



**FUND MANAGEMENT AND PARTNERSHIPS UNIT**

**EASTERN CAPE ECONOMIC DEVELOPMENT FUND  
FUND GOVERNANCE AND ADMINISTRATION  
FRAMEWORK**

**1 April 2023 – 31 March 2026**

<b>Version Number:</b>	1
<b>Effective Date:</b>	01 April 2023
<b>Review Date:</b>	31 March 2026
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<b>Recommended for approval and adoption by EXMA:</b>	Chief Investment Officer
<b>Approved by:</b>	ECDC EXMA Chairperson

# Contents

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<b>Acronyms .....</b>	<b>4</b>
<b>Definitions.....</b>	<b>4</b>
<b>1. Preamble .....</b>	<b>7</b>
<b>2. Economic Development Funding Objectives.....</b>	<b>7</b>
<b>3. Investment Mandate.....</b>	<b>8</b>
<b>4. The Institutional Structure of the EDF .....</b>	<b>9</b>
<b>5. Strategic Fund Allocation .....</b>	<b>10</b>
<b>6. Exclusions &amp; Limitations .....</b>	<b>11</b>
<b>7. Funding Agreements .....</b>	<b>12</b>
<b>8. Compliance and Due Diligence.....</b>	<b>13</b>
<b>9. Fund Management Committees .....</b>	<b>14</b>
<b>10. Fund Product Frameworks .....</b>	<b>17</b>
<b>11. Eligible Applicants and Application Process.....</b>	<b>18</b>

## Acronyms

Acronym	Term
DDAC	Due Diligence Ad Hoc Committee
EC EDF / EDF	Eastern Cape Economic Development Fund
ECDC	Eastern Cape Development Corporation
FAC	Funding Approval Committee
FGOC	Fund Governance Operational Committee
HoD	Head of Department
MSMEs	Micro, Small & Medium Enterprises
PDARAC	Product Development & Review Ad Hoc Committee
PFMA	Public Funds Management Act
SARB	South African Reserve Bank

## Definitions

Term	Definition
<b>(The) Fund</b>	The Eastern Cape Economic Development Fund.
<b>Catalyst</b>	Funding that enables the provision of resources to an investment fund or vehicle designed to mitigate risk and improve the fund's overall viability to attract further new investment for development goals.
<b>Commercial Sustainability</b>	Refers to whether the project, programme or initiative can persist or improve with long term commercial gains.
<b>Commercial Viability</b>	The likelihood that a product or service will be successful in the marketplace.
<b>Commercially Sound</b>	Financially secure and safe.
<b>Conditions Precedent</b>	An event that must occur before the parties to an existing or potential agreement are compelled to perform.
<b>Developmental Objectives</b>	Objectives or outcomes that are drawn from an economic development agenda or policy.
<b>Due intelligence</b>	A body of relevant research knowledge obtained from a due diligence process.
<b>Economic Development Intelligence</b>	Knowledge obtained from research activities related to an economic development agenda.
<b>Equitable Development</b>	An approach for meeting the needs of underserved communities through policies and programs that reduce disparities, while fostering places that are healthy and vibrant.
<b>EXMA</b>	The ECDC's Executive Management Team.
<b>Financial Feasibility</b>	Describes whether the project, programme or initiative is fiscally practical.

<b>Financial Returns</b>	The money made or lost on an investment over a period.
<b>Financial Viability Study</b>	An evaluation done on a proposed project, programme, initiative, or commercial venture to see if it has the potential to succeed financially and technically.
<b>Fund Manager</b>	Snr Manager: Fund Management and Partnerships at the ECDC.
<b>Fund Product</b>	One of the funding instruments under the umbrella of the EC EDF.
<b>Holding Entity</b>	In the context of the EC EDF. The ECDC is considered the Holding entity.
<b>Instrument</b>	A fund product used to coordinate funding activities under the mandate of the EC EDF.
<b>Intermediary</b>	An eligible applicant who is applying on behalf of an end user beneficiary of funding. See Section 11 for a list of eligible applicants.
<b>Leveraging</b>	The use of an entity's own funds to draw in other funders with similar goals to amplify the scale of funding for a project, programme, or initiative.
<b>Market Study</b>	An analysis of consumer demand for a product or service. A market study looks at all the factors that influence demand for a product or service.
<b>Modus Operandi</b>	The way in which something operates or works.
<b>Opportunity Analysis</b>	An evaluation tool used when finding the viability and profitability of a project, programme, or initiative, or expanding an existing one. It systematically looks at external environments with the goal of understanding demand, consumer needs, market acceptance and economic factors.
<b>Reinvestment</b>	The action of putting the profit made on an earlier investment back into the same scheme.
<b>Resource Circulation</b>	Minimising the long-term impact of funding erosion as the fund disburses over time.
<b>Resource Leveraging</b>	Making use of an entity's own funds to draw on other resources as asset classes (such as property), while simultaneously reducing the scale of monetary funding on a project, programme, or initiative.
<b>Resource Mobilisation</b>	When an entity secures new or added resources to meet needs. This process can also include strategies that maximise the efficiency of existing resources. It also includes taking count of what's currently available and developing a plan to use those resources as efficiently as possible.
<b>Strategic Fund Allocation</b>	A portfolio management strategy whereby the investor/funder sets target allocations for various fundable areas and rebalances the funding portfolio periodically. The target allocations are based on factors such as the funder's

risk tolerance, time horizon, economic development goals and investment aims.

**Structure** In reference to one of the four Committees associated with the governance, administration, and operation functions of the EC EDF.

**The Board** The Board of the Eastern Cape Development Corporation.

**The Shareholder** The ECDC's shareholder; the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT).

**Tranche(s)** One of several disbursements/payments offered as part of the same transaction. A piece or a part of a financial instrument, usually money. E.g., An instalment of a loan is a tranche. A drawdown payment as part of a milestone-based funding agreement is a tranche.

**Value-Chain Activation** Using funding (or other resources) to create, widen accessibility or to enhance value chains that are identified as strategic to the EC EDF's economic development agenda.



## 1. Preamble

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The Eastern Cape is faced with the persistent challenges of poverty, inequality, unemployment, and stagnant economic growth. The unemployment rate as at Q3 2022 was 42.4% (with youth unemployment being 53.6%)<sup>1</sup>, while poverty levels were last surveyed at 67.3%<sup>2</sup> for the province's population. Over the past 5 years, provincial economic growth has averaged -2.26%<sup>3</sup>, including the major economic downturn in late March of 2020 due to the declaration of a national state of disaster, and the resultant instituted lockdowns. Exacerbating this picture is the challenge of youth unemployment and excessive levels of inequality; both of which are potential triggers for social unrest and hopelessness. To reverse the picture, it is necessary that the province institute extraordinary measures to stimulate economic growth and reduce poverty and joblessness.

The Eastern Cape provincial government in response to its economic development challenges, has established the Economic Development Fund as an instrument that is geared towards the activation of industrial development and economic growth which in the medium- to long term is expected to yield financial, economic, and developmental returns.

## 2. Economic Development Funding Objectives

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- 2.1. The modus operandi of the Economic Development Fund (EDF/The Fund) is to facilitate economic growth, employment, and industrial development in the Eastern Cape.
- 2.2. Below are other key objectives that fall within the scope of the EDF:
  - 2.2.1. Acting as a catalyst for economic development in identified key sectors.
  - 2.2.2. Creating opportunities for economic participation of Black-owned business and Black industrialists.

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<sup>1</sup> ECSECC 2022 Q3 Eastern Cape provincial labour report

<sup>2</sup> Stats SA – “Poverty and Inequality,” published 4 April 2019

<sup>3</sup> ECSECC 2018 Q1 - 2022 Q3 Quarterly Reports on Eastern Cape GDP

- 2.2.3. Assisting the Eastern Cape province in addressing socio-economic hurdles that include – but are not limited to – low economic growth, high unemployment rates and widespread poverty throughout the province.
- 2.2.4. Enhancement and further expansion of the value chains of core industries within the Eastern Cape.
- 2.2.5. Facilitating the establishment of new industries that have been identified as strategically impactful and sustainable to the province over the medium- to long term.
- 2.2.6. Assist in resource leveraging and mobilisation for industrial infrastructure development.
- 2.2.7. Modernisation of the local economy, with specific attention being paid to the development of the digital sector.
- 2.2.8. Function as an intermediary for facilitating partnerships between large-scale private industry and MSMEs.
- 2.2.9. Facilitating co-operative partnerships with public and private agencies to augment high impact projects that are aligned with The Fund’s (or any of its constituent fund products’) mandate.
- 2.2.10. Catalyse & reinforce the commercial viability of potential high impact MSMEs.
- 2.2.11. Encouraging private sector investment in key industries in the province, along with encouraging investment into areas where existing firms hold a comparative advantage.
- 2.2.12. Building up the province’s competitiveness in sectors with inherent advantages.
- 2.2.13. Support initiatives towards stimulating entrepreneurship and innovation.
- 2.2.14. Support initiatives towards reinvigorating dormant industries and value chains.
- 2.2.15. Bolstering resource mobilisation and leveraging private-public partnerships.

### 3. Investment Mandate

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- 3.1. The core mandate of The Fund is to position the province as a competitive investment destination. The aim is to invest in initiatives, programmes, projects, and ventures that



are developmental and commercially sound; stimulate economic growth and equitable development; supporting entrepreneurship, and to create sustainable employment opportunities.

- 3.2. The Fund shall discharge its mandate through specific instruments, designed to respond to identified developmental and commercial objectives. These constituent instruments (sub-funds termed as 'fund products') shall have sub mandates that respond to the unique needs of targeted beneficiaries or industries.
- 3.3. Initiatives to be funded by the EC EDF must meet the eligibility criteria relating to the following requirements:
  - 3.1.1. Commercially sound with economic and financial feasibility confirmed and private sector participation where applicable, confirmed by the time of funding.
  - 3.1.2. Resource mobilisation and leverage potential that is verifiable with commitment that is independently confirmed where applicable.
  - 3.1.3. Private sector led and/or initiated programmes and projects shall access The Fund through motivations screened and sent by eligible applicants.

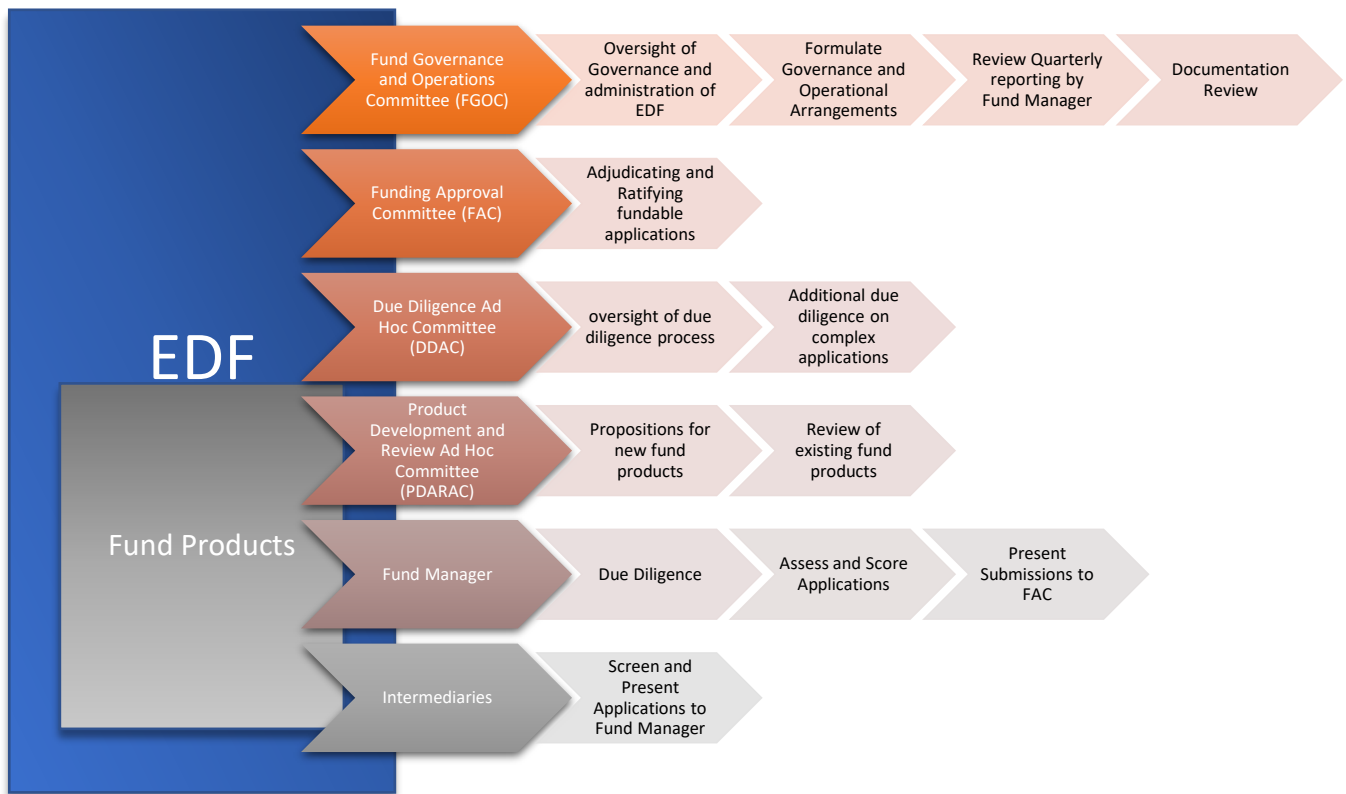
## 4. The Institutional Structure of the EDF

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- 4.1. The EDF operates within the Fund Management and Partnerships Unit of the ECDC, with the unit tasked with ensuring that appropriate systems and structures are in place.
- 4.2. The location of the EDF and its constituent fund products with the Fund Manager ensures effective administration and governance of the Fund.
- 4.3. In the administration of the Fund, an appropriate PFMA enabled holding entity such as the ECDC was identified. To this end, the following institutional structure is proposed for the fund, which is to be located within the ECDC, maintaining accountability to the Board and the Shareholder through the implementation of an appropriate institutional structure for the EDF.

4.4. The holding entity shall ensure that applications are appropriately processed, vetted, and verified. This shall eliminate any possible abuse of the system by non-deserving applications from qualifying for funding.

Diagram 1: Institutional Structure of the EDF:



## 5. Strategic Fund Allocation

- 5.1. To bolster fund sustainability, a significant amount of fund resources will be invested in initiatives that bolster the fund’s capability for resource circulation and reinvestment. These would relate to projects and programmes with defined financial returns on investment (that repay the allocated funded amount, along with an agreed upon risk premium back to the fund).
- 5.2. The remainder will be invested in initiatives that offer economic developmental returns with no requirement for repayment of advanced amount to the fund.

- 5.3. Envisaged initiatives relating to the residual fund allocation include interventions such as industry/value-chain activation, MSME development, and youth employment programmes.
- 5.4. At fund product level, specific returns relating to financial and developmental objectives shall be stipulated - informed by each fund product's funding objectives - while taking cognisance of The Fund's overarching objectives.
- 5.5. In relation to investments that have a financial return requirement, the fund shall determine the lending rate based on development objectives; related risks, and The Fund's sustainability requirements - provided that such lending shall not be at a lending rate that is less than the South African Reserve Bank's (SARB's) repo rate, and not more than the prime lending rate.
- 5.6. In relation to economic developmental returns, the terms of funding shall be informed by economic research; economic development intelligence; specific project potential, and targets.
- 5.7. Commercial sustainability; job creation potential; youth empowerment; economic inclusiveness, and private sector participation are critical factors that will influence funding considerations.
- 5.8. The funding allocation for each fund product shall be informed by a high-level resource allocation strategic consideration made by the Fund Governance and Operations Committee (FGOC).

## 6. Exclusions & Limitations

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The Fund's focus will be concentrated on economic development. The following ventures and/or initiatives shall be expressly excluded from consideration for financing by The Fund:

- 6.1. Social and public infrastructure; including sports, arts, and culture infrastructure without any clear definable economic and developmental impact.
- 6.2. Grant funding except when incurred for investigation of an area of opportunity or potential relating to a specific project or sector; or for purpose of establishing specific strategic capabilities for pursuing an identified economic opportunity.

- 6.3. Applications from entities and individuals who in terms of the applicable regulatory framework, are prohibited from accessing funding from the state e.g., employees, political office bearers, etc.
- 6.4. Existing debt settlement applications where the required support or intervention is directed at paying off an existing debt.
- 6.5. Business funding applications which generally qualify for funding from the commercial banks.
- 6.6. In relation to equity Investments and pure loans, business/commercial initiatives whose funding, governance and legal framework presents an unacceptable risk for funding or holding of equity – either due to the risky nature of the legal persona; foreign equity holding, or other considerations.
- 6.7. Applications relating to businesses - or involving individuals - who have been proven to have defrauded the state; black-listed by the state or have been recipients of earlier support that has not been effectively utilised or accounted for.
- 6.8. Apart from resource leverage interventions, the fund shall not be open to funding of public- or economic infrastructure that has been mandated to other public entities or government institutions.
  - 6.8.1. Funding for such leverage interventions – if considered - should not exceed 20% of the total required investment.
  - 6.8.2. In the event of a deserving investment that requires funding support exceeding the 20% threshold; such funding shall require special approval by the EXMA for funding and investment based on the submissions made by the Fund Manager and supported by the Chief Investment Officer.
- 6.9. The Fund will prioritise initiatives that are less likely to obtain funding from commercial banks or related institutions.

## 7. Funding Agreements

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- 7.1. The Fund will enter into formal funding agreements incorporating terms of funding, including financial, economic, and developmental returns and payment terms where

applicable. Such agreements will be signed off by the Chief Investment Officer on the part of the ECDC, and Chief Executive Officer in the case of a public entity.

- 7.2. In the case of a division or business unit within the ECDC being an applicant to The Fund, the funding agreement shall be concluded between the applicant business unit executive and the Chief Investment Officer.
- 7.3. All funding agreements shall be vetted by The ECDC 's Legal Services Unit.
- 7.4. The funding agreement shall incorporate the following:
  - 7.1.1. Funded amount
  - 7.1.2. Nature of funding (i.e., Equity, Loan, Financial Incentive, Blended Finance, Development finance)
  - 7.1.3. Funding objectives
  - 7.1.4. Repayment terms (where applicable)
  - 7.1.5. Funds drawdown arrangements
  - 7.1.6. Required financial returns (where applicable)
  - 7.1.7. Defined key performance indicators.
  - 7.1.8. Reporting requirements
  - 7.1.9. Beneficiary category
  - 7.1.10. Regulatory compliance requirements
  - 7.1.11. Cash resource leveraging targets (where applicable)
  - 7.1.12. Conditions precedent (where applicable)
- 7.5. The conclusion of the funding agreement shall be a pre-requisite for the release of funds.
- 7.6. Further, the release of drawdown tranches shall – where applicable – be linked to meeting performance targets and other stipulated conditions.

## 8. Compliance and Due Diligence

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- 8.1. The Fund Management and Partnerships Unit shall establish adequate due intelligence capacity, incorporating a hybrid of internal and external resources for purposes of assessing the merits of funding applications.

- 8.2. Where Fund Management and Partnerships Unit does not have adequate capacity to conduct due diligence due to the complexity of the funding application, such application should be referred to an ad hoc due diligence committee (DDAC).
- 8.3. The Fund Manager shall establish an ad hoc due diligence committee informed by the nature of the application, and involving multidisciplinary experts drawn from both the public and private sector to undertake due diligence.
- 8.4. A due diligence report shall be a requirement for all applications taken forward for funding consideration and must be attached to motivations made for consideration by the Funding Approval Committee (FAC).
- 8.5. Where necessary, services of a due diligence consultant may be used. Where required, a panel of technical service providers may be established to support the due diligence.
- 8.6. The fund manager shall develop a framework for the appointment and operations of the due diligence committees.
- 8.7. The fund manager, supported by the applicant/intermediary and technical staff where required, shall table submissions to the FAC.
- 8.8. All applications to the FAC must be accompanied by a compliance checklist - confirming adherence to mandatory requirements – and a due diligence report.

## 9. Fund Management Committees

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The Fund shall be assisted in its operations by four committees, whose mandate and scope of work is outlined below:

### 9.1. Fund Governance and Operational Committee (FGOC):

- 9.1.1. Structure is chaired by the Chief Executive Officer.
- 9.1.2. Structure members are appointed by the Chief Executive Officer.
- 9.1.3. Submissions to Structure must be signed off by the Chief Investment Officer.
- 9.1.4. Structure considers the governance, administration, and operational arrangements for the effective operation of the fund.
- 9.1.5. Structure sits on an as-needed basis subject to a minimum of two meetings per fiscal year.

- 9.1.6. Chief Investment Officer's office provides secretarial services.
- 9.1.7. Formulated governance, administration and operational arrangements and reviews thereof are tabled by the Chief Investment Officer to EXMA for concurrence.
- 9.1.8. Structure considers the fund management governance and administration arrangements, funding allocations between projects/programmes that offer financial returns repayment and other economic development initiatives, fund management operational plans and budget for recommendation to EXMA.
- 9.1.9. Structure considers the quarterly fund management performance report tabled by the fund manager, of which the report forms the basis for the Chief Investment Officer's quarterly fund management reporting to EXMA and the Board.
- 9.1.10. Membership of this committee should be drawn from business units within the organisation whose work either positions them as critical stakeholders, enablers, or governance partners. Typical members may include those drawn from Economic Development Coordination and Sector Support Unit; Investment Management Trade and Investment Promotion Unit; and Rural, Enterprise Finance and Business Support Unit, as well as the Finance Unit.
- 9.1.11. The Chief Investment Officer shall be a standing member of the committee.

## 9.2. **Product Development & Review Ad Hoc Committee (PDARAC):**

- 9.2.1. Structure meetings are held on an as-needed basis, convened & chaired by the Fund Manager.
- 9.2.2. Membership is appointed by the Chief Executive Officer informed by recommendations made by the Chief Investment Officer.
- 9.2.3. Membership is drawn from complimentary business units within the ECDC; with the number of members being no less than **three** and no larger than **five**. Product Area Specialists may be invited from industry, sister state entities and relevant public government institutions where required.
- 9.2.4. Structure recommends fund products and reviews thereof to the Fund Governance and Operations Framework Committee.
- 9.2.5. The Fund Management coordinator provides secretarial services.

### 9.3. Due diligence ad hoc committee (DDAC):

- 9.3.1. Structure is chaired by the Fund Manager.
- 9.3.2. Structure has meetings on an as-needed basis, convened by the Fund Management Coordinator.
- 9.3.3. Membership is drawn from complimentary business units, with the number of members being no less than **three** and no larger than **five**.
- 9.3.4. Structure considers the financial, economic, and developmental merits of the application, and pronounces itself on the soundness of the assumptions, indicators, targets, outputs, and outcomes.
- 9.3.5. The Fund Management coordinator provides secretarial services and compiles due-diligence reports for sign-off by the fund manager, for submission to the funding approval committee.
- 9.3.6. Where necessary, the due diligence committee may recommend utilisation of a specialist for part – or all – of the required due diligence.
- 9.3.7. The committee membership shall include ad hoc committee members informed by the nature of the application involving multidisciplinary experts drawn from both the public and private sector.

### 9.4. Funding Approval Committee (FAC):

- 9.4.1. Structure is chaired by the Chief Financial Officer.
- 9.4.2. Membership is appointed by the Chief Executive Officer.
- 9.4.3. Recommendation submissions must be made by the Fund Manager and signed off (supported/not supported) by the Chief Investment Officer.
- 9.4.4. Membership is drawn from complimentary business units, with the number of members being no less than three and no larger than seven. Typical membership may include officials from the Economic Development Coordination and Sector Support Unit; and the Rural, Enterprise Finance and Business Support Unit, the Risk and Compliance Management Unit, and the Finance Unit.
- 9.4.5. The Chief Investment Officer is a standing member of the Funding Approval Committee.
- 9.4.6. Structure adjudicates vetted applications by the fund management unit.



- 9.4.7. Structure considers and approves funding applications for an amount of up to R50m.
- 9.4.8. Funding applications between R50m -R100m, require EXMA concurrence.
- 9.4.9. Funding applications greater than R100m, require the concurrence of the Board Committee responsible for finance and investment.
- 9.4.10. Structure sittings are informed by the number and frequency of applications.
- 9.4.11. External industry/sector specialists may be invited in an advisory capacity to committee sittings.
- 9.4.12. The fund management office shall provide secretarial services to the funding approval committee.
- 9.4.13. Funding approval shall be guided by the relevant fund product framework.

## 10. Fund Product Frameworks

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- 10.1. The current set of fund products developed under the umbrella of the EDF are as follows:
  - 10.1.1. Industrialisation, Job Creation and Economic Enablers Fund
  - 10.1.2. Entrepreneurship Development and Support Fund
  - 10.1.3. Business Finance and Economic Transformation Fund
  - 10.1.4. Automotive Supplier Development and Support Fund
  - 10.1.5. Digital Economy Development and Innovation Fund
  - 10.1.6. Climate Change and Adaptation Fund
  - 10.1.7. Alternative and Renewable Energy Initiatives Fund
  - 10.1.8. Film Industry Development Fund
  - 10.1.9. Oceans Economy Development Fund
  - 10.1.10. Tourism Sector Support and Development Fund
- 10.2. The Fund Manager shall coordinate the development of any future frameworks for fund products under the umbrella of the EDF, that respond to objectives of the overarching EDF. Such frameworks shall be subject to review and approval by the FGOC.

## 11. Eligible Applicants and Application Process

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### 11.1. Who Can Apply:

- 11.1.1. ECDC Business Units tasked with development mandates.
- 11.1.2. Public entities pursuing economic development-related initiatives.
- 11.1.3. Local government in relation to economic development initiatives.
- 11.1.4. Government Departments for partnership-based developmental programmes.

### 11.2. Eligibility Criteria for Funding:

- 11.2.1. Commercially sound (economic and financial feasibility confirmed) with private sector participation (confirmed by the time of funding).
- 11.2.2. Resource mobilisation and leverage (commitment independently confirmed).
- 11.2.3. Private sector led and/or initiated programmes and projects shall access the fund through motivations screened and submitted by eligible applicants.

### 11.3. Application Process:

- 11.3.1. Funding initiatives may be identified through engagements between the public- and private sectors, industry research, feasibility studies, proposals from the private sector, etc.
- 11.3.2. Eligible applicants are required to screen funding propositions for eligibility and compatibility to EC Economic Development Fund framework requirements.
- 11.3.3. The eligible applicant must submit a formal written funding proposal, along with the completed applicable funding application form for the specific product, addressed to the fund manager.
- 11.3.4. The fund manager shall acknowledge receipt of all funding applications within a period of seven working days.

- 11.3.5. A period of 14-21 days shall be designated to due diligence in which periodic engagements with the applicant shall be undertaken, as well as the completion of the due diligence report.
- 11.3.6. The time taken for due diligence shall be informed by the complexity of the application as well as the extent to which supporting technical information is readily available.
- 11.3.7. Conditional approval shall be granted following consideration by the Funding Approval Committee within seven days of the final committee sitting wherein such approval was granted.
- 11.3.8. Upon satisfaction of approval conditions precedent and conclusion of agreement by parties, the Fund Manager may release funding per the terms of the funding agreement.
- 11.3.9. The turnaround time from date of receipt of application to granting of funding should ideally not exceed a period of 6 weeks, except in instances where extensive due diligence that necessitates extended periods of time is needed.

#### **11.4. Application Submissions**

- 11.4.1. Covering application memo addressed to the fund manager and signed off by unit head in the case of the ECDC or CEO/HoD in the case of external applications.
- 11.4.2. A completed and signed EC EDF funding application form.
- 11.4.3. A funding proposal and/or detailed framework explaining the nature of the project/programme/initiative.
- 11.4.4. Where applicable a due diligence/opportunity analysis/market study/financial viability study.
- 11.4.5. Any other documentation required by the fund manager.

