which leads to effective organisations, mainly because such leaders achieve organisational goals. Effective or good leadership extends to leaders that uphold sound ethics and take responsibility for the actions of their followers.

To mitigate the risk of non-achievement of performance targets, the boards should adopt 'the review of performance' as a standing item on their agenda and this should be done against performance targets. On a quarterly basis, the deviation or variance level in performance should be motivated and mechanisms to make up for the non-achieved targets should be clearly explained to the boards. It is a legal requirement that directors need to be appropriately skilled to know what questions to ask and be proactive in whatever they are supposed to be doing.

The boards of DFIs should be pro-active in ensuring that strategic plans and annual plans have tangible outcomes, and rigorous implementation strategies. Effective governance for DFIs is a function of skilled, ethical and visionary boards of directors. The non-achievement of performance targets attests that there are some deficiencies in the governance of the DFIs. The study revealed that processing funding applications takes a minimum of three months for the simple applications, where only bridging finance is required with signed contracts as security. Other applications take as long as 24 months to reach approval stage. This confirms that despite the independent nature of DFIs, they are still characterised by protracted decision-making and lack of performance.

Good governance is not just about compliance, but more importantly about performance. Good governance practices assist entities to deliver on their objectives, through the setting and execution of the strategy and the measurement of the level of quality of the strategy implementation

throughout the entity. This also requires performance policies and procedures, and reporting processes. It is therefore important for the boards and audit committees to ensure that corporate governance structures and board reporting processes are not so focused on the compliance side that inadequate attention is paid to performance. The boards should monitor performance against strategy. This however requires formalised and ongoing reporting processes that call for corrective action where necessary. Furthermore, DFIs should be able to serve as a model for corporate citizens as envisaged by Heath and Norman (2004). This means that DFIs in South Africa could employ more women, provide training opportunities, and employ disabled persons; they can also open up their supply chain to SMMEs and provide them with greater procurement opportunities as part of development and transformation as envisaged in the Constitution. This goes with the requirement of DFIs to be transparent and professional, and adhere to good governance. DFI transparency and professionalism can earn them credibility to possibly ensure that the private sector pools financial resources for development purposes.

9.5.1 DFIs focus for effectiveness

The study revealed that a DFI will be effective when the governance arrangement is in order, i.e. when there is role clarity among all stakeholders, when roles are respected, and when policies and procedures are followed. This has been referred to as an enabling environment. Financial sustainability is another key element that talks to the effectiveness of DFIs; adequate capitalisation of DFIs at the inception stage contributes greatly to the long-term sustainability of the operations. The number and size of performing loans is a key element in creating an environment where DFIs are able to build their own reserve and ultimately become self-sufficient. The higher the amount of non-performing loans the less the opportunity for the DFIs to

be able to make their own reserves and generate revenue. The last element is that of leadership and management; without good leadership and management the DFIs cannot be effective in delivering on their mandate. The effectiveness of DFIs rises and falls with leadership and

management calibre. The culture at the leadership level drives the culture within the organisation. Management ethics and culture, which is linked directly to the leadership, has a direct bearing on the performance of an organisation. Figure 9.4 summarises the DFI environment with respect to the three categories concepts emanating from literature, that together define the effectiveness of DFIs linked to the effectiveness indicators used in the study.

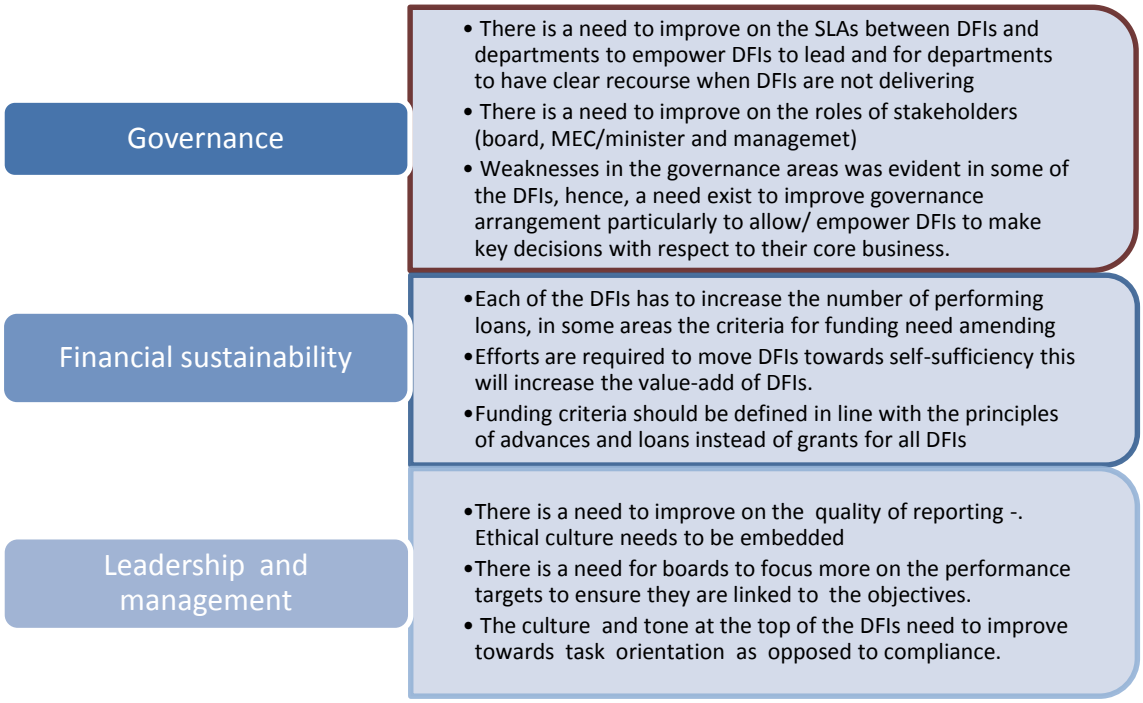


Figure 9.4: Effectiveness of DFIs

9.5.2 Sustainability of funded enterprises

The purpose of development finance is to kick-start economic activities in the hands of the private sector. This means once private firms are assisted to start, they should be able to generate economic activities and continue on their own. The dependency of private enterprises on DFIs for funding is an indication of a problem and poses as a risk to the fiscus. The BEE codes that big and medium size companies are required to comply with, have 'enterprise development' as one of the components. The efforts by big corporates to comply with this requirement have value for creating and supporting new businesses, but it is incomplete as they are not able to graduate businesses

into full commercial markets. It will therefore assist if the DFIs can measure their success in developing SMMEs by measuring the success of firms or enterprises funded through indicators such as 'sustainability and profitability of the funded enterprises'. With the right objectives and measures centred on financial performance, it may be possible to build sustainable SMMEs that will bring the benefits of employment and growth as envisaged in the development finance principles.

The study revealed also that the lack of understanding of good governance on the part of the SMMEs themselves contribute to their failure in the market place. Lack of understanding of good governance came up as part of the lack of business management skills. Often governance is taken as a practice designed for large firms and therefore interpreted as beyond the reach of the SMMEs; whereas, governance is the key driver for building successful SMMEs. It is also an important tool to mitigate the risk of total business failure and it is an enabler in improving business performance. It can be a burden and cost for SMMEs to implement the Code of Good Governance (King III) recommendations, as the benefits thereof are not comparable to those of the big firms. However, there is a need to implement good governance in an SMME environment such that its value is realised. It is therefore recommended that code of good governance for SMMEs be developed. Government can facilitate the drafting of this code in some way, since government is the biggest loser when it comes to the financing of the SMMEs.

The mentorship and support provided to SMMEs by the DFIs needs to be improved. In some of the DFIs a complete overhaul of their non-financial support units is necessary. These units can also include a systematic and integrated approach to support SMMEs to understand the code of good governance and fully realise its benefits. According to the 2012 Global Entrepreneurship Monitor (GEM) report, only 14% of Africans intend to start a business in the next three years, compared with 43% of Chileans, 36% of Brazilians, 20% of Chinese and 19% of Thais. A lack of interest in private business means fewer economic opportunities and more dependence on government.

9.5.3 The importance of entrepreneurship versus rate of non-performing loans

The study shows that all the DFIs have a certain number of loans that are not performing leading to impairment and finally write-offs of such loans. This becomes fruitless expenditure and leads to public outcry by citizens when annual reports are published with huge write-offs. The reality however, is that because DFIs invest in high risk segments compared to commercial banks, it would be a fallacy to expect 100% performing loans from them. Studies suggest that the role of entrepreneurship includes promotion of capital formation, creation of large-scale employment opportunities and promotion of balanced regional development while reducing the concentration of economic power and stimulating wealth. Entrepreneurship also has the potential to increase gross national product and per capita income leading to improvements in the standard of living resulting from induced backward and forward linkages and facilitates overall development (Schreiner, 1999; Jouanjean and te Velde, 2013; and Ladzani and Netswera, 2009).

Government is criticised publicly for failing to create jobs in South Africa, despite billions of rands spent as incentive grants for expanded public works and other programmes. The establishment of DFIs is aimed at contributing positively to economic growth, by supporting entrepreneurs in South Africa. This emanates from the understanding that entrepreneurship contributes to social wealth by creating new markets, new industries and technology, which leads to job creation and net increase in real productivity. Studies suggest that the correlation between the level of entrepreneurial activity and economic growth is greater than 70%; hence, all nations with higher levels of entrepreneurial activity have above-average rates of economic growth (Jouanjean and te Velde, 2013).

Government must promote an entrepreneurship culture in South Africa by eliminating possible hurdles to starting one's own business. A lot has been done for instance, in reducing legal hurdles, capital hurdles and costs. A special focus on addressing human capital hurdles to entrepreneurship is proposed in this study. An introduction of a supporting educational system that produces a

combination of specialist and generalist skills will go a long way to addressing the failure rate of funded firms. While it is noted that South African academic institutions offer entrepreneurship as a course or subject from high schools to tertiary institutions, it is only offered as an optional choice (e.g. for a group of learners that are interested). The curriculum from high school to tertiary institutions should include practical business skills, such as preparing of business plans, how to register a company and general accounting skills across all learning disciplines. In the same way, as university graduates think they are better equipped for employment, they can be better equipped to create jobs.

Government, through the DFIs, should foster human capital mobility between universities and the private sector in order to transfer skills, new ideas and innovations, and foster a culture that encourages risk-taking and accepts failure as a permissible social and individual norm. As Abraham Maslow (1943:169), states "as nations sort out their priorities for the coming years, fostering entrepreneurship must be a corner stone of their economic policy so as to ensure that global change remains their ally and never become the enemy".

9.5.4 DFI mandate and activities

The study found that there is overlap of functions among the DFIs in South Africa. Though the mandates of the DFIs can be similar, their functions and focus of activities should not be the same. For instance, when one needs funding of say R5 million, Ithala, IDC or NEF could be approached as they all offer the same service in the same area. This calls for some kind of horizontal rationalisation. Streamlining the number of DFIs will save state resources and improve effectiveness. It was also not clear whether the DFIs reviewed their operations in keeping with the new requirement for DFIs to align themselves with national imperatives. Effective coordination is necessary for DFIs to create coherence and better synergy among activities. It appeared that provincial DFIs have no functional relation to national ones as there was no evidence of any sort of collaboration. Lack of coordination and collaboration has the potential to promote unethical

behaviour as firms can make multiple applications to the different DFIs using same business plans. If such applications are granted by more than one DFI, the ability of the enterprise to repay can be thwarted. Since different DFIs report to different departments, there is no mechanism for coordination. Monitoring, for instance, cannot detect duplications of activities.

In short, DFIs are required to be self-sufficient and should increasingly raise funds independently with or without government guarantees. DFIs should adopt prudent risk management policies and practices and since their mandate is clearly developmental, they must focus on delivering developmental outcomes. The need for a balanced set of skills within DFIs cannot be overemphasised considering the nature of their functions and strategic role in the economy. Therefore, for DFIs to succeed within the rapidly changing environment, they must meet a number of challenges that are currently leading to non-achievement of performance targets and failing the stakeholders, donors, customers and public. This requires sound governance and financial management, flexibility and the ability to balance cost-effective intermediation and risk management with outreach through partnerships, capacity building and knowledge management. There is a need also for DFIs to generate sufficient income through diversification of income streams.

9.6 Contribution of the study

9.6.1 Theoretical implications

From the data as presented in Chapters 4 to 8, it emerged that the theories used are not able to fully explain the findings. Hence, there is a need to improve the theories as indicated in Section 9.2. For instance, the performance management theories, particularly management by objectives and the balanced score card, suggest that by putting all the systems in place, such as strategy, performance reviews, and performance indicators and targets, organisations will be effective and be able to achieve objectives. The motivation theories, on the other hand, such as goal setting and expectancy theory propagate that involvement of employees in setting performance targets will

motivate them to work harder to achieve individual and organisational objectives. The research established that while DFIs had all the necessary documents and policies prescribed by government, the overall performance of the organisations was not necessarily satisfactory as performance targets were not always achieved and the quality of performance indicators was not always acceptable. This happened even though employees are fully involved in selecting performance indicators and setting performance targets for their organisations.

Therefore, performance management theories need to be expanded to include the aspects of 'enforcement'. Performance management is not only about the systems and appropriate documents; it is also about people. The culture of the organisation, as determined by the quality of leadership, plays a more important role in ensuring that organisations deliver on their mandates and objectives. The commitment and willingness of senior management in organisations to enhance performance and increase productivity supersede any kind of systems or documentation that can be produced.

This study shows that the performance management theory fails in two areas:

i) *Implementation:* Where the organisation lacks capacity to implement or decide not to implement a performance management system. This is the case in organisations with performance management systems, strategy documents, annual business plans and performance targets all in place.

ii) *Lack of candour in the implementation of the performance management system*: The process of performance monitoring, evaluation/appraisal is done as a 'tick box exercise'. When the process is only done to comply with the requirements, it does not assist the organisation in improving performance. Hence, the culture of the organisation contributes to its effectiveness. When there is no focus on ethics, values and integrity, performance management systems do not work; they are merely instruments used to pay out bonuses without due consideration of actual performance.

The study shows that the prescription of the requirements for documents by government has produced a culture of compliance instead of a culture of performance. While it is understood that compliance in and of itself is important, it is not sufficient. Leadership that creates a performance culture in the organisations is important to the DFI environment. There is no linear or sequential relationship that seems to be promulgated by the performance management theories. The deep-rooted problem of misrepresentation and not being truthful by leaders has contributed to the non-satisfactory performance of the DFIs. The public is rarely told the truth about what is going on within organisations; annual reports in particular seem to be used as publicity stunts for what good the organisations are doing. Every CEO wants his organisation to be seen to be effective and doing well in all respects. Hence, they turn to focus on achievements no matter how small they are, and this sometimes creates a complacency culture. There is a need for DFIs to be candid in reporting. The reporting of the DFIs is biased towards achievement at the expense of honesty; this seems to confirm that while most people agree on the importance of honesty, it is often difficult in practice, contributing to unethical behaviour. Therefore, there is an urgent need to create an ethical culture within public entities. The study found that mostly the DFI annual reports are very positive and not critical of their performance. Areas reflecting poor performance are not made public; hence, not all the reported information is verifiable.

Creating an ethical culture in the DFI space will require collaboration of the boards of directors and management. When it comes to ethics the tone at the top of the organisation matters most, since ethics are learnt much better when modelled than based on instructions. A good case study of an unethical organisational culture is the now defunct Enron Corporation. Sims and Brinkmann (2003:243) described Enron's ethics as "the ultimate contradiction between words and deeds, between a deceiving glossy facade and a rotten structure behind". Enron executives created an organisational culture that valued profits (the bottom line) over ethical behaviour and doing what is right.

Ethics are the principles and values an individual uses to govern his activities and decisions. In an organisation, a code of ethics is a set of principles that guides the organisation in its programs, policies, and decisions for the business. Sims and Brinkmann (2003) define organisational culture as a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore taught to new members as a correct way to perceive, think, and feel in relation to those problems. The ethical philosophy an organisation uses to conduct business can affect the reputation, productivity and bottom line of the business (Robbins and Judge, 2009). Probably because of information asymmetry (as propagated by the agency theory), DFI reporting was found to have gaps and this reflects on a poor culture. Board members and shareholders (government) are not always familiar with the detailed content of what is happening within the DFI operational environment.

Enron's case of unethical reporting compares well with the kind of reporting found in the DFIs. They report what the stakeholders and public want to hear, which was not always accurate. While DFI reporting does not affect their bottom line, it does affect their performance. Employees may not be motivated to work hard to ensure achievement of targets because they know that such information will not have any direct consequence for them, and would ultimately not be reported to the external stakeholders.

Ethical culture in the DFI environment can be promoted if the boards adopt a stance of ensuring that all reported information is supported and audited. Introducing consequence management will also improve the culture of the DFIs. Board members need to model the ethical culture in their behaviour towards DFIs. Ethical expectations need to be known to avoid any ethical ambiguities by employees. Visibly rewarding ethical acts and punishing unethical ones during performance appraisal sessions of managers is one of the ways cited for improving ethics in organisations. Performance appraisals should include the means taken to achieve goals as well as the ends themselves. People who act ethically should be visibly rewarded for their behaviour, while

unethical acts should be punished. An emerging model for evaluating DFI effectiveness is provided in Table 9.1.

Table 9.1: Model for evaluating DFI effectiveness

No.	Strategic indicator	Operational indicators
1.	Organisational culture	• Authentic reporting • Consequence management • Achievement/ results orientation • Emphasis on quality (Quality management) • High performing expectations
2.	Governance	• Service level agreement (SLA) linked to DFI objectives • Board work plan /checklist based on the SLA • Shared values between boards and shareholder • Clear mandate (not mixed bag) • Boards members' skills and expertise
3.	Financial sustainability (DFIs)	• Adequate capitalisation • Funding criteria based on fund objectives • Funding (disbursements) linked to business support • Annual profitability rate • Turnaround time for funding applications
4.	Leadership and management	• Reporting linked to corporate plans • Functional credit risk management strategy • Correlation between performance indicators and DFI objectives • Management skills and expertise

Based on the literature and findings, the effectiveness of the DFIs can be assessed using the model as presented in Table 9.1. When probing the DFI operational environment using the operational indicators as per the model, one can arrive at the conclusion of whether DFIs are effective or not. These indicators will allow the following evaluation of DFIs:

Organisational culture

The evaluation of the DFI operations requires an understanding of the overall dynamics of the DFI activities and the evaluation of the impact of the culture on operational efficiency. Determining the culture prevailing in a DFI requires an assessment of its values, practices and artefacts as adopted by the DFIs themselves. In trying to understand the culture of the DFIs, the researcher followed Scheinis (2010) when he made the reference that organisational culture can be examined at different levels as per Figure 9.3.

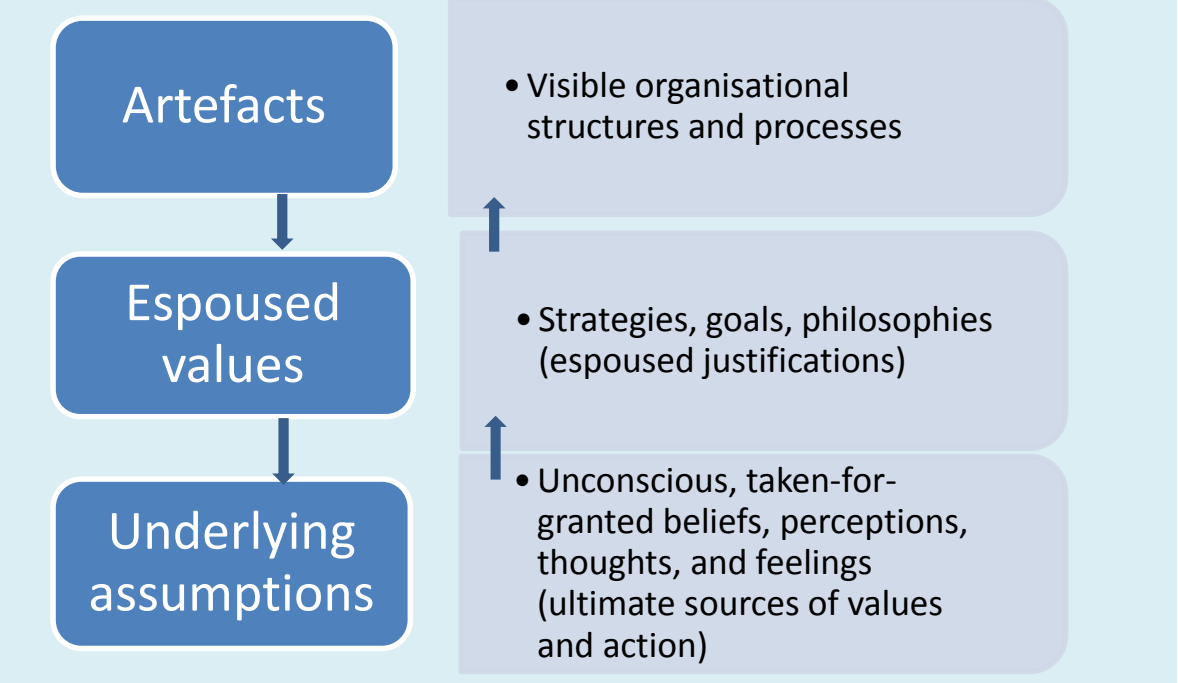


Figure 9.5: Model of organisational culture

Source: Adapted from Scheinis, 2010

It appears from the findings that within DFIs, it is taken-for-granted that all the statutory reports, (quarterly and annual reports) should focus on achievements and positive aspects with regard to their performance. All those involved in the preparation of reports believe that reporting should focus on promoting the organisation. It is an underlying assumption that led to reports not always being completely accurate. It is an unconscious action that has become a culture. It is therefore important for DFI culture to change in this regard, as this has a direct effect on their effectiveness.

It appears also that even though clear expectations (targets) were set, DFIs suffered from a lack of proactive observation of their performance. They were thus unable to give feedback for employees to know that their performance is being observed. As a result of this, it becomes difficult to hold employees accountable for their performance. This of course will work both ways, giving accolades and encouragement for work well done and on the other hand being reprimanded for non-performance. Failing to hold employees accountable for their performance is a lack of consequence

management, which has become the culture within DFIs. Employees know that management does not hold anyone accountable for failing to achieve performance targets or for performing poorly. This area requires intervention towards changing this entrenched culture among the DFIs. Since organisational culture plays an important role in improving effectiveness, it is an effectiveness indicator against which DFIs can be assessed.

Governance

Superior governance is essential for sustainable good performance. The performance of the oversight structures (boards of directors) is critical to keep management focused on the goals and performance targets. There is increasing pressure in the corporate sector to enshrine independence as a major principle of effective governance. This requires that boards of the DFIs should have the skills to acquire information to be able to act independently. When the boards of the DFIs rely on management for information, they are unable able to act independently. For instance, if information is self-serving and selectively chosen by management for tabling with the boards, the boards cannot assess the performance of the DFIs accurately. In addition, when boards are presented with volumes of raw data with little explanation it becomes difficult to make informed decisions. Therefore, it is advisable that DFIs boards and management develop and agree on useful performance metrics (dashboard) to track and assess performance on an on-going basis.

The service level agreements signed between the shareholder and DFIs can serve an important role in improving the performance of the DFIs. At the development stage it needs to link directly to the mandate, goals and objectives of the DFIs. The direct linkage will then ensure that all the DFI plans and activities tie back to the SLA. This approach will strengthen the correlation between the DFI objectives, the shareholder objectives, and the performance indicators of the DFIs. Performance monitoring by the boards should form part of their work plans as part of the agreed upon metrics or dashboard.

Financial sustainability

DFIs should be able to sustain themselves over time; this starts with adequate capitalisation by the shareholder. The impact of inadequate capitalisation can delay the financial sustainability of a DFI for a long time. At the same time, it is easier to see the actual financial performance of the DFI if it was adequately capitalised, whether it is good or poor. Linking of the funding criteria to the fund objectives will ensure that without deviating from the funding criteria, the objectives of the fund are met. The study revealed weaknesses in the business support capacity of the DFIs leading to funded enterprises lacking financial and business management skills. DFIs should adopt as a policy matter that all funds are disbursed with non-financial support. Since most DFIs have the same mandate, applicants have a vast choice of where to apply for funding, the DFI that is most efficient in its operations will attract better applications leading it to be profitable as most enterprises will be able to repay their loans. Therefore, the turnaround time of applications is an important indicator of performance, which leads to profitability.

Leadership and management

Programmes, plans and performance targets for DFIs are approved by Parliament. These plans and programmes are linked into the budget. The budget is a policy decision; therefore, when DFIs engage in their activities it is in pursuance of a policy decision. It is therefore essential that what they report is linked to what is approved by the principals. The DFI attitude towards credit risk is an indicator of performance that should be continually assessed. The capacity of management and the attitude of management creates a culture that is accepted in the organisation, therefore the motivation, skills and competencies of management are key to the effectiveness of the DFIs.

9.6.2 Policy implications

In the same way as there are national performance indicators set for all departments nationally and provincially, there is scope for government to standardise the performance indicators for the DFIs nationally. The standardisation of performance indicators for education and health

departments nationally allows for comparing same aspects of the job and measuring the things that constitute the performance of the sector as a whole; this is a good example for the DFI sector to follow. For DFIs, this will require a policy decision at the national level by all those departments that have DFIs reporting to them. It will force collaboration among departments and DFIs themselves. The collaboration of the mother departments will raise awareness on the part of government on the level of duplication of services offered by the DFIs and the need to have systems that talk to each other. The study proposes policy changes in the management and functioning of DFIs in the country.

The study found that there are more than 20 DFIs in South Africa; both national and provincial DFIs. The national DFIs like the IDC and the NEF have provincial footprints as well as multiple DFI offices in each province; for instance, in KZN, the IDC and the NEF have offices in Durban. The products offered by provincial DFIs and national ones are primarily the same. Knowing that provincial DFIs started as institutions of apartheid in the previous regime, it would be prudent to do away with them in the current dispensation and replace them with the decentralised IDC, NEF, Development Bank of Southern Africa and Small Enterprise Finance Agency. This policy change will save the state significant amounts of resources.

9.6.3 Sustainability of funded enterprises

The literature is full of strong arguments on the benefits of promoting entrepreneurship, particularly in developing countries. This is despite the understanding that SMME failure is a world-wide phenomenon. While all efforts must be made to support, nurture and have incubation programmes as a strategy to grow the economy, it must be accepted that there is a cost attached to creating such entrepreneurs and entrepreneurial culture in society. DFIs cannot be expected to have 100% performing loans; those loans that are not performing should form part of the costs of producing those firms that are able to succeed and thrive to contribute to the economy in various ways. This requires the development of a materiality framework for non-performing loans. The

materiality framework will respond to the level of acceptable service quality. The process of developing this framework will be technical and be driven by a cost-benefit analysis as well as the size and capacity of the DFIs. It should set a threshold for each DFI depending on the size of its disbursements. However, the details on such a framework are a subject of further research.

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Appendix 1: Questionnaire

Study on effectiveness of DFIs in KZN

Background

The researcher is a PhD student at Wits University in the School of Public and Development Management. The study is about the effectiveness of development finance in KZN. The data required has been categorised into three main areas:

i) Financial (budget and expenditure)
ii) Operations (core business)
iii) Governance

Once this questionnaire has been returned duly completed, a face-to-face interview with the respondents will be set up to get clarity and confirm the data in the questionnaire. After the data has been analysed and interpreted, the findings will be communicated to the participating entities to ensure that they have been fairly and accurately represented.

Entity details

Name of the Public entity:.....Position of the Respondent:.....

Date:……Years within the entity.....

Theme 1: Budget and expenditure

1. Being a national entity, why do you have offices in KZN?

Reason	Indicate with X
To be accessible to KZN clients	
To monitor funded projects in KZN	
KZN is one of the provinces with high number of funded enterprises/firms/ businesses	
Other reasons, specify: ---------- ----------	

2. What is the size of your regional budget and the split between operational and grant funding (Agency capitalisation vs funding for disbursing)

Year	Period	Amount – '000	Operational budget (Total Agency costs)	Grant/Loan budget (Business development)
1.	2002/3			
2.	2003/4			
3.	2004/5			
4.	2005/6			
5.	2006/7			
6.	2007/8			
7.	2008/9			
8.	2009/10			
9.	2010/11			
10.	2011/12			

3. **Do you have regional budget for disbursing?** YES NO

If yes, does your region disburse all its earmarked budget per annum?

Yes No

If no, what has been the average under-spending each year?

Rate	>2%	>5%	6-10%	11-15%	16-20%	21-25%	26-30%	<30%
2002/3								
2003/4								
2004/5								
2005/6								
2006/7								
2007/8								
2008/9								
2009/10								
2010/11								
2011/12								

NB: Provide supporting documentation. (Where it can be found)

4. What is the size and state of your loan book?

Description	Nationally	KZN
Good		
Average		
Bad		

a. **Good – 80%** of the loans are repaid within the stipulated time

b. **Average – 50%** of the loans are repaid within the stipulated time

c. **Bad – 20%** of the loans are repaid within the stipulated time

Substantiate your rating: …….

……

5. What is the percentage of defaulters in each year? (businesses not repaying within their stipulated period by more than 3 months).

Description	Nationally	KZN
Less than 20%		
20-50%		
More than 50%		

6. How much has been written off in the past ten years due to funded business failures?

Year	Period	Amount – '000	% of KZN written-off
1.	2002/3		
2.	2003/4		
3.	2004/5		
4.	2005/6		
5.	2006/7		
6.	2007/8		
7.	2008/9		
8.	2009/10		
9.	2010/11		
10.	2011/12		

7. What has been the opinion of the Auditor General on your Annual Financial Statements for the past ten years?

Period	Disclaimed	Qualified	Unqualified
2002/3			
2003/4			
2004/5			
2005/6			
2006/7			
2007/8			
2008/9			
2009/10			
2010/11			
2011/12			

Theme 2: Operations

8. Briefly describe the mandate of your entity:

……

……

Has your entity focused solely on the execution of its mandate over the past ten years?

Yes: why ? ……

NO: Why? ……

9. Indicate your level of confidence on the consistency of internal documents over the past ten years , i.e, Has your Strategic Plan, Annual Performance Plan, Quarterly performance reports and annual reports been consistent (containing same information in each year).
    - **Good :** Performance targets contained in the Strategic plan and Annual Performance Plan are reported on in each quarterly report and the annual reports.
    - **Average**: Some of the performance targets/ performance indicators do carry through from the Strategic Plan to the Annual Reports
    - **Poor:** The entity has not been able to link performance indicators and performance targets from Strategic Plan to annual reports.

Period	Good	Average	Poor
2002/3			
2003/4			
2004/5			
2005/6			
2006/7			
2007/8			
2008/9			
2009/10			
2010/11			
2011/12			

Additional comments:

……

……

……

……

10. Indicate your level of confidence in the performance indicators used by your entity over the past 10 years, using the scale below:

- **80%** : most of the performance indicators used measure the actual performance of the entity and individuals and indicate level of achievement of the objectives and broader goals of the entity.
- **50%** : Some of the performance indicators do measure the actual performance and lead to the achievement of the objectives of the entity.
- **20%**: Performance indicators and performance targets are mainly not indicators of the achievement of the objectives of the entity. Achievement of performance targets annually does not mean the entity is achieving its strategic and broader goals and objectives.

Period	80 per-cent	50%	20 per-cent
2002/3			
2003/4			
2004/5			
2005/6			
2006/7			
2007/8			
2008/9			
2009/10			
2010/11			
2011/12			

Additional comments:

……

……

……

……

11. Did your entity set performance targets for the past ten years? Yes No

If yes, indicate level of achievement of performance targets in each year:

Period	>20%	>40%	>50%	>60%	>70%	<80%
2002/3						
2003/4						
2004/5						
2005/6						
2006/7						
2007/8						
2008/9						
2009/10						
2010/11						
2011/12						

Additional comments:

……

……

It is understood that your entity has funding criteria against which funding is granted to businesses. Comment on the correctness of this statement:

……

……

List your criteria for funding:

……

……

……

Indicate percentage deviation where funding criteria may not be fully adhered to on a yearly basis and why? Using the scale below:

Percentage	Indicate with an X
>2%	
>5%	
<5%	
0 (none)	

Why: explain important reasons for deviations:

---

12. In the table below indicate annual approvals/advances/ loans per region/ province:

Sector	2002/ 03 %	2003/ 04 %	2004/ 05 %	2005/ 06 %	2006/ 07 %	2007/ 08 %	2008/ 09 %	2009/ 10 %	2010/ 11 %	2011/ 12 %
Eastern Cape										
Free State										
Gauteng										
KZN										
Limpopo										
Mpuma-langa										
North West										
Northern Cape										
Western Cape										
SADC										
Rest of Africa										
Outside Africa										
Total %	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

13. Indicate **number** of businesses/firms that were financed in KZN in each of the past ten years.

Sector	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
Food beverage and Agro-Industries										
Mining and beneficiation										
Public and Private Partnerships, and										
Venture capital										
Chemicals, Textiles and allied industries										
Metal, transport and machinery products										
Wood, paper and Other										
Construction										
Franchising										
Healthcare and Education										
Media and Motion Pictures										
Techno industries										
Tourism										
Transport, Financial Services and other										
Total										

14. Advances and Loans per economic sector

Kindly indicate **amounts** disbursed in each of the ten years in the table below:

	2002/3		2003/4		2004/05		2005/06		2006/07	
Sector	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**
Food beverage and Agro-Industries										
Mining and beneficiation										
Public and Private Partnerships, and										
Venture capital										
Chemicals, Textiles and allied industries										
Metal, transport and machinery products										
Wood, paper and Other										
Construction.										
Franchising										
Healthcare and Education										
Media and Motion Pictures										
Techno industries										
Tourism										
Transport, Financial Services and other										
Total										

	2007/08		2008/09		2009/10		2010/11		2011/12	
Sector	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**	**RSA**	**KZN**
Food beverage and Agro-Industries										
Mining and beneficiation										
Public and Private Partnerships, and										
Venture capital										
Chemicals, Textiles and allied industries										
Metal, transport and machinery products										
Wood, paper and Other										
Construction.										
Franchising										
Healthcare and Education										
Media and Motion Pictures										
Techno industries										
Tourism										
Transport, Financial Services and other										
Total										

Comments:

……

……

……

15. In order to assess the impact of development finance in the KZN business community , Kindly provide the information as per the table below:

Period	Debt: Equity Ratio	IDC Profit (sustain-ability)	Advances and loans R' 000		Performing loans		Write-offs		Non-Performing loans	
			RSA	KZN	RSA	KZN	RSA	KZN	RSA	KZN
2002/03										
2003/04										
2004/05										
2005/06										
2006/07										
2007/08										
2008/09										
2009/10										
2010/11										
2011/12										

Additional comments:

……

……

16. To assess the impact of the funding on economic growth and development, kindly complete the table below:

Period	No. of Jobs created		No. of distressed firms assisted		Jobs saved		No. of SMMEs funded		No. of entrepreneurs trained/ mentored		Amount disbursed to SMMEs	
	RSA	KZN	RSA	KZN	RSA	KZN	RSA	KZN	RSA	KZN	RSA	KZN
2002/03												
2003/04												
2004/05												
2005/06												
2006/07												
2007/08												
2008/09												
2009/10												
2010/11												
2011/12												

For those businesses/firms that were funded but not able to repay their subsidies or loans, what are the main reasons for their failures?

Reason	Indicate with an X
Lack of access to markets	
Business closed down	
Lack of business management skills	
Bad business idea	
Fraud and corruption	
Other reasons (specify)	

17. Over the past 10 year period estimate the success rate of your entity in funding and supporting viable businesses that contribute to job creation and economic growth of the KZN Province.

    Rate between 1% and 100%

    RATE: …… %

    Supporting comments on your rating

    .....

    .....

18. Has the auditor-general given you an opinion on your performance information? If yes, what was the opinion?

    .....

    .....

19. Has your entity done any customer satisfaction survey? If yes, provide a summary of the results. If no, what do you think they can say about your entity?

    .....

    .....

Theme 3: Governance

20. Your entity has an enabling legislation that is meant to direct execution of the mandate. Comment on the level of adherence to this founding legislation. Use the rating below:

Rate	X	Comment
100 %		
80%		
50%		
20%		
10%		

21. As the CEO/ Executive Manager how often do you interact with your mother department/ Minister or HOD?
    a. Weekly
    b. Monthly
    c. Quarterly
    d. Annually

    Comment on the form of interaction.....

    .....

    .....

22. Other than statutory quarterly board meetings, how often do you interact with the Board of Directors/ Chairperson?
    a. Weekly
    b. Monthly
    c. Quarterly
    d. Annually

    Comment on the form of interaction.....

    .....

23. Is your organisation clear about the role of the Minister and that of the Board? Yes No

    Substantiate your answer:.....

    .....

24. How often does your Board of Directors interact with the Minister or HOD?
    a. Monthly
    b. Quarterly
    c. Annually

    Comment on the form of interaction.....

    .....

25. What is your opinion on the relationship of your Board of Directors and Minister?

Poor	Average	Good

Comments:

.....

.....

26. Do you think your board of directors understand its role? YES UNSURE NO

27. Who would you say gives direction in this organisation?
    - Minister
    - Board
    - Other (specify)

28. The department or the Minister and the board of directors are not expected to be involved in operational decisions. Are you satisfied that none of them has influence in the operating environment? Indicate your level of satisfaction on the scale below:

Stakeholder	20%	50%	80%	100%
HOD				
Minister				
BoD				

29. Have there been allegations of maladministration or corruption in your entity for the past ten years? Yes No

Give details:.....

General Questions

30. Do you think it was a good decision to establish this entity outside the government department? Substantiate your choice.

    .....

    .....

    .....

31. Considering the burden of taxpayers in South Africa, do you think the mandate of your entity could have been delivered more successfully within your mother department?

    Yes No

    Comments:

    .....

    .....

    .....

Thank you very much for your time. God bless you!

If you would want to get feedback from this study please provide your details below:

.....