



destea

department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

UPDATED FREE STATE PROVINCIAL INCENTIVE GUIDELINE

MARCH 2022

FREE STATE DEPARTMENT OF ECONOMIC, SMALL BUSINESS
DEVELOPMENT, TOURISM & ENVIRONMENTAL AFFAIRS

1. Introduction

Investment is one of the inputs into the economic output or Gross Domestic Product (GDP). The Free State province, and the Republic of South Africa, as one of the developing economies in in constant pursuit of increasing economic output, which is necessary to reduce rampant levels of unemployment and poverty.

Whilst attempting to retain existing businesses, the public sector policy makers are in an incessant effort to attract new investments into their local economies. In addition to other critical matters like infrastructure (in the form of roads, electricity, etc., political stability and domestic demand, governments also use *investment incentives* to attract investment.

Investment incentives are broadly defined as '*policies by governments to promote the establishment of new businesses or to encourage existing businesses to expand or not to relocate elsewhere*'.

1.1 Purpose of the Provincial Incentive Guideline

Although it has a number of competitive advantages over other provinces, the Free State makes an unimpressive contribution of 5% towards the national GDP. This is informed, in the main, by the relatively small business activity in the province, as compared to other provinces like Gauteng, Kwazulu-Natal and Western Cape.

The main aim of an investment incentive is to influence the decisions of investors in terms of the locations of their business activities. In most cases, investors seek to invest where it will be viable, and where their costs of trading will be reasonably lesser than the costs of doing business.

In addition to the high mortality rate of businesses in the Free State, there has been a noticeable lack of appetite by investors to invest in the Free State. Whilst municipalities, public entities and government departments do try to offer financial and investment incentives, there has not been evidence of the efficacy of these incentives to increase investment, at least in so far as the provincial government wishes.

Furthermore, many of these incentives seem to not be coordinated, and therefore do not contribute towards a common objective. The Free State Department of Economic, Small Business Development, Tourism & Environmental Affairs has therefore identified the need for a single, centrally coordinated Provincial Incentive Guideline to coordinate the efforts of all stakeholders to attract new investments, and see that existing businesses expand operation in the Free State province.

In summary, the following are the objectives for a Provincial Incentive Guideline;

- **Collective approach towards investment promotion:** The incentive guideline will be the first guideline to guide the planning, development, execution and monitoring of investment incentives across the different spheres of government in the Free State.
- **Developing a framework to incentivise investment:** The Guideline will serve as a strategic guide for all municipalities, entities and government departments to plan, develop, execute and monitor their investment incentives. It will also assist the DESTEA to easily assess the efficacy of investment incentives against the objectives set out in the Guideline.
- **Maximise collaborations for increased impact:** The Guideline will source knowledge and expertise from different stakeholders, and government policy makers will be provided different options of investment option to choose from, as well as to customise same to local conditions.

1.2 Methodology

1.2.1 Desktop and literature review

This exercise involved extensive review of available literature on investment incentives as a policy instrument used by developing economies to attract investment into their localities. Available literature does show that investment incentives are an important policy option for developing economies like ours.

This part of the work also involved a detailed assessment of a sample of investment incentives provided by certain entities and government departments. The analysis did show that financial incentives, like those provided to enterprises by DESTEA, have a positive impact in assisting business to grow and expand. There is little evidence that such incentives could encourage investments from outside of the province or South Africa.

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The Department of Economic, Small Business Development, Tourism & Environmental Affairs (DESTEA) has also developed a document titled; *“Proposed Free State District Municipalities’ Incentive Framework”*, in May 2020. Beka was provided a copy of the document and analysed its content as part of the development of the Provincial Incentive Guideline (PIG).

1.2.2 Stakeholder engagements: 2022/23

The following were stakeholders that were engaged in regard to the broader stakeholder management matrix;

- Mangaung Metro Municipality and 4 District Municipalities, including their locals
- DESTEA (the Department also provides financial incentives to enterprises)
- Free State Development Corporation (FDC)
- National African Federated Chamber of Commerce (NAFCOC) Free State
- Free State Black Business Chamber (FSBBC).

General Inputs from stakeholders

- a) Generally, stakeholders indicated that the cost of doing business in the Free State is relatively high. This is the case across all different municipalities of the Free State. The following are some of the causes of high costs of doing business in Free State;
- Red tape, uncoordinated administrative systems and lack of alignment between different public sector institutions. Red tape also affects access to municipal land, thus affecting both the ability and appetite to invest.
 - Relatively high costs of bulk services like water and electricity. In most cases, such services are disrupted and this is a cause of disinvestment.
 - High transaction costs as a result of decaying infrastructure.
 - Possible collusions between estate agents and land owners causing inflated land prices. This also affects rental property rates.
 - High costs of security for assets, personnel and clients due to high levels of crime.

Inputs from organized business

- b) **Development Finance Institutions (DFIs)** are more stringent than commercial bank, discouraging entry of new participants/investors. There is a need for streamlined incentives for youth, women, and people with disabilities;
- c) DESTEA and the FSL must fastback the finalization of the processes to ensure the **Free State LED and Transformation Bill** is enacted into an Act. This will encourage local investors;
- d) The FDC must be faster in dealing with **applications** for industrial and commercial space, especially for youth;
- e) The DESTEA must ensure **EIA applications** are expedited speedily.
- f) The Department of Public Works and Municipalities must avail **land**, which is an incentive on its own, to encourage business activity.
- g) There must be **political and administrative will** to change the status quo of our province, and position it as the investment destination of choice.

Inputs from municipalities and sector departments

- h) Municipalities must establish **One Stop Centres** to reduce red tape and ensure potential investors access all relevant authorities under one roof. The FDC was asked to assist with office space in this regard. Dihlabeng is in a process to establish one in Bethlehem.
- i) Municipalities, in particular, LED units of municipalities, must fight for **quality services** like water, electricity, sanitation, roads, etc., as these are crucial to attract and retain investment.
- j) The province, FDC must assist investors, especially at Industrial Parks, with **safety and security**. Investors are concerned about high levels of crime, especially in the CBD and Industrial Parks.

1.2.3 An economic review

This exercise involved a detailed analysis of the socio-economic status quo of the Free State province. The main focus was on investment GDP growth rates. These two economic indicators are crucial as this specific exercise seeks to develop strategies and proposals for the Free State economy (GDP) to grow by increasing investment.

The analysis showed that the Free State economy has, in the years 2018, 2019 and 2020, experienced declines of 0.2%, 0.6% and 6.8% respectively. This has been exacerbated by the shocks caused by Covid-19.

2. Broad overview of incentive methods

2.1 Incentives by FS DESTEA

2.1.1 Informal, Micro, and Small Enterprise Incentive (IMSEI)

This incentive is aimed at the informal, micro, and small business sector (e.g hawkers, tuckshops, beauty shops, general dealers, clothing & textile, etc) with productive equipment for operations. In specific circumstances as determined by the committee, seed funding to a maximum of R100 000 per enterprise may be provided.

2.1.2 Medium Enterprise Incentive (MEI)

This incentive is aimed at providing grants to small and medium enterprises with the objective of upgrading of business premises, procurement of equipment, operational support, as well as business expansions. This incentive may also be used towards acquisitions as part of transforming key economic sectors. Enterprises to be supported must be within the specific priority sectors as determined by the Department's **Value Chains Economic Transformation Approach** to Economic Recovery statement.

These include: manufacturing (and its subsectors), automotive, CTFL, tourism, digital economies, logistics, retail, mining, construction. Applicants for this incentive must demonstrate funding readiness by completing the Business Development Support Programme offered through Small Enterprise Development Agency (SEDA) or the department. This funding may be **blended** (which is encouraged) with other funding instruments offered by commercial banks and development finance institutions (DFIs) in order to meet the needs of the enterprises.

2.1.3 Youth Business Pitching (YBP)

The Youth Business Pitching (YBP) is at entrepreneurs between the ages of 18 and 35. The YBP concept is one of the paths for young entrepreneurs who have innovative ideas to gain investment from investors for their great ideas and an opportunity for them get their products to the market. The approach is for young entrepreneurs to pitch their ideas as best as possible to potential investors and funders with the view of securing support from either or both of them. In addition, the entrepreneurs can get advice and innovative ideas to support/grow their original ideas that are helpful for a business start-up from the experienced investors/dragons. There will be one main

pitching event per district and these will be preceded by affording businesses an opportunity to apply and present their ideas to DESTEA, which will be assessed and shortlisted for participation in the main YBP event.

2.1.4 Industrialization Support Incentive (ISI)

The purpose of the industrialization incentive is:

- To stimulate local domestic manufacturing and production;
- To ensure job retention and increases in new job creation;
- To reduce economic concentrations;
- To assist SMME to transition to industrial production levels;
- To stimulate participation in large business and government supply chains;

The above objective will be achieved by:

- Providing enterprises involved in manufacturing and industrialisation with rental incentives in Free State Industrial Parks
- Providing enterprises involved in manufacturing and industrialisation with co-funding in order to access other national incentives such the Black Industrialists Scheme, Agro-Processing Support Scheme

3 *Brief economic profile of the Free State*

The Free State is a centrally located province, with a population of 2.9 million people. Using the current prices, the province's Gross Domestic Product by Region (GDP-R) amounted to about R252 billion in 2020. The per capita GDP-R was approximately R87 000 in the same period.

The Free State economy has made progressive strides by evolving from a traditional economy defined by the primary sector to a modern economy, largely driven by the tertiary sector.

However, in the period under review, the provincial economy has grown by a mere 1.1 per cent on average, which is an indication of provincial sectors being stuck in low growth path. The Free State economy is heavily reliant on the tertiary sector, contributing 58.7 per cent to the overall output of the province between 2010 and 2019. Within the tertiary sector, the government services, financial services and trade industries contributed 22.2 percent, 14.1 per cent and 13.4 percent, respectively.

The biggest anomaly in the structure of the Free State economy is the dominance of the community service sector relative to all other sectors of the economy. Ideally and in a modern economy priority sectors such as manufacturing, construction, trade and

agriculture would be the largest earners contributing significantly towards the provincial GDP, job creation and innovation. The share of the secondary industries has increased from 15.5 per cent in 2010 to 15.7 per cent in 2019, which represents a 0.2 percentage point increase over the period. This increase is attributed to the electricity industry share which grew from 3.1 per cent to 3.7 per cent over the same reference period. This is despite load shedding holding back the growth of the electricity industry itself.

Conversely, both the manufacturing and construction industries have regressed by 0.3 per cent and 0.2 per cent respectively, between 2010 and 2019. The Free State Treasury's Research (PERO, 2021) ascribes the performance of the manufacturing sector to the performance by Sasol Limited, which is currently facing external challenges such as the covid-19 global supply disruptions, geo-political tensions, global oil prices and the volatile exchange rate.

The construction industries of the Free State much like that of South Africa is held back by low business confidence, low private investment as well as fiscal consolidation. However, government has since announced a R1 Trillion infrastructure investment which will benefit the construction sector. The primary sector contributes the least to the provincial economy, but plays a critical role in food security and job creation in the province.

Over the decade, the primary sector has contributed 15.2 per cent toward the provincial economy, with agriculture and mining contributing 4.4 per cent and 10.7 per cent over the referenced period. The economic output from the agriculture sector declined by 0.1 per cent, from 4.5 per cent recorded in 2010 to 4.4 per cent in 2019. Much of the agricultural industry's potential has been reduced by natural occurrences such as draughts and animal diseases, and partly worsened by policy uncertainties on Section 25 of the constitution that deals with land expropriation and un/fair competition meat industry.

The mining industry narrowed significantly from 12.8 per cent in 2010 to 9.5 per cent in 2019. Mining has been affected by load shedding resulting in lower production and export values, as well as labour strikes.

4 Findings and proposals

The findings show that there is a need for a Provincial Incentive Guideline to guide the efforts of different stakeholders to attract investment, as well as retains existing businesses in their territories and/or areas of jurisdiction.

The following are set of propels and options that DESTEA can recommend to different entities (**Also see Table 4.1 for details of the proposals below**);

4.1 Options for municipalities

4.1.1 Development Incentives Policies: It is proposed that major and investment-attracting municipalities like Mangaung (Bloemfontein), Matjhabeng (Welkom), Dihlabeng (Bethlehem), Moqhaka (Kroonstad), Metsimaholo (Sasolburg) and Ngwathe (Parys), must urgently develop and adopt policies for incentives. These policies must propose the following, in the main;

- **Non-financial incentives**, like provision of quality services, acceleration of land use applications, regular interactions with developers, engage with land owners not to inflate land prices, etc.
- **Development charges rebates/exemptions**: for developments that are for public benefit, like those near places of work, the municipality can determine a criteria, based on Cost-Benefit Analyses (CBA) and exempt certain developers from paying development charges.
- **Road and storm water rebates**: Depending on affordability and/or CBA, the municipality may exempt certain businesses, e.g. small and emerging, from paying bulk services over a certain period.
- **Integrated Development Nodes or Priority Development Areas**
- **Nature Conservation Environmental Incentive**
- **Investment Incentive Strategies**: In addition to the policies above, and given human resources and capital resources, it is proposed that municipalities develop these strategies as a way to stimulate investment and ease the cost of doing business. These strategies must be in line with a detailed analysis of the investment potential/opportunities in each region (See DESTEA table below). To alleviate red tape and ensure a single point of contact, municipalities may also establish **One Stop Shops** for investors to interact with the municipality in case they wish to invest. These one stop shops must assist potential investors with information like, available incentives, information on land use applications like rezoning, industrial areas and priority development areas.

4.2 Options for DESTEA

DESTEA is urged to extend its reach in terms of financial incentives, preferably blended finance, especially for small and emerging business.

Major corporations must be incentivized to invest in Free State rather than having satellite offices in the province.

DESTEA must also reach more enterprises, especially small and emerging, in terms of non-monetary support like business advise, capacity building, etc.

One of the challenges faced by potential investors is the slowness in processing of Environmental Impact Assessments (EIAs) by DESTEA. The Department is urged to accelerate the authorizations of the assessments as a way to fast track investment. Working with the Department of Cooperative Governance & Traditional Affairs (COGTA) and South African Local Government Association (SALGA), DESTEA also has a responsibility to provide ongoing support to municipalities to ensure they reduce inhibitors to investment, and through capacity building interventions.

4.3 Options for the FDC and Maluti-a-Phofung Special Economic Zone

These entities of the FS DESTEA are encouraged to extend their incentives, especially to priority sectors/sub-sectors like Agro-processing, with the broader goal enhancing the manufacturing sector in the Free State.

These entities must not only identify areas in the province where business operations can be conducted, but also have a role to play in assisting with office, commercial and industrial space for operations.

They may also assist potential investors with advice on statutory requirements, a package of available incentives from different entities, and EIAs. It is the responsibility of these entities to ensure that the premises they offer are safe and conducive for smooth business operations. This means that they must provide properly fenced, secure premises with bulk infrastructure. Their rental rates must be competitive not only with the municipality or province, but even across provinces so as to attract investors even from outside of the Free State province.

Table 4.1 Detailed options for investment attraction

Stakeholders	Role and Responsibility
Local businesses	To apply for the relevant incentives through relevant stakeholders
District Municipality	<ul style="list-style-type: none"> • To reduce the cost of doing business by developing an investment incentive strategy for the Municipality • To communicate changes to Municipal incentive strategy • To facilitate access to investment incentives by developing a single point of contact for investors seeking to invest in the District • To designate specific areas for investment development so as to promote the Municipality as a preferred investment destination. • Work with DESTEA and external stakeholders in assisting investors to access the relevant national incentives • To provide spatial information on zoning, CBD opportunities and designated industrial development areas
DESTEA	<ul style="list-style-type: none"> • To develop an inclusive investment incentive framework for the Province • To assist the District Municipalities with strategies to reduce obstacles to investment and to assist in fostering an investor-friendly environment • Assist with Environmental Impact Assessment authorisations • Establishing a one-stop shop for investment • Undertake investment promotion activities

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<p>FDC</p>	<ul style="list-style-type: none"> • Identifying and developing viable investment opportunities • Packaging of investment opportunities • Facilitation of these opportunities by undertaking the following: <ol style="list-style-type: none"> 1) Identifying appropriate locations for the investment 2) Assisting with securing of office and factory premises 3) Providing advice on statutory requirements 4) Facilitation of work permits 5) Assistance with incentive applications 6) Providing advice on environmental impact assessments 7) Facilitation of finance through local institutions 8) Facilitation of joint ventures/equity partnerships through identification of local partners 9) Access to business and government networks 10) Business retention and expansion 11) Assisting with the development of local and international markets.
<p>The SEZ</p>	<p>The roles and responsibilities of the MAP SEZ are as follows:</p> <ul style="list-style-type: none"> • To provide bulk infrastructure for servicing each site within the zone • Promote green fields development

	<ul style="list-style-type: none"> • Provide long-term lease periods long enough to recoup investment on infrastructure • Provide competitive rentals to achieve the government's developmental agenda <p>PURPOSE BUILT INFRASTRUCTURE</p> <ul style="list-style-type: none"> • To custom design investment areas to suit upstream Multi-Sector Service and Processing requirements • To provide heavy load-bearing roads and sites <p>DEDICATED ROAD AND RAIL ACCESS</p> <ul style="list-style-type: none"> • Dedicated transport linkage directly with facilities • Wide roads and turning circles, heavy load capacity • Designed to complement road and rail transport and logistics functions <p>FREE PORT (CUSTOMS CONTROL AREA)</p> <ul style="list-style-type: none"> • To provide the Customs Control Area Services so that no VAT or duties on goods landed in the zone is imposed • Focus on operational efficiency of handling and turnaround time <p>EASE OF DOING BUSINESS</p> <ul style="list-style-type: none"> • To provide customs free environment as well as a one-stop-shop for government and regulatory services, including permits, immigration services and business support services.
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DTI	<p>To facilitate and provide information on the following incentive schemes:</p> <ul style="list-style-type: none"> • 12I Tax Allowance Incentive • Aquaculture Development and Enhancement Programme • Agro Processing Support Scheme • Automotive Investment Scheme • Black Industrialists Scheme (BIS) • Capital Projects Feasibility Programme • Critical Infrastructure Programme • Clothing and Textiles Competitiveness Programme • Export Marketing and Investment Assistance (EMIA) • Film Incentive • Global Business Services • Innovation and Technology Funding instruments • Manufacturing Competitiveness Enhancement Programme • Production Incentive • Sector Specific Assistance Scheme • Support Programme for Industrial Innovation • Strategic Partnership Programme • Technology and Human Resource for Industry Programme • Workplace Challenge Programme
National Tourism Department	<p>To provide information and manage the following Tourism Incentive Programmes:</p> <p>Green Tourism Incentive Programme</p> <ul style="list-style-type: none"> • Market Access Support Programme • Tourism Grading Support Programme

	<ul style="list-style-type: none"> • Tourism Transformation Fund
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5 Monitoring & evaluation

It is advised that the Free State Provincial Government establishes a **Development Incentives Task Team**, to be led by DESTEA HOD. This Task Team must develop Terms of Reference and monitor the development, adoption and coordination of all development incentives in the Free State. This Incentive Guideline must serve as the guiding document in this regard.

TABLE1: Investment opportunities by district

District	Investment Opportunities
Fezile Dabi	<ul style="list-style-type: none"> • Hydroponic tunnel farming • Hemp farming • Organic farming • Livestock farming: Goat • Poultry farming • Diamond mining in Moqhaka • Gold mining in the Viljoenskroon area • Mining beneficiation • Agroprocessing • Tourism: Vaal Dam and Vaal River; Kroon Park
Lejweleputswa	<ul style="list-style-type: none"> • Agroprocessing of maize • Small-scale mining • Mining beneficiation • Resuscitation of Phakisa Raceway • Building of a resort linked to Phakisa • Cargo airport
Motheo	<ul style="list-style-type: none"> • Extension of Wind Mill precinct • Mixed use development In Universitas Ridge • Re-establishment of a race course
Thabo Mofutsanyane	<ul style="list-style-type: none"> • Agroprocessing of Maize • Vegetable farming • Tourism development: Resort around Sol Plaatjie Dam • Fish farming in Bethlehem • Possible rice farming in the Qwa-qwa area
Xhariep	<ul style="list-style-type: none"> • Springfontein Agripark • Production of Agave syrup • Diamond mining • Export of venison

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	<ul style="list-style-type: none">• Eco-tourism• Solar energy production• Big Five Route
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Source: DESTEA

6 List of acronyms

Number	Acronym	Description
1.	DESTEA	Department of Economic, Small Business Development, Tourism & Environmental Affairs
2.	CBA	Cost-Benefit Analysis
3.	FDC	Free State Development Corporation
4.	MAP SEZ	Maluti-a-Phofung Special Economic Zone
5.	MMM	Mangaung Metropolitan Municipality
6.	FSBBC	Free State Black Business Chamber
7.	NAFCOC	National African Federated Chamber of Commerce
8.	GDP	Gross Domestic Product
9.	SALGA	South African Local Government Association
10.	COGTA	Department of Cooperative Governance & Traditional Affairs

Updated by:

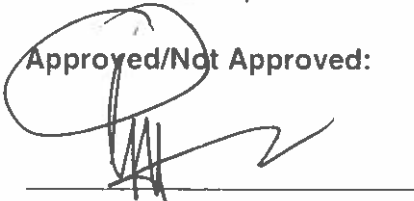


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