**Chapter 11**

**LOCAL ECONOMIC DEVELOPMENT**

**11.1 DISTRICT DEVELOPMENT AGENCIES**

**11.1.1 PURPOSE**

District Development Agencies (DDA) were designed to be future local economic growth drivers of district, and local, municipalities in the Province of KwaZulu-Natal (KZN). These special purpose vehicles were designed as implementers of strategic economic development projects and programmes for the family of municipalities within the districts, facilitating both private and public sector investment through inclusive projects. The DDAs create economic development capacity and ability at local government level to work in partnership with, and further strengthen, the existing LED initiatives of the municipalities. Whereas LED units in municipalities focus on broadening the economic base and creating an environment conducive to economic development, the agencies focus on catalytic projects and programmes leading directly to investment and job creation. The agencies, while working within the context of the integrated development plans and local economic development plans set by the municipalities, they are independent special purpose vehicles driving focused objectives.

**LEGISLATIVE COMPLIANCE**

The legislative compliance processes by which municipal entities are established are comprehensive and extensive. The District Development Agencies of KwaZulu-Natal have been established in full compliance with the Municipal Finance Management Act (MFMA), the Municipal Systems Act (MSA) and the Companies Act. Due consideration has been given to the viability of the agencies and the alternative options for their establishment.

**APPLICATION**

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# Background Summary

In KwaZulu Natal the mandate was issued in 2014 that all Districts within the Province will establish District Development Agencies and a total of 10 have now been established. The degree to which these have been operationalized varies from District to District, with some having operated for more than five years and others about to begin with the appointment of staff.

The KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs is providing support to the Agencies across the Province in a manner which ensures their sustainability, ability to stimulate the local economy, institutional compliance and growth.

*The key objective of the District Development Agencies in KZN is to identify, facilitate, package and achieve the implementation of strategic, catalytic, sustainable economic development and investment projects and programmes within their district areas.*

It is against this background that the Department of Cooperative Governance and Traditional Affairs has developed a simple toolkit providing guidelines for District Development Agencies in compliance with the directive of MUNIMEC.

**1. What is a Local Development Agency?**

Development agencies are established in most parts of the world as the institutional vehicles to improve an area’s ability to realise its socio-economic potential and thereby improve the livelihoods of all its citizens. They are independent organisations that can be used to effectively facilitate the implementation of economic development projects and programmes. Development agencies are not new and have been utilised internationally to undertake a large spectrum of different tasks and fulfil various mandates. These mandates range from poverty eradication, socio-economic development facilitation, implementers of high-impact specialist projects and programmes, to investment attraction and promotion of foreign direct investment. Development agencies are also varied in terms of focus, with some development agencies being highly sophisticated technically, others being sector specific and some focusing on single projects, such as the management of the ICC in Durban. Despite the variety of development agencies, the overarching and primary theme is the enhancement of growth, job creation and the consequent stimulation of socio-economic development.

The District Development Agencies are designed to be special purpose vehicles for the facilitation of *catalytic* local economic development projects that are economically viable in order to unlock the development and economic potential of the district through investment promotion.

## The Role Internationally

Various countries particularly in Europe and North America have used Development Agencies to address special and strategic development opportunities. The establishment of such entities is now common practice around the world. Experience shows that the normal administrative public (bureaucratic) processes are ill adjusted to efficient, effective and economic project management and control necessities, particularly where speed and coordination are necessary (eg. city centre rehabilitation) to ensure the success of the undertaking; and where the private sector is required to be involved (eg. attraction of investors in specific areas).

Most developed countries have adjusted to this project management approach by creating ad hoc public instruments, with the necessary legal persona and appropriate operating structure.

## Short Background and History

Development agencies throughout South Africa have been designed to bridge the gap between the public and the private sector in terms of industrial and economic development. Such agencies are developed to become competitive municipal entities that stimulate local economies and increase regional objectives being:

* Fulfilment of developmental goals and objectives
* Promotion and stimulation of economic growth and investment
* Facilitation and enhancement of local economic development strategies
* Economic empowerment for local communities
* Transformation and reconditioning of socio-economic landscapes

In 2004, the IDC commissioned a manual in response to the prevailing economic development constraint at the local and regional levels in South Africa, viz. the lack of a co-ordinated strategic focus and coherent approach at the operational level regarding assistance in developing local and regional opportunities and potentials. Hence the establishment of development agencies in areas of need around the country was deemed a necessary step in the achievement of balanced, sustainable economic growth and the economic empowerment of the South African population.

Before 2001 agencies were established as section 21 companies. As there were often poor accountability mechanisms between the municipality and the agency, the MFMA specifies that municipalities must now establish an agency as a municipal entity. Chapter 8A of the Municipal Systems Act (MSA) and Chapter 10 of the Municipal Finance Management Act (MFMA) set the legislative framework for the establishment of municipal entities. The MFMA places considerable obligation on a municipality in ensuring that legal and financial management considerations are observed as well as achieving socio economic objectives. These obligations have significant bearing on whether or not any agency will support the municipality achieve its desired outcomes.

As a condition of the grant the 22 IDC-supported agencies are municipal-driven agencies. However, the municipality can be a member of a section 21 company. Agencies that are established as a Section 21 company are not a municipal entity. A Section 21 company is a company not for gain – it can make surpluses but it may not distribute any profits it may make to its members. Where a Section 21 company is to be formed for the purpose of implementing LED it would have therefore have to reinvest any profits it generates in pursuit of its objectives. In general, the presumption is now that a municipal entity will be used and the appropriate vehicle will be a private company - PTY limited.

## The Generic Roles and Functions

The roles and functions of development agencies may be generalised as follows:

* To promote and develop the economic potential of a region through the development of economic opportunities that are in line with the unique competitive strengths of that local economy
* To leverage public and private resources for the development of opportunities which offer economic and development benefits
* To foster and develop the innovation and entrepreneurial potential and activities within a local area through the realisation of key strategic investment projects and programmes
* To use the strengths of an area’s economic environment created by the LED initiatives of the municipalities so that the region can compete effectively for investment that is necessary to reach full economic potential

*In**summary, the vision of a development agency in KwaZulu Natal is:*

*“To identify, package and implement catalytic, strategic, sustainable projects in order to promote and develop economic strength in our province”*

# The Provincial Growth and Development Strategy

Local Economic Development is an ongoing process that includes everything that impacts on economic development and growth in a spatial location and therefore encompasses all interested and affected parties involved in various different initiatives aimed at addressing a variety of economic needs and imperatives.

In May 2018, the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs (CoGTA), appointed a service provider to develop the Provincial Local Economic Development Plan with Project Book per District aligned to the Provincial Growth and Development Plan (PGDP) and National LED Framework. In the development of the Provincial LED Plan, emphasis has been placed on alignment of the plan to the newly revised PGDP goals and objectives along with alignment to the draft Provincial Spatial Economic Development Strategy (PSEDS).

The Provincial Growth and Development Strategy (PGDS) sets the 20-year Vision for the Province as well as the Strategic Goals and Objectives that will drive the Strategy. The Provincial Growth and Development Plan (PGDP) provides the implementation framework for the PGDS and describes the desired outcomes in respect of each Strategic Goal and Strategic Objective through indicators, interventions and targets. To measure progress over 20 years, the PGDP targets are set in 5 yearly intervals.

The main purpose of this PGDP is to translate the PGDS into an implementation plan which will provide a sound platform for departmental, sectoral and stakeholder annual performance planning and therefore to guide resource allocation. In this transition from strategy to plan, the focus is on driving implementation in a coordinated and integrated manner, where progress can be measured against predetermined targets and where roles and responsibilities have been confirmed within established lines of accountability.

The PGDP clearly indicates:

* The desired 2035 outcomes in the 7 goals and 31 objectives, with a focus on 2020;
* A set of indicators that will be applied to measure the progress being made to achieve the desired outcomes;
* The targets and the KZN growth path for 2020, 2025, 2030 and 2035 in respect of each of the indicators;
* The strategic interventions required to achieve the set targets;
* The catalytic projects in support of the PGDP Goals;
* The institutional framework for the implementation of the PGDP; and
* The monitoring, evaluation, reporting and review framework of the plan

**2035 Vision**

KwaZulu-Natal will be a prosperous Province with a healthy, secure and skilled population, living in dignity and harmony, acting as a gateway to Africa and the World

It is recognized by the Local Government Strategic Agenda that competitive and comparative advantages of municipalities can only be achieved by developing their relationships through a strong partnership with national and provincial department, state owned enterprises, organized business and communities.

*The Departmental Annual Performance Plan and National LED Framework mandates the LED unit to develop an LED Plan to identify key niches for the Department of Cooperative Governance and Traditional Affairs to be engaged with in order to support economic growth and assist municipalities to understand their unique role in contributing to the national economy.*

The Provincial Local Economic Plan will ensure efficient implementation of the existing LED programme without replication. It further goes on to say that provinces have an important role to play in guiding local governments in contextualising national imperatives and grounding them within the realities and specificities of each province. Provincial governments thus play a leading role in ensuring that economic planning, infrastructure investment and development spending takes place in accordance with the principles set out in National policy frameworks and development plans. Thus, provinces ability to align and integrate with National policies will contribution significantly in achieving economic growth. Therefore, in assessing the Districts LED’s alignment to policy, the Provincial Growth and Development Plan has been identified as a key tool for guidance, coordination and alignment and has been the primary framework utilized to benchmark Districts LED’s alignment to policy.

*The Provincial Growth and Development Plan provides an essential linkage between national and local development processes and can assume a pivotal role in influencing horizontal linkages within LED ensuring that development at the sub-provincial level takes place in an integrated manner.*

## Responsibility of Development Agencies

According to the KZN Provincial LED Plan report (2018), Development agencies should be able to strengthen the capacity of municipalities to leverage social partnerships and to accelerate local economic development. they can also serve as a platform where the private sector and civil society can make a meaningful contribution to the development agenda, together with the local and district municipalities. Listed below are the roles that development agencies have in Local Economic development.

**Economic Roles**

* They act as a risk and cost sharing manner using entrepreneurial approaches.
* They are responsible for Intermediating with investment, assets, infrastructure, land,  property, finance, planning and marketing/promotion
* They take on tasks that are outside of government due to nature of commercial disciplines  and focus require, risk managed, and creativity involved

**Leadership roles**

* The Development Agency plays a key role in fostering a long-term plan and vision for the territory, galvanising the interests of multiple leaders and setting out a new future around which resources can coalesce.

**Governance and co-ordination roles**

* The Development Agency helps to facilitate practical co-ordination towards the pursuit of the development strategy
* It is the chief practical mechanism for co-ordinated multi-lateral action.

**Implementation roles**

* Task dedicated and capable teams to focus on pursuing the development strategy, this will involve complex project management and finance skills, business/investor facing services, and the ability to design and use new tools quickly

## LED Approach in KZN

The LED Plan for KZN (2018) suggests 5 concepts as an approach for LED within the province. The discussion and adoption of these concepts support approaches adopted in the PGDS and seek to further focus attention to ensure:

* Greater impact and improving relevance;
* Improving coherence with respect to government interventions;
* Understanding the relationship between all parts of the economy within the province;
* Highlights the relationship between various geographies of the province; and
* Linking visually the relationship between urban and rural dependence.

The five concepts should be read together, reinforcing each other and providing a co-ordinated approach to LED

1. Adding a Value Chain Approach
2. Clustering
3. Contextualising Micro Enterprises in the LED Framework
4. Mapping of Economic Regions
5. Funding Model

# District Development Agencies in KZN

## A Short Background

The global economic downturn of 2007 to 2009 impacted severely on the KwaZulu-Natal economy and consequently resulted in declining employment, loss of investor confidence and reduced spending on high-impact economic development projects and programmes. The downturn necessitated that KZN develop and initiate local solutions to stave off the impact of national and international economic crises. As a result, the KZN provincial government, together with its social partners (including Organised Labour, Chambers of Commerce and Industry and other formations), convened an Economic Recovery Summit in 2009. The aim of the summit was to:

* Prevent further job losses, and retain and increase employment in the province
* Increase KZN firms’ competitiveness
* Tactically and strategically plan to eliminate poverty in collaboration with private sector investment.
* Provide the platform for engagement and present a united profile to the international community
* Form a point of contact for all strategic investments
* Stimulate local production
* Enhance infrastructural investment

Economic conditions in the province worsened over this period and it was resolved in 2011 that the Provincial Growth and Development Strategy needed to introduce new strategies to streamline development and achieve economic growth and, most importantly, job creation. It was determined that KZN needed new approaches to development and that government must be proactive in driving economic delivery. In light of this, the Provincial Investment Promotion Strategy also identified a need for coordinated development bodies at a district level to champion economic development throughout the province.

Coupled with the backdrop of economic growth and investment challenges in the province, it was identified that LED units within municipalities were under-capacitated and straining to implement high impact, strategic investment projects and programmes. The KwaZulu-Natal Department of Co-Operative Governance and Traditional Affairs (KZNCoGTA) led an LED Benchmarking Programme in 2012 and the findings of this supported the fact that municipalities throughout KZN did not have the institutional and technical capacity, time, skills and resources to undertake and implement LED projects and programmes, notably of a high-impact, large-scale nature.

Given the above conditions, the establishment of District Economic Development Agencies was identified as a key indicator in the KZN Provincial Growth and Development Strategy (PGDP). This indicator was extensively deliberated at the KZN Provincial Cabinet held on the 11 – 13 September 2012 where the following resolutions were taken:

* To establish district development agencies to provide effective business and investor facilitation and support to reduce regulatory burden
* That the Department of Co-Operative Governance and Traditional Affairs, in partnership with the South African Local Government Association (SALGA), be mandated with the task of supporting municipalities in establishing these development agencies.

This resolution is in line with government’s draft National LED Framework (2014 – 2019) which advises municipalities to establish economic development agencies that are focussed and specialised.

The District Development Agencies are designed to be special purpose vehicles for the facilitation of specific local economic development projects and programmes and to unlock the development and economic potential of the district through investment promotion and high-impact project and programme implementation. This is necessary in order to stimulate and enhance the socio-economic environment and develop the region in a manner that is conducive for job creation and poverty alleviation.

## Vision and Objectives

The District Development Agencies are designed to be special purpose vehicles for the facilitation of specific local economic development projects and programmes and to unlock the development and economic potential of the district through investment promotion and high-impact project and programme implementation. This is necessary in order to stimulate and enhance the socio-economic environment and develop the region in a manner that is conducive for job creation and poverty alleviation.

*“To identify, package and implement catalytic, strategic, sustainable projects in order to promote and develop economic strength in our province”*

## Development Planning Framework

Although they are in different stages of establishment, all districts in the province have resolved to set-up district development agencies (indicated by the table below):

|  |  |
| --- | --- |
| DEVELOPMENT AGENCY | DISTRICT MUNICIPALITY |
| Amajuba Development Agency | Amajuba District |
| uThukela Development Agency | uThukela District |
| uMzinyathi Development Agency | uMzinyathi District |
| uMgungundlovu Economic Development Agency | uMgungundlovu District |
| Harry Gwala Development Agency | Harry Gwala District |
| Ugu South Coast Development Agency | Ugu District |
| Umhlosinga Development Agency | uMkhanyakude District |
| Enterprise Ilembe | Ilembe District |
| King Chetswayo | King Chetswayo District |
| Zululand Development Agency | Zululand District |

Table 1: District Development Agencies in KZN

The LED units in municipalities (both district and local) remain critical entities within the LED institutional landscape of the district. The LED unit is responsible for the creation of an environment that is conducive to economic development in the district and for setting the policy and strategic focus that governs LED. LED units will continue to be involved in small-medium-micro enterprise (SMME) development, capacity-building and training, co-operative support and development, business retention and support programmes as well as the eradication of poverty through social programmes. The relationship between the DDA and the LED unit is therefore a symbiotic one of mutual dependency – one simply cannot function optimally without the other**.**

Local economic development is multi-faceted and multi-dimensional. There are a number of different but interdependent pillars of LED that need to be addressed in order to achieve an environment that is conducive for economic development and investment. Given the many aspects of LED that need to be addressed, municipalities have generally been unable to address LED in its entirety. This has led to inabilities to implement the high-impact, large-scale economic development projects and programmes necessary to stimulate economic development at a regional level. Effective intergovernmental co-ordination and communication across the national, provincial and local spheres of government through the legislated intergovernmental structures, processes and systems are integral to adequate implementation of LED policy. The spheres of government must ensure integrated planning in line with growth and development frameworks. LED policy cannot be insulated from the imperatives of the provincial government through the formulation of the provincial growth and development strategies. This provincial strategic development framework provides the basis within which LED policy planners should locate the growth and development priorities of the province and give direction to the content of the LED policy. This synergy of both the PGDS and LED policy is imperative for ensuring integrated development planning with the two spheres of government and thus realise the fundamental objectives of intergovernmental relations.

# The Legal Position of DDA’s

## Ownership

National policy recognises that the sustained pursuit of economic development requires a distinct focus on resources within local government. DDAs are Special Purpose Development Companies that focus on the implementation of ***catalytic,*** ***Strategic, Sustainable Economic Projects***

Essentially the District Municipalities remain responsible for the DDA but the financial commitment of the DDA DMs remains separate. The goal is for the DDA to become partially self-funding over time through the implementation of (investment / revenue generating) Catalytic Projects.

According to Section 86D (1) and (2) of the Municipal Systems Act, municipal entities can be established by more than one municipality and can include other organisations from government and from outside government. However, the shareholding of the municipalities together must be greater than 51%. The parent municipalities are also required to have their relationship defined in order to ensure that they comply with legislation in relation to the entity.

## Delegations of the Board

The Board of Directors should comprise of individuals with varying skills and experience in business and project implementation. Attention should also be given to experience and expertise in:

* The main economic sectors: tourism, agriculture, commerce and industry, property development and investment, economic infrastructure
* Knowledge of the LMs economies and sensitivities

This will allow the Board to address issues holistically and with the contribution and knowledge-sharing of varying opinions and experiences. It needs to be stressed that the Board’s experience and knowledge is vital to the sustainability of the Agency and therefore the appointment of the Board needs to be a stringent process of selection and consideration.

It is recommended that an uneven number of Board Members be appointed.

The Kings III Report provides guidance the board of directors in its responsibility to the District municipality and also the community. In addition to written board resolutions, levels of authority and materiality delegated to management should be approved by the board and clearly recorded in the Authorities Framework encouraged by the Corporate Governance culture.

93F Disqualifications

A person is not eligible to be a Director of a Municipal Entity if he or she

* holds office as a councillor of the municipality
* is a member of the National Assembly or a provincial legislature
* is a permanent delegate to the National Council of Provinces
* is an official of the parent municipality of that municipal entity
* was convicted of any offence and sentenced to imprisonment without the option of a fine and a period of five years since the completion of the sentence has not lapsed
* has been declared by a court unsound of mind; or
* is a rehabilitated insolvent

## Treasury Regulations

The specific responsibilities of National Treasury (NT) in developing the risk management activity in Municipal Entities include:

* To monitor and assess the systems of risk management in Municipal Entities;
* To assist with building risk management capacity in Municipal Entities and;
* To enforce the MFMA (by implication the specific prescripts therein pertaining to risk management) in Municipal Entities.

National Treasury must monitor and ensure that Municipal Entities implement effective, efficient and transparent systems. Section 5(2)(c)(i) states that the NT may monitor and assess compliance by the Municipal Entities with the MFMA. Section 5(2)(f) empowers NT to take any other appropriate measures to perform its functions effectively. These particular prescripts therefore permit NT to monitor and assess risk management within the local sphere of government.

## MOU’s

The terms of reference of the board and committees, roles and responsibilities of the directors, as well as the company’s code of ethics for directors and employees, must all be in line with the expectations of good governance practices. This, together with the established policies on matters such as auditing, human resources, social investment and procurement will provide a sound framework for sustainable corporate governance within the District Agency.

The purpose of the MOU is to reinforce an understanding between the relevant parties in as far as service delivery and all issues of mutual interest. This understanding may manifest into Service Level Agreements to be entered into between the parties with a view of creating obligations and responsibilities in relation to specific identified service delivery projects. The envisaged Service level Agreements shall be informed by the dictates of Section 76, 77 and 78 of the Local Government Municipal Systems Act 32 of 2003 as amended as well as other relevant legislation.

## Municipal Services Partnership

## The Municipal Service Partnership (MSP) Policy provides the framework within which to formulate relationships and leverage resources of public institutions, CBOs, NGOs, and the private sector towards meeting the country’s overall development objectives.

The MSP Policy and its legislative expression in the Systems Act and MFMA provides municipal councils with a framework for considering the use of MSP arrangements. Particularly through the detailed section-78 process, it will help municipalities to identify and use appropriate partnership arrangements in their efforts to rectify infrastructure backlogs and build a foundation for equitable growth in their communities. The objective of the MSP Policy is to ensure that MSPs are applied in a manner that supports the Constitutional obligations of municipalities and the Constitutional rights of communities. The MSP Policy and legislative framework will create a more conducive environment for MSPs arrangements by addressing the gaps and constraints that presently limit the use of MSPs. This will make MSPs a viable and functional service delivery option and will thereby help municipalities to plan, finance, and accelerate the delivery of municipal services. Municipalities will also be assisted in establishing systems to monitor the performance of service providers to ensure that they perform according to expectations and report on this to their communities. Finally, the MSP Policy supports and encourages better information flow, value for money, avenues for citizen’s redress and, importantly, courtesy in service delivery.

Typical MSP arrangements include:

* **Service Contract:** this is where the provider receives a fee from the municipality to manage a particular aspect of a municipal service. Service contracts are usually short-term (one to three years). Generally, the municipality’s requirements are very specific and the output specifications against which the service provider is measured are agreed up-front and are specific. The service provider takes no collection risk. Research suggests that this type of arrangement is a starting point for involving CBOs and NGOs in municipal service provision with the other arrangements being considered as capacity and experience are developed over time.
* **Management Contract:** Under a management contract, the service provider is responsible for the overall management of all aspects of a municipal service, but without the responsibility to finance the operating, maintenance, repair, or capital costs of the service. Management contracts are typically for three to five years.
* **Lease:** In a lease, the service provider is responsible for the overall management of a municipal service, and the council’s operating assets are leased to the contractor. The service provider is responsible for operating, repairing, and maintaining those assets.
* **Build/Operate/Transfer:** Here the service provider undertakes to design, build, manage, operate, maintain, and repair, at its own expense, a facility to be used for the delivery of a municipal service. The council becomes the owner of the facility at the end of the contract.
* **Concession:** In a concession the service provider undertakes the management, operation, repair, maintenance, replacement, design, construction, and financing of a municipal service facility or system.

## Service Level Agreements

A service level agreement (or SLA) is a practical and widely used tool to manage the relationship between a municipality and District Development Agency. It records the common understanding between the parties and is regarded as a “living document” which can be often referred to and not signed and filed away.

The following key points should be defined in order to create a SLA that works:

* the service to which the SLA applies;
* a set of criteria or objectives to measure whether the objectives have been met;
* to whom the SLA applies (between the District municipality, and District Development Agency);

There is no such thing as a generic “service level” agreement. Why? The content is entirely dependent on what the actual service is. It is necessary to identify and quantify the key activities.

* the responsibilities of each person involved;
* how the service levels will be measured (if it cannot be measured there is no point having a service level)

The service levels are at the heart of the relationship, as they set out the agreed criteria by which the DDA and municipality can objectivity demonstrate that the objectives have been achieved. A SLA is a means of forming a creative and effective working relationship between municipal entities and the DDA.

**CASE STUDY EXAMPLE: Mandela Bay Development Agency**

The Mandela Bay Development Agency (MBDA) was mandated by the Nelson Mandela Bay Metropolitan Municipality (NMBM) as a trans-disciplinary implementing agent for programmes, projects and events which have a number of defined objectives which include:

• Enabling social, spatial and economic transformation;

• Implementing existing and identify new projects, programmes and events within its mandated areas referred to as “designated localities, nodes and precincts (of different scales)” which are to be aligned to the various plans of the NMBM which include the following:

• To leverage existing or acquired resources such as assets, property and provide for skills development to ensure the successful implementation.

• To deliver catalytic programmes, special defined projects and events

• Undertaking relevant research as required and to define and implement collaboration with key research institutions;

• Ensuring compliance with all relevant legislation concerning Local Authorities including the Municipal Finance Management Act (MFMA), the Municipal Structures Act and the Municipal Systems Act (MSA) in terms of which all projects are to be subject to a pre-screening process in collaboration with the NMBM processes; and

• Having signed Service Level Agreements prior to execution.

# The Structure of DDAs

## The Board and Their Roles and Functions

Each District Development Agency shall function with its own staff complement relevant to the demand for staff and the particular projects and programmes to be implemented. Each Agency will be governed by an independent Board of Directors, nominated by the residents of the district and appointed by the district municipality, in accordance with the provisions of the Municipal Systems Act.

The Board is responsible for ensuring that the Development Agency is managed effectively and that the resources of the entity are legitimately utilized for the sole and exclusive purpose of furthering the mandate of the organization.

Staff will be appointed to specific units within the development agency in order to best implement projects and programmes**.**

FUNCTIONS OF THE BOARD

1. The preparation of a fully integrated strategic plan and operational framework for the agency with, and on behalf of, the district municipality foremost and also the family of local municipalities.
2. The co-ordination and facilitation of the implementation of the plan, including its spatial, economic and environmental dimensions, its regulatory, budgetary, financial and legal implications and its social and economic consequences.
3. The identification of projects and programmes and facilitation of the preparation, and evaluation, of business plans.
4. The management and co-ordination of stakeholder relations especially the district and local municipalities.
5. The management of the relationship with actual and potential investors and entrepreneurs.
6. The management and co-ordination of effective communications.
7. Ensuring the sound management of the agency including governance issues

The Municipal Systems Act (Act 32 of 2000) provides clear guidelines on the establishment process of the board of directors. The act also provides a clear list of factors for persons who cannot sit on the board of directors in a Municipal Entity.

According to the Municipal Systems Act (93E and 93F), key personal considerations are required in order to select Board Members:

* Are experienced in corporate governance and have experience having been on boards of a similar nature.
* Are knowledgeable about the economic development circumstances and objectives at a district, provincial and also national level. International experience is an added advantage.
* Have reasonable and appropriate expertise in one or more of the following fields: tourism, commerce, agriculture, agricultural processing, finance, manufacturing and commerce.
* Are knowledgeable and are committed to the transformation imperatives and challenges faced by municipalities.
* Are prepared to attend board meetings at least four times per annum.
* Are prepared to work for little commercial remuneration for being a director of the agency.
* Accept joint responsibility for the management and conduct of the agency in terms of current applicable company, and other, legislation.
* Are prepared to commit their services to the agency for a period of no less than three years.
* Have good contacts and/or relationships with people or organisations of influence that could assist the agency in attracting funds, investors or influence in assisting the agency to achieve its socio-economic goals.

**SPECIFICATIONS FOR A BALANCED BOARD OF DIRECTORS**

* Knowledge and experience of the district and national businesses/economic environment
* It is essential that the board of directors should have knowledge and experience at national; (international experience would be an additional advantage); provincial and district level that relates to economic and business development and investment promotion
* Sector experience
* The members of the board should have a cross-section of knowledge and experience in at least tourism, agriculture and forestry, industry and commerce, business services, economic development and investment promotion.
* Key qualifications
* The board of directors should consist of persons with a range of qualifications in legal matters, accounting, project management, business processes and management.
* Key experience
* The board of directors needs to have key experience in business strategy development, business management, economic development, investment project conceptualisation and project implementation.

## Committee Structures

In terms of of the legislation including the MMFA and Companies Act, there are certain committee that the District Development Agency has to have. These include:

* Audit Committee
* Ethics Committee
* Supply Chain Management Committee
* Finance Committee

## Remuneration of Directors

King IV 2016 recommends that the governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. Furthermore, the governing body shall foster enhanced accountability on remuneration through:

* more definitive disclosure requirements
* separate non-binding votes on the policy and the implementation report
* stakeholder inclusion
* use of performance measures that support positive outcomes to be  disclosed
* Fair, transparent and responsible remuneration for executive management in the context of overall employee remuneration
* Acknowledges the need to address the gap between the remuneration of executives and lower paid workers

Guidelines according to the National Treasury 2018 remuneration of non-official members (regulation 20.2.2) are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Commission of Inquiry | | Committee of Inquiry | |
|  | Per day | Per day | Per hour | Per day |
| Chairperson | R 5,230.00 | R 654.00 | R 4,317.00 | R 540.00 |
| Member | R 3,888.00 | R 486.00 | R 2,619.00 | R 327.00 |

Table 2: Committee remuneration guidelines

With reference to Treasury Regulation 3.1.6, the remuneration applicable to Committees of Inquiry is applicable to members of ***Audit Committees*** appointed from outside the public service. The indicated rates are sitting fees and exclusive of payments in respect of preparation, research and travelling (to and from meeting venues) time and are VAT inclusive.

Current VAT laws according to SARS (2018) require non-executive directors (NED) to register and charge VAT in respect of any director’s fees earned for services rendered as a non-executive director.

*The full remuneration package for Directors for the purpose of this Toolkit is still to be confirmed by the relevant Treasury department.*

## The Management Structure

Each District Development Agency shall function with its own staff complement relevant to the demand for staff and the particular projects and programmes to be implemented. Below is a generic organogram that emphasises the project and programme focus of the development agency. Staff are appointed to specific units within the development agency in order to best implement projects and programmes**.**

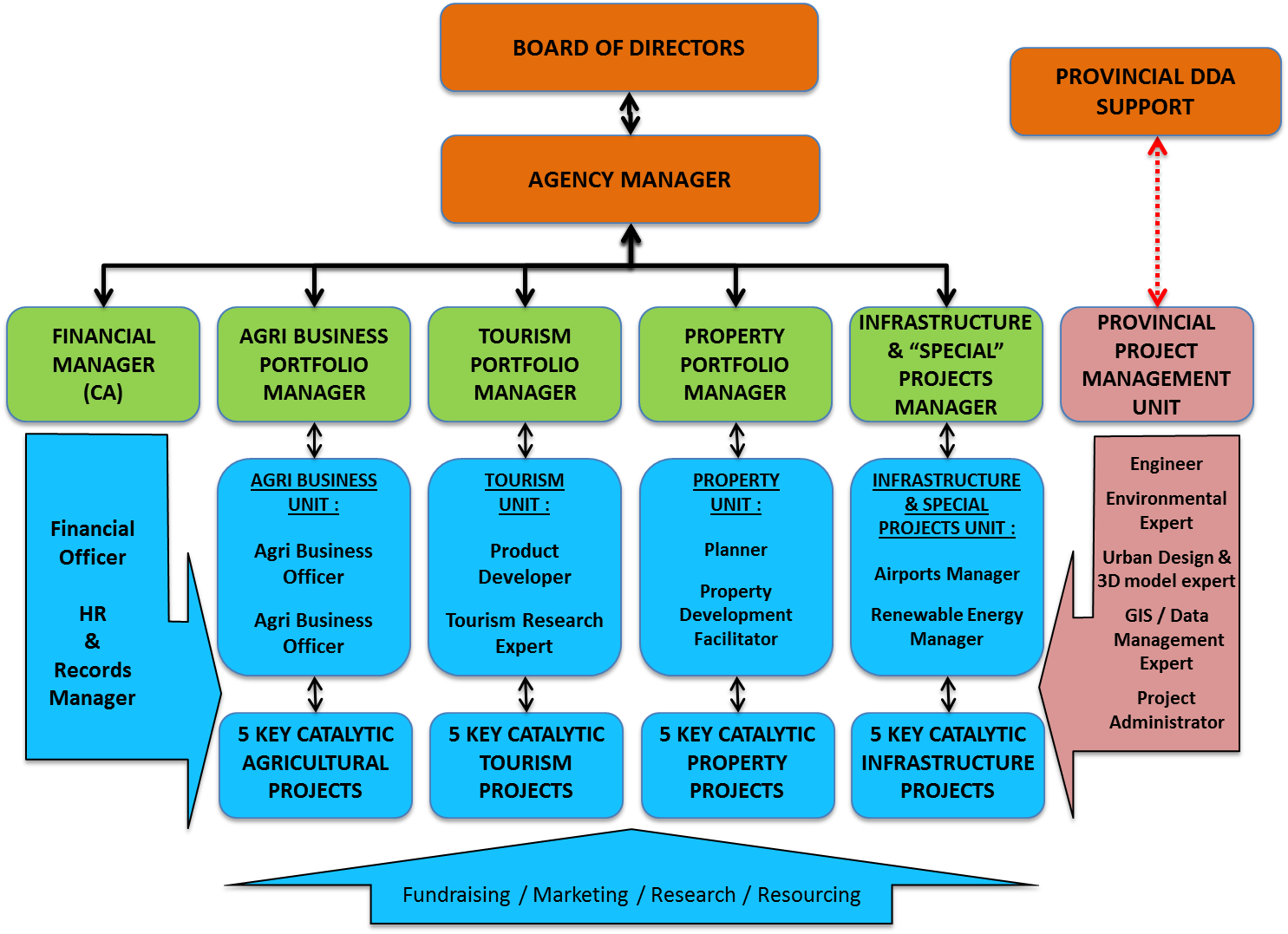


Figure 1: Generic Organogram

The staffing structure for the development agency should follow the strategy of the agency with a focus on the identification, conceptualisation, facilitation and packaging of catalytic projects and programmes. It is the projects and programmes and the implementation thereof that will drive the sustainability of the development agency.

**Recruitment and Appointment Process**

The process of appointing staff will be a stringent advertisement and interview process. The recruitment policy must be in compliance with legislation and in particular, the Employment Equity Act 55 of 1998, which provides against unfair discrimination of an employee or applicant for work, in employment practices or policies, on one or more grounds, including race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language and birth.

It is the board’s responsibility to appoint the agency manager and then the other key staff. The criteria for appointing the agency manager should be strictly in order for the most appropriate individual to be appointed to the role. Below are the recommended criteria for the agency manager of the development agency:

**Key qualifications and experience required**

Relevant postgraduate degree and experience in:

* Setting Goals and targets and monitoring the company performance
* Co-ordination, management and monitoring of annual plans
* Co-ordination and management of economic development and/or LED projects

**Key skills required**

* Strategic leadership
* Entrepreneurship
* Business modelling and strategy development
* Project management
* Financial oversight
* Public relations
* Investment promotion
* Human resource management

## Frequently used Terms for Directors and Governance Role Players

|  |  |
| --- | --- |
| Director | An individual who is a member of the board of directors or an alternate director of a company and this also includes any person occupying the position of a director or alternate director, by whatever title designated.  The Companies Act, Section 1 |
| Executive Director | A director who is involved in the day to day management of the company or being in the full-time salaried employment of the company (which includes subsidiaries) or both.  “Executive directors should carefully manage the conflict between their management responsibilities and their fiduciary duties as directors in the best interests of the company.”  King III Report Chapter 2, Annexure 2.2 |
| Non- Executive Director | A director who is not involved in the management of the company. “Non-executive directors are independent of management on all issues including strategy, performance, sustainability, resources, transformation, diversity, employment equity, standards of conduct and evaluation of performance.”  “An individual in the full-time employment of the holding company is also considered a non-executive director of a subsidiary company unless the individual, by conduct or executive authority, is involved in the day-to-day management of the subsidiary.”  King III Report Chapter 2, Annexure 2.3 |
| Independent Non-executive Director | An independent non-executive director is a non-executive director who is independent in fact and in the perception of a reasonably informed outsider. Although independence of mind is essential, perceptions of independence are important.  An independent director should be independent in character and judgement and there should be no relationships or circumstances which are likely to affect, or could appear to affect this independence.  Independence is the absence of undue influence and bias which can be affected by the intensity of the relationship between the director and the company rather than any particular fact such as length of service or age.  For further guidance on this role refer to the general guidance note on independence. |
| Lead Independent Non-Executive Director | This is an independent non-executive director who is appointed if the Chairman of the Board is not an independent non-executive director. Therefore, in instances where the Chairman is conflicted, the lead independent director would step in and assume the leadership role.  Therefore, their main function is to provide leadership and advice to the board of directors in instances where the Chairman is conflicted, without detracting the authority of the Chairman. The board of directors may combine the role of the lead independent director with that of deputy Chairman.  For further guidance on this role refer the King III practice note on Lead independent director charter |
| Representative Director/Nominee Director | The representative director is a non-executive director who is appointed to the board of by either a shareholder, an investor, a creditor of the company or possibly even a financial institution or other third party.  Refer to CGN paper on the representative director for further guidance. |
| Appointed Director | In the event that a company’s memorandum of incorporation provided for the direct appointment or removal of any one or more directors by another person provided for in the memorandum of incorporation, such director may be referred to as an appointed director.  The Companies Act, Section 66(4)(a)(i) |
| Elected Director | The instance of a profit companies, excluding state-owned companies, they must provide in their MOI for at least 50% shareholder elected directors as per the Act. The directors appointed as per such provision may be called an Elected Director.  The Companies Act, Section 66(4)(a)(i) and (b) and Section 68(1) |
| Alternate Director | A person who is either elected or appointed to serve, as the instance requires, as a member of the board of a company in the substitution for a particularly elected or appointed director of such company.  The Companies Act, Section 1 |
| Temporary Director | The board of directors may appoint a person who meets the requirement for election as a director to fill a vacancy and to serve as a director of the company for a temporary basis – which is normally until the vacancy has been fulfilled or has been formally elected by shareholders.  The company’s memorandum of incorporation may provide that this is not permitted in the company.  The Companies Act, Section 68(2) and (3) |
| Ex officio Director | An individual who is a director of the company as a result of that individual holding some other office, title, designation or similar status within the company The ex officio director has all powers and functions of any other director of the company unless specifically restricted in the company’s memorandum of incorporation.  The Companies Act, Section 1 |
| Divisional Director | Is not legally a director of the company but they may fall within the ambit of prescribed officers as provided for in the Companies Act. |

**Other Governance Roles**

|  |  |
| --- | --- |
| CEO | The CEO of the company is appointed by the board of directors. The CEO operates in accordance with the terms of the company’s delegation of authority as provided by the board of directors. The CEO is the primary person involved in developing and obtaining board’s approval of core aspects of the company, such as the company strategy, its business plans and budget. The CEO builds a management team and runs the company in line with the approved strategy. The CEO is an employee of the company and therefore has an employment agreement with the company.  Refer to Principle 2.17 of the King III Report for further detail. |
| Chairman | The Chairman leads the board of directors and the King III Report recommends that the Chairman should not be the CEO of the company and that the Chairman should preferably be an independent non-executive director of the company. The Chairman is considered the link between the board of directors and the management in the company.  The Chairman is normally elected in accordance with a company’s board charter or its memorandum of incorporation and by the board of directors. When deciding whom to elect, they should look to electing someone who can provide direction for an effective board.  The Chairman has many roles and responsibilities, such as directing board meetings and agendas, setting the ethical tone, providing overall leadership to the board, formulating the yearly work plan for the board (with the CEO), building stakeholders trust and ensuring the board’s instructions are followed through.  Refer to Principle 2.16 of the King III Report for further detail. |
| Deputy Chairman | The role of the deputy Chairman on the board of directors is primarily to assist the Chairman. In many companies the lead independent non-executive role and the deputy Chairman may be combined.  The deputy Chairman will normally sit as Chairman in instances where the Chairman may be conflicted and recuses himself and also when assessing the Chairman’s performance.  Refer to Chapter 2 of the King III Report for further detail. |
| Company Secretary | The Company Secretary must be appointed for all public companies and state- owned Companies in accordance with section 86 of the Companies Act. The Company Secretary is generally appointed by the board of directors and is required to report to the board.  In accordance with the King III Report, the Company Secretary plays a pivotal role and is required to provide guidance to the board and to the directors individually  Refer to Principle 2.21 of the King III Report for further detail. Refer to Sections 86 and 88 of the Companies Act for further detail. Refer to King III practice note on Company Secretary Evaluation. |
| Prescribed Officers | Prescribed Officers have emanated through the Companies Act, being employees who:   * •  Exercise a general executive control over the management of the whole or a significant portion, of the business of the company and its activities and operations; OR * •  Regularly participate in the exercise of general executive control over and management of the whole or significant portion, to a material degree, of the business of the company and its activities.   Irrespective of title, if one falls with either of the above ambits, one is considered a Prescribed Officer of the company  The Prescribed Officers of a company carry an extensive list of responsibilities and are governed by many sections within the Companies Act and in some instances they carry as much liability as directors. Companies are recommended to identify who their Prescribed officers are as failure to identify the Prescribed Officers may increase the risk of non-compliance with the Companies Act.  The Companies Act |

Table 3: Taken from Institute of Directors SA

# Inter-Government Relations

## Relationship with Municipality

The legal relationship between a municipality and a municipal entity is set out in detail both in the MFMA and in the Systems Act. In essence the municipality establishes the entity either by way of a by-law or by way of agreement or in terms of the Companies Act, sets the goals and objectives to be reached, and appoints the board of directors. In terms of section 93A of the Municipal Systems Act, the parent municipality must then allow the board of directors and the chief executive officer of the municipal entity to act autonomously to fulfil their responsibilities in line with a clearly defined establishment mandate.

The municipality is expected to set the policy objectives, to provide the money in terms of the budget and then to ensure that these objectives are met by the agency. Most councils will not have the budget but would rather provide immovable assets.

In order to ensure clarity of roles between the district municipality, local municipality and the DDA, institutional structures need to be planned and agreed upon including:

* To develop and conclude a Shareholders compact with the District Municipality and to review and update the agreement annually;
* To develop a Service Level Agreements for individual projects that relate to the District Municipality and to the local municipalities;
* To organise structured and planned meetings between the Board Chairman, the Mayor, the CEO and the MM;
* To adhere to the provisions of the Municipal Systems Act and the MFMA relating to reporting procedures between the MM and Mayor.

## Relationship with other stakeholders (at project level)

The District Development Agency needs to interact with a number of key stakeholders. The following stakeholders are identified as key role players for knowledge sharing, relationship building, challenge and issue resolution, capacity building and training, oversight, support and most notably, project delivery:

**Business Retention & Expansion**

Business Retention and Expansion (BR&E) is a tool that is useful in identifying projects, building relationships and developing social capital within a local economy. A BR&E programme should be incorporated into the planning process of establishing the District Agency.

* National government departments
* KZN provincial government departments
* Other government / development agencies (including the newly established Small Business Development Agency which shall work together with DDAs to have a presence within the District)
* Donor funders
* Non-governmental organisations
* Private sector

It would be beneficial to set up a forum where all DDA’s could meet on a quarterly basis to discuss issues. Minutes of these meeting should be kept and provided to COGTA to be used towards a monitoring and evaluation exercise at a later stage.

Support for the DDA’s in terms of investment attraction, financial support, as well as technical support (in terms of feasibility studies, GIS advice etc), should be a combined effort from all provincial investment agencies that would include, but not limited to Trade & Investment KwaZulu Natal (TIKZN), the Department of Economic Development, Tourism and Environmental Affairs (EDTEA) as well as Cooperative Governance and Traditional Affairs (COGTA). Their combined support at a provincial level will provide relationship building, shared learning, accelerated economic development, enhanced social capital and capacity building.

## Enhancing the principal of self-sustainability

DDA’s should enhance the principal of self-sustainability and reduce their internal operational cost by optimising the utilisation of existing free resources and capacity available from the following “Support Partners”:

* Provincial Sector Departments in terms of Operation Vula, which include the following:
* KZN Department of Cooperative Governance & Traditional Affairs
* Department of Economic Development Tourism & Environmental Affairs (EDTEA) (including TIKZN, KZN Growth Fund and other relevant entities)
* Department of Agriculture and Rural Development (DARD)
* Agribusiness Development Agency (ADA)
* Department of Trade and Industry (DTI Incentive Schemes)
* Other Sector Departments as may be identified.
* NGO’s, NPO’s and CBO’s
* Organised Business Forums and Chambers
* Sector Specialists
* Local & District Municipal LED Units
* South African Local Government Association (SALGA)
* KZN RASET Project Management Unit (PMU) as part of Operation Vula
* Any other relevant organised stakeholder identified that can add value and support the DDA (some will be involved ongoingly and some will be involved on a project basis only)

The partnership between DDA’s and “Support Partners” should be formalised through an MOA or MOU whereby the relevant “Support Partners” provide specific support services to the DDA on the following developmental matters.

* Development strategy formulation and implementation
* Project identification and packaging for targeted funders
* Project Implementation Support – Project, Contract & Procurement management support
* DDA capacity building programmes in partnership with tertiary education institutions
* Sourcing of project funding
* Overall coordination & alignment of development initiatives amongst all “Support Partners” and the DDA
* Project implementation monitoring & evaluation (impact assessment)
* Red Tape Reduction for development applications

In order to ensure effective and co-ordinated interaction between the DDA’s and the various “Support Partners”, specific institutional arrangements and structures needs to be established, including:

* District Development Forum (DDF) for each specific District Municipality consisting of the relevant DDA and all relevant local “Support Partners” identified.
* Provincial Development Forum (PDF) consisting of all the DDA’s in the province and relevant Provincial and National “Support Partners” identified.

TOR’s needs to be developed to clarify the roles and responsibilities of the various stakeholders. Other existing District and Provincial LED Forums might be incorporated into the DDA Forums, like:

* Municipal and Provincial LED Forums
* KZN Funding Forum (Business Enabling Fund)

# Good Governance and Operating Policies

## Principles of Good Governance – The Kings Report

Specific disclosure recommendations are included under each principle of the King IV Code. These recommendations are intended as guidance and a starting point for disclosure on the particular principle.

The detail of information to be provided in the narrative should be guided by materiality, and should enable stakeholders to make an informed assessment of the quality of the organisation’s governance. There is no need to disclose whether each practice has been implemented or not, as this is quantitative and does not necessarily add to the quality of disclosure. There is also no need to disclose against the outcomes, as it can be left to the user to draw inferences from the narrative provided.

The are 17 principals of the Kings IV that guide an organization to achieve good governance practices. They can be grouped according to the following outcomes (Nienaber 2016):

ETHICAL CULTURE

1. Ethical leadership
2. Effectively managed ethics
3. Responsible corporate citizenship

GOOD PERFORMANCE

1. Appreciation of the business’ inseparable elements
2. Enable stakeholders to make informed assessments

EFFECTIVE CONTROL

1. Governing Body as custodian of governance
2. Effective board compositions
3. Balancing power and responsibilities
4. Appointment of competent executive management
5. Performance evaluations for improved performance and effectiveness
6. Govern risk and opportunity to achieve strategic objectives
7. Manage technology and information to achieve strategic objectives
8. Legal compliance
9. Fair and transparent  remuneration
10. Internal and external assurance

LEGITIMACY

1. Stakeholder inclusivity
2. Responsible institutional investors

## Operating Policies

The following are examples of policy documents that should be developed when setting up the DDA:

|  |
| --- |
| SUBJECT |
| Local & Overseas Travel Policy |
| Leave Policy & Procedure |
| Fixed Asset Policy & Procedure |
| Human Resource Policy & Procedure/ Recruitment Policy & Procedure |
| Disciplinary Code And Procedure |
| Creditors Payments Policy & Procedure |
| Staff Development Policy |
| Social Responsibility Policy |
| Confidentiality Policy |
| Salary payment Policy & Procedure |
| Supply Chain Management Policy |
| Company Vehicle Policy |
| Performance Appraisal Policy |
| Safety and Security Policy |
| Environment Policy |
| Staff Performance Management Policy |
| Executive Performance Management Policy |
| Verification Policy & Procedure |
| Code of Conduct Policy |
| Project Management Operations Manual |
| Supply Chain Procedure for Goods R2000 to R200 000K |
| Standard Operating Procedures |
| Audit and Risk Committee Charter |

## Human Resources

The King IV report recommends in terms of remuneration policy that the governing body should:

* Set direction of how remuneration should be approached on an organisation-wide basis
* Approve the policy that gives effect to its direction on fair, responsible and transparent remuneration

The report further recommends that the board oversees that the implementation of the remuneration policy results in all of the following:

* To attract, motivate, reward and retain human capital
* To promote the achievement of strategic objectives within  the organisation’s risk appetite
* To promote positive outcomes
* To promote an ethical culture and responsible corporate citizenship

The governing body should ensure that remuneration is disclosed by means of a remuneration report in three parts:

**A BACKGROUND STATEMENT**

Provide the context for remuneration considerations and decisions regarding:

* Internal and external factors that influenced remuneration
* Most recent results of votes on policy & report
* Key areas of focus and decisions taken including substantial changes to the policy
* Whether remuneration consultants have been used and whether the committee is satisfied that they were independent and objective
* The view of the remuneration committee on whether the policy achieved its stated objectives
* Future areas of focus

**AN OVERVIEW OF THE MAIN PROVISIONS OF THE POLICY**

* Remuneration elements and design principles for executive management and at a high level for other employees
* Obligations under executive contracts
* Performance measures used to assess the achievement of strategic objectives and positive outcomes including the weighting and period of time over which measured
* An illustration of potential consequences on the total remuneration on a single, total figure basis – minimum, targets and maximum performance outcomes
* An explanation of how the policy addresses fair and responsible executive remuneration in the context of overall employee rem
* The use and justification of benchmarks

**AN IMPLEMENTATION REPORT CONTAINING DETAILS OF REMUNERATION AWARDED DURING THE REPORTING PERIOD**

Includes remuneration disclosure in terms of the Companies Act:

Remuneration of each member of exec management, *in separate tables:* 

* A single, total figure of remuneration, received and receivable for the reporting period, all the remuneration elements, disclosed at fair value
* Details of unvested variable remuneration awards in current and prior years including the number of awards, the values at date of grant, vesting and expiry dates and the fair value at the end of the reporting period
* Cash value of all awards that were settled during the reporting period

Performance measures, weighting, results

Reasons for any payments made on termination of office

A statement regarding compliance with, and any deviations from, the remuneration policy

# Operations of the DDA

*Strategic management is the process by which organisations function and are successful or not. The budget should not drive the management process – the strategy does.*

## The Strategic Business Plans of the DDA

The role of the DDA is to act as an agent for and on behalf of the District Municipality in implementing economic, social and environmental policies and projects, as identified by or agreed with the District and local Municipalities. The DDA will co-ordinate the implementation of a sustainable, long- and short-term District Development Programme; including its spatial, economic, social and environmental dimensions, it’s regulatory, budgetary, financial and legal implications and its social and economic consequences. It is in essence a ‘one-stop’ contact point for access to possible development funding or technical assistance.

The portfolio of projects selected by the DDA should address all priority sectors of the District.

Figure 3: Project cycle

The DDA will provide services that include

* undertaking feasibility studies
* preparing business plans
* environmental studies
* prepare funding applications
* put project and programme management plans in place

*It is important to note that not only will the implementation of projects require funding, but the phases leading up to the confirmation of project too, including feasibility studies and specialist consultations. This will require support from Provincial Investment Agencies such as TIKZN, COGTA, EDTEA.*

The project and programme list is designed to be revised annually in order to take the Integrated Development Plans (IDPs), the Growth and Development Strategies (GDSs) and Local Economic Development Strategies (LEDs) as well as any new self-identified projects and programmes into account. Self-identified projects and programmes from the DDA can be fed back into the IDPs and GEDs making this a dynamic and interactive process. Important criteria that will be taken into account in the identification and selection of the catalytic projects and programmes are:

Project management is a key tool that will provide the District Development Agency with a clear annual plan that will not be amended in that cycle

* Employment opportunities generated by the projects and programmes
* Income generated for the people of the district
* Contribution to building the assets base of the district and of the people
* The scale and nature of the project and its associated backward and forward economic multipliers
* The extent that private sector investment can be attracted and the realisation of sustainable business opportunities
* The potential to generate future interventions and projects (in other words the replicability of the project and programme)
* The ability of the project to generate an income for the agency.

## Tax Implications

A manual as a guideline for use by the various local development agencies[[1]](#footnote-1). There are however a number of issues regarding tax which is still uncertain. One such an example is where immovable property of the municipality is made available to an agency for development and whether the agency will have to pay capital gains tax or grant tax if such immovable property is developed and disposed of. Further investigation will have to done and a tax directive will have to be obtained from SARS. A further concern is that the various SARS offices will make different rulings on aspects pertaining to municipal entities and in this respect the SARS Head Office should be approached to coordinate the rulings so as not to have conflicting rulings in the various provincial offices.

## Types of Projects and Programmes

The logical framework approach is a methodology mainly used for designing, monitoring and evaluation which are linked to a measurable framework which can be evaluated. The DDA must develop a logical framework for each project in order to achieve the desired overall business objectives and mandate. The logical framework should be focused on the following elements of the project:

* Relevance – the appropriateness of project objectives;
* Economy – acceptable levels of costs incurred, and funding invested, in relation to desired outcomes
* Efficient – correct use of resources to achieve the desired outcomes;
* Effectiveness – ensuring that the outputs have achieved the desired specific objectives;
* Impact – the contribution of the project with its wider sectoral objectives;
* Economic and financial viability – the social cost and benefits of the project and
* Sustainability – the ability of the project created entities to continue operations and for the project to achieve the desired outcome in terms of lifecycle parameters.

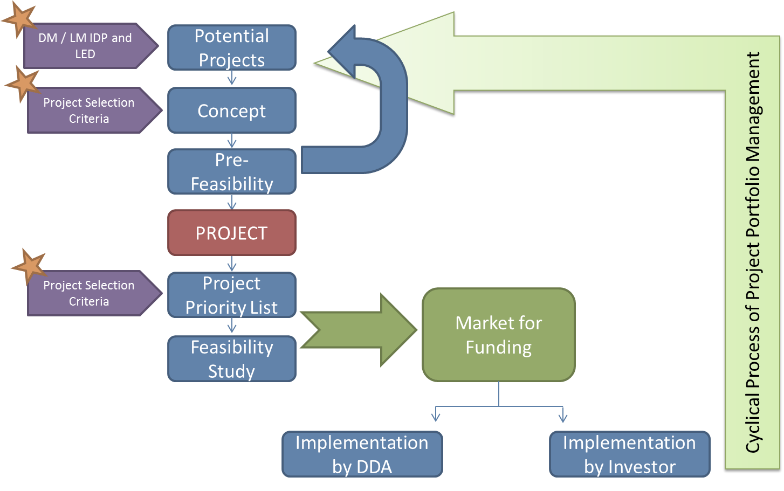


Figure 4: Management of the Project Portfolio

# Financials

A budget will need to be prepared for each Development Agency which will include:

* finance for monthly operating costs,
* periodic instalments
* capacity building
* specific project funding

The main streams of income will include

* Municipality
* Capital Projects (operating profit – not capital)
* Management fees

The District Development Agency financial policy within its Mandate will essentially determine the extent to which the Agency can invest and support various projects and earn income from.

The long-term goal of a Development Agency is to be self-sustainable, however the nature of the projects and the guidelines of the MMFA that a DDA is governed by means that the DDA would be heavily reliant on outside financial support to remain viable as an entity, even though the projects themselves would be financially sustainable.

## Incomes

Based on research on other financially feasible Development Agencies, the agency will rely primarily on funding from the parent municipality for operational costs. However, the DDA’s need to leverage investment for projects where the costs, expenses and income are attributed to specific projects. Essentially, the projects need to provide some benefit to the DDA in the long run (the Agency does not operate ‘for free’).

Some revenue streams would include:

* Parent Grant Funding
* Project Specific Grants
* Fee Income
* Strategic Investment Income
* Other income (eg interest)

## Expenditures

**Financial Model**

Despite the possible avenues of income, it is unlikely that the District Agency will become profitable because the projects are primarily developmental in nature. Operating expenditure will include and usually funded by the municipality:

* Office lease
* Office furniture and equipment
* Personnel
* Basic travel etc

The balance of any profits from the expenditure on any Development Agency projects will be fed back into the operating expenses of the DDA as illustrated by the diagram below:

OPERATING EXPENSES

PROJECT 1

PROJECT 2

PROJECT 3

Income

Expenses

SUB TOTAL

SUB TOTAL

SUB TOTAL

PROFIT

PROFIT

PROFIT

Balance

PROFIT

FEED PROFIT BACK INTO OPEX

Figure 5: Financial Model of a District Development Agency

# Marketing

While the general marketing of the district and the corporate marketing of the municipality itself falls within the ambit of the public relations units of the district, the project and programme marketing is an essential aspect of the District Development Agency’s function. DDAs will need to be skilled in packaging, presenting and marketing the focused projects and programmes to potential investors and funders in order to raise the necessary capital for development.

The catalytic projects and programmes must be included in the district municipality’s investment promotion strategy and should be coordinated with the investment promotion and attraction initiatives at provincial level.

A dedicated business unit is advised for the strategic promotions and marketing of the DDA, whose responsibilities will include profiling the Development Agency, supporting other business units and providing an oversight role in respect of the marketing and communications activities of the DA’s subsidiaries.

# Supply Chain Management

## Implementation of Supply Chain Management Policy

All officials and other role players in the supply chain management system of the District Agency must implement a Supply Chain policy in a way that gives effect to:

* Section 217 of the Constitution; and
* Part 1 of Chapter 11 and other applicable provisions of the Act

It furthermore should be

* Fair, equitable, transparent, competitive and cost effective
* Comply with the Regulations and any minimum norms and standards that may be  prescribed in terms of section 168 of the Act
* Is consistent with other applicable legislation;
* does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
* Is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.

The supply chain management policy should be managed and annually reviewed by a person such as the accounting officer of the District Agency.

## Supply Chain Management Unit

A supply chain management unit should be established to implement the supply chain management policy. This unit will operate under the direct supervision of the chief financial officer in terms of section 82 of the Act. The Board of Directors will maintain an oversight role of the implementation of the Policy.

## Supply Chain Management Systems

The Supply Chain Management should include policy systems for:

* Demand management
* Acquisition management
* logistics management
* disposal management
* risk management; and
* performance management.

# Monitoring and Evaluation of Performance

A project performance management system is an essential management tool for any business operation to be successful. Performance Management assists organizations in  reporting as well as to address their risks and shortcomings. The Development Agency as an organization (a Section 21 Company) must demonstrate the effectiveness of its operation and be accountable for its performance to both internal and external stakeholders.

Therefore, in line with the recommendations from the MFMA and Treasury Regulations on Improving Project Quality, The Development Agency should move towards improving project quality and project sustainability at entry and introduce effective project performance management before implementation of any development project funded by the Development Agency. The implementation of performance management systems must occur through internal management decisions and directives. The Development Agency has to streamline and strengthen project funding processes and lending processes, including the mandatory requirements of the logical framework in new loans granted for development projects and technical assistance projects.

## Project Performance Management System

The Development Agency’s project performance management system (PPMS) should be based on a coherent and results-based approach to monitoring and evaluating implementation performance and development impact at various stages of the project cycle. The PPMS aims to contribute to improving project performance and is part of The Development Agency’s accountability framework. Use of the PPMS during implementation provides early warning to project team leaders and others of emerging problems that require corrective action.

The project (logical) framework provides the basis for project monitoring. It assists to ensure design integrity through establishing a demonstrable cause and effect relationship (and identifying assumptions and risks) from inputs to goal, and provides the basis for subsequent performance assessment.

## Project performance Report

The Project Performance Report (PPR) provides information on project implementation and progress in achieving development objectives. The project framework provides the basic inputs for the PPR by transferring the explicit and verifiable targets for goal, purpose, outputs, and inputs, along with the key assumptions and risks at the output to purpose, and purpose to goal levels. Progress toward the targets is tracked and reported in the PPR from the baseline situation using the indicators and monitoring mechanisms contained in the project framework, and as verified in the project administration memorandum.

## Evaluation at Project Completion

At completion, the Development Agency operations division will conduct an evaluation by the preparing of a Project Completion Report (PCR). The main purpose of the PCR is to learn from experience, and to use the lessons learned to improve the performance of ongoing and future of the Development Agency projects. The PCR is also used as a measure of the Development Agency’s development effectiveness for accountability and as an input to country strategy formulation.

## Development Evaluation

The final element of the PPMS is independent evaluation of a sample of projects. Operations evaluation takes place about 3–5 years after completion, when development impacts should be evident. The project framework will reflect where applicable, the revisions made during implementation and provide the basis for performance evaluation. The assessments of performance, recommendations, and lessons learned are fed back into the Development Agency for the formulation of new projects.

# Conclusion

KwaZulu Natal Government have made confident strides in ensuring municipalities are well supported in in driving local economic development in their respective municipal areas. District Development Agencies in KwaZulu Natal have been established in response to addressing local specific challenges and opportunities facing KZN. District Agencies can further strengthen existing LED initiatives of the municipalities, address poverty and job creation in the province.

Whereas LED units in municipalities focus on broadening the economic base and creating an environment conducive to economic development, District Agencies are special purpose vehicles designed as the implementers of catalytic, strategic economic development projects and programmes for the family of municipalities within the districts, facilitating both private and public sector investments leading directly to investment and job creation.

Development Agencies present a unique implementation vehicle for LED success in the province.

1. [↑](#footnote-ref-1)