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

RESEARCH PLATFORM: PROVINCIAL RESEARCH ADVISORY COMMITTEE (PRAC) MEETING

QUARTER 1: 2022/2023 REPORT

ANALYSING THE IMPACT OF ASSISTANCE PROVIDED TO ENTERPRISES IN THE FREE STATE DURING THE NATIONAL LOCKDOWN.

ECONOMIC RESEARCH AND PLANNING CHIEF DIRECTORATE

ECONOMIC RESEARCH DIRECTORATE

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1. Introduction

The Economic Research Directorate convened the Provincial Research Advisory Committee (PRAC) Meeting on 10 June 2022. This PRAC meeting for Quarter 1 2022/2023 focuses on analysing the impact of the assistance provided to enterprises in the province during the national lockdown. Experts involved in state owned entities and industrial enterprises were invited to share their insights on the impact of Covid-19 on the provincial economy.

This meeting, in adherence to Covid-19 regulations was convened in person at SALGA House in Bloemfontein. DESTEA's Director for Economic Research Directorate, Adv. Mosia, acted as chairperson of this meeting and allowed the audience to introduce themselves. In his welcoming address Dr Mokoena, Chief Director for Economic Research and Planning appreciated the presence of the audience and hope that the outcome of this meeting will be beneficial to them.

Two strategic stakeholders, Ms. N. de Sousa from Mangaung Chamber of Commerce and Industry (MCCI) and Mr. P. Molukanelo, Free State Development Corporation (FDC) have submitted apologies for not attending the meeting due illness and other official commitments. The presentation from MCCI will be circulated to the attendees.

2. Presentations[1] and Discussions

Dr Mokoena presented on *Post Covid incentive-compatible cost of doing business in the Free State.* He highlighted the importance of why a potential investor would decide to invest in a specific area. There is serious heterogeneity in the Free State to such an extent that you may asked whether municipalities followed guidelines in determining municipal rates and taxes. Tables and graphs were used to illustrate the cost of doing business specifically with regard to property rates, water tariffs, electricity rates and taxes. It became clear that the higher the property taxes, the higher the cost

[1] The presentations are accessible on the Destea website by following the link: http://www.destea.gov.za/?page_id=1920

of doing business in that specific area. Property taxes and water rates, i.e. in Maluti-a-Phofung are too high and the economic base is small. Such situations resulted in municipalities "suffocating" due to poor management and service delivery, as well as poor and non-maintenance of infrastructure. Maluti-a-Phofung is the most expensive municipality to invest in and is not competitive relative to other municipalities to attract long-term investment. Several small, medium and large enterprises are located in this municipality.

There are huge differences between municipalities in the province with regard to property taxes, water tariffs, refuse removal and electricity rates. Property taxes in Mangaung Metropolitan Municipality, Kopanong, Matjhabeng and Setsoto Local Municipalities are relatively not competitive to attract job-creating investment. In contrast, Ngwathe is relatively competitive. When Mangaung is compared to other metros, it is only second to Tshwane in high business-related property taxes. Mangaung is currently under administration.

There is for example also no guidelines with regard to the pricing of water in the Free State. Unemployment and inequality have been increasing in the province over the last ten years, real economic growth rate in the Free State was very low (0,27%) and people were capped poor with the grant system as a measure of support.

A milling company has withdrawn their investment from Moqhaka Local Municipality due to problems with water and unreliable electricity supply. All factors however should be taken into account when a decision has to be made whether to invest or to withdraw from an area.

Much work has to be done to develop a framework for municipal incentives, i.e. property tax holiday for 5 years for a manufacturing plant. It will result in a loss of revenue, but jobs will be created. This will become a basis if properly manage for incentives to attract investment. Investors also have the choice to invest in other provinces such as Gauteng or the Western Cape if municipalities of their choice are poorly managed.

In the 2018-2019 period, only Johannesburg managed to reduce its property rate tariffs. Free State in general is not incentive comparable and conducive for long-term investment.

Ms. M. Mhlahlo from the Industrial Development Corporation (IDC) based at the Free State Regional Office gave a presentation on *Support provided to enterprises mitigating the impact of the national lockdown.* Ms Mhlahlo mentioned that she slightly changed the topic of her presentation not to focus on the Covid-19 uptake of assistance available during the national lockdown, as the Free State and other provinces have not managed to capture the assistance that were available during the national lockdown. This opportunity will be used to market the offerings of the IDC as a vehicle to contribute to the growth of the economy.

The IDC is one of the oldest Development Finance Institutions (DFI) in the country owned by the state and is self-funded. This organisation underwent a restructuring process in 2019. Focus of the Regional Offices will continue to function as a walk-in center to offer support in applying for funding. It will screen applications for funding from R1 million to R15 million. All other applications above R15 million will be referred to the appropriate Strategic Business Units at IDC's Head Office.

The Small Business Finance Unit which is the new regional mandate of the IDC have the following financing instruments in place; debt and guarantees, start-ups, expansionary capex, contract finance, working capital and guarantees. Their services excludes the rest of Africa, motion pictures, venture capital and clothing & textile, pure equity and quasi equity at the regional offices. IDC currently occupies a small office in Bloemfontein and rely on other stakeholders such as Destea, FDC and others to assist recipients to access the available offerings by the institution

IDC's mandate includes SME-CONNECT, which is a strategic collaboration model to expand and deepen industrial development in the small industrial business segment through leveraging the skills, balance sheets, resources, networks and influence of all partner entities to develop and grow SMEs through the following 3 levers: access to finance, access to markets and business support. This model allows partnerships with

Destea, with Universities and with any other strategic stakeholder. Partnerships in this regard have been established with Harmony and SASOL.

Some of the offerings by the IDC includes:

- Covid-19 Small Industrial Finance Distress Fund (no successful recipients in the Free State to date)
- Agri-Industrial Fund - in partnership with the Department of Agriculture, Land Reform & Rural Development (DALRRD) to support economically viable activities in agro-processing (food and non-food) sectors.

The overall strategy is to focus on migrating manufacturing entities from other regions and to help establish them in the Free State. Key focus areas in this regard includes:

- Agro-processing and agriculture value chain
- Tourism
- Clothing and Textiles
- Mining, minerals beneficiation and other services that are incidental to mining
- Manufacturing (chemicals, metals, and metal fabrication)
- Establishment of businesses in the rural areas to enhance rural economy and sustainability

A milling plant in Lejweleputswa to the value of R25 million, the first in 3 years for the Free State was recently funded by the IDC.

Dr. F. Fouche from the North-West University Business School delivered a *Guest Lecture on the Impact of the Ukraine war on the provincial economies of South Africa.* The war is regarded primarily as a humanitarian disaster, but the Russia-Ukraine conflict will also accelerate changes already provoked by the pandemic, US-China tensions and climate change. It will also:

- Contribute to supply-chain disruptions in sectors such as automotive (increasing pressure for localization).
- Surge in energy & commodity prices will hasten public & private (P&P) partnership sector efforts to improve food security.

- Investment needed to reduce Europe's reliance on Russian energy will affect funding for clean-energy investments in developing countries.
- Financial sanctions against Russia may accelerate the transition from US dollar-backed financial systems to interoperable central bank digital currencies (CBDCs).
- Geopolitical tensions over technology (already central to the US-China trade war) will intensify as Russia curbs internet access and faces technology sanctions.

Several companies to date suspended their operations in Russia including their employees. Companies such as McDonald's, IKEA, PEPSICO, INDITEX, KPMG, PWC, H&M, L`OREAL, Starbucks. This war has also resulted in a number of Ukrainian war refugees crossing into neighbouring countries, like Poland, Romania. Moldova. Almost 4 million people seeking refuge from the Russian invasion. The world's most sanctioned countries before and after February 2022 includes Russia, Iran, Syria, North Korea, Venezuela, Myanmar and Cuba.

Russia imported various commodities in 2019 such as motor vehicle and parts ($23.4b), general industrial machinery and equipment ($17.6b), electrical machinery including appliances ($16.0b), medicinal and pharmaceutical products ($14.7b), vegetables and fruit ($8.2b).

Russia and Ukraine are global players in terms of the exportation of several key commodities. Russian exports in 2020, i.e. includes crude petroleum (22.5%), refined petroleum (14.5%), petroleum gas (5.98%), coal briquettes (4.4%), gold (5.67%), platinum (3.17%), wheat (3.05%). Russia exported to countries such as China (14.9%), United Kingdom (7.67%), Netherlands (6.81%), Belarus (4.77%), Germany (4.3%) and Italy (3.61). Ukrainian exports in 2020, i.e. includes corn (9.29%), wheat (8.76%), seed oils (10.1%), iron ore (8.1%), semi-finished iron (5.76%), hot-rolled iron (3.24%), pig iron (1.99%).

Russia, currently, is excluded from using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system. Fouche mentioned that 98% of the banks worldwide are using this system. This situation is hampering interaction between the banks worldwide who would like to communicate with Russia. This exclusion restricts the flow of money transfers. Internet has also been shut down in Russia, which affected 113million people.

Sub-Saharan Africa, of which South Africa is part off, is one of the regions that will be affected by the war-fueled surge in food prices. The price of petrol currently costs more than during previous highs in 2008 and 2014. This price is the most expensive in 32 years. South Africans currently pays an average price of R21.60 per litre compares to countries such as Angola (R5.21 p/l), UAE (R12.45 p/l), United Kingdom (R31.35 p/l), Hong Kong (R42.20 p/l). Globally 92 out of 170 countries pay less than R20 per litre.

The war between the two countries created a gap in the commodity markets, which created opportunities for other countries and provinces such as the Free State, a key producer of agricultural products. The commodity input costs, like diesel and fertilizer, as well as shipping costs however have increased to such an extent that it is not viable for exports of commodities such as wheat and corn.

3. Conclusion and Recommendations

South African annual consumer price inflation (CPI) was 5.9% in April 2022, unchanged from 5.9% in March 2022, which is a good target for the national economy. In Quarter 1 of 2022, the economy returned to pre-pandemic levels in real GDP (constant 2015 prices, seasonally adjusted). It took the country more than 2 years to recover from an output point of view to make up for the losses that the country had during the pandemic.

The national economy however has to grow much faster to make up for the lack of growth during the last few years. People who lost their jobs over the last two years also have to regain those jobs.

Municipalities have to improve on their mandate and to adopt or develop strategies to reduce the cost of doing business and to attract investment. Recommended strategies in this regard:

- Provide rental and utilities concessions in industrial parks
- Provide rental and utilities concessions in designated areas outside industrial parks
- Provide favourable terms for leasing industrial land on a long-term basis inside and outside industrial parks
- In designated areas, ensure competitive property rates tariffs
- Provide serviced land at below market prices
- Provide reliable and high-quality municipal services (Water and electricity; waste management; green economy)
- Provide reliable and efficient infrastructure (Electronic, Free WiFi, Roads)
- Minimise crime and vandalism in commercial and industrial areas
- Develop and implement and enforce the necessary commercial by-laws:
  - Business permits for home-based businesses to eliminate illegal businesses
  - Neglected buildings and premises
  - Efficient management of dumpsites
  - Environmental health services
  - Events management
  - Informal settlements

The following building blocks may my considered for modern and relevant Trade and Investment (T&I) policy development, especially at provincial level:

- World of trade and investment has moved on. What used to be a tariff liberalisation game is no more;
- Focus to be on Non-Tariff Barriers (NTBs), especially with the African Continental Free Trade Area (AfCFTA);
- Trade & investment strategy should reflect and embrace this new world of global value chains (GVCs) and competitiveness;
- Empirical evidence paves the way, not anecdotal experiences;
- Not to fall into the trap of trying to out manoeuvre the actual exporters in finding export opportunities;
- A balanced approach - exports are not more important than imports;
- Make rules & regulations to establish an enabling environment for trade & investment;
- Not to blindly promote products into destinations and ignoring existing policy & logistics bottlenecks;
- Not to blindly attempt to attract foreign direct investment (FDI) into a jurisdiction with increasing stumbling blocks;
- Analysing data and identifying opportunities to ensure success;

- Remove bottlenecks for improved flow of T&I across borders;
- T&I strategy to influence T&I policy.

4. Annexure A

Programme

5. Annexure B

Attendance Register

6. Annexure C

Presentation of MCCI

AGENDA

PROVINCIAL RESEARCH ADVISORY COMMITTEE (PRAC) MEETING

Theme: ***Analysing the Impact of the Covid-19 pandemic on Free State's economy***

- *Purpose: To get insights from experts and industrial enterprises on the impact of assistance provided to enterprises in the province during the national lockdown*

Friday, 10 June 2022

Venue: SALGA House, Kopanong Boardroom, 36 McGregor Street, East End, Bloemfontein

Chairperson: Adv. J. Mosia,

09:00-09:15	**1. Opening & Welcome** Dr. T. Mokoena
09:15- 09:30	**2. Introductions**
09:30 – 10:50	**3. Presentations (20 min allocated to each presenter)**
	3.1 *Post Covid incentive-compatible cost of doing business in the Free State* Dr. T. Mokoena, Destea
	3.2. *Support provided to enterprises mitigating the impact of the national lockdown* Ms. M. Mhlahlo, Industrial Development Corporation (IDC)
	3.3. *The Impact of Covid-19 national lockdown on the provincial economy* Ms. N. de Sousa, Mangaung Chamber of Commerce and Industry (MCCI)
	3.4. *Support provided to enterprises in the province* Mr. P. Molukanelo, Free State Development Corporation (FDC)
10:50- 11:45	*Guest Lecture - Impact of the Ukraine war on the provincial economies of South Africa* – Dr. F. Fouche, North-West University Business School
11:45-12:30	**5. Discussions**
12:30	**6. Closure**
	THANK YOU

ATTENDANCE REGISTER

PROVINCIAL RESEARCH ADVISORY COMMITTEE (PRAC) MEETING

Friday, 10 June 2022

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The Impact of Covid-19 national lockdown on the provincial economy

- (No data on agriculture or mining are included in this presentation)
- (It is very difficult to distinguish which businesses in different sectors are Micro, Small or Medium)

Before the Covid waves started hitting Mangaung and the Free State our economy as a whole and especially in specific sectors was already at a record low – because of the fact that the Free Sate was captured long before any one was using the word "State Capture" in SA. It was very hard to earn an income from formal jobs, informal jobs as well as from SMMEs which forms about 80%+ of the economy of the region.

If we take into consideration who the largest 5 employers in the Free State are, we have government (all spheres), the UFS is also up there and as far as business, it is the Services sector.

Who are the largest contributors in the Services Sector? Of this sector between 80% + are SMMEs. Which make them the largest Private Sector employers and they were the ones effected mostly by Covid in a negative way.

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Let's look at a few examples to show a snowball effect towards businesses closing their doors, the massive number of job losses, and lack of REAL funding models to assist them, etc. A huge no of Business owners not having access to ICT to allow for webinars and online meetings were also excluded to the mushroom-like growth in these industries – only to those who could afford this type of technology.

Before looking at specific examples it is very important to understand the drivers of economic activity in Bloemfontein (as an example)

The central Free State does not really have a lot of tourist attractions like other provinces and are not regarded as a thriving tourist attraction.

Let's go back to the tourism industry here: In Bloemfontein your "tourists" – (Feet to the city) are linked to amongst the following

- **Our Educational Structures:**

Universities, colleges and the excellent schools bring the so-called feet to the region. You have the rural areas flocking to Bloemfontein to bring their children to hostels, from buying their school attire to giving pocket money. Students also increase the GDP to the province remarkably.

- Big sporting events (such as a rugby test or a large Soccer match in Bloemfontein increases the economic activity in different sectors for the city up to 80% for that month
- The excellent medical network in the city, from the 4 private hospitals, the specialists that are regarded top in their fields in the country. A large number of people from the adjacent provinces are also included here.
- Art festivals, etc, etc.

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Who were affected by the indicators above:

- Guest houses
- Restaurants
- Student housing, newly built blocks of flats and businesses opening in these catchment areas.
- Estates with excellent facilities for conferences, functions, weddings,

Because of the lock down SMMEs affected were

- Organisers of events
- Catering
- Cleaning services
- Sound & audiovisual equipment
- Live streaming of conferences
- Music, lighting, decorations for halls, entrances, tables
- Letting agencies
- Shops with innovative products (not just the basic food commodities)
- Home industries/ creating an income for large numbers of mostly women
- Hairdressers and Beauty clinics
- Ballet/Dance schools, swim schools
- Etc

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Who are the SMMEs and other businesses who "survived"? or are trying to:

Your owner businesses that can run a business from their homes or other properties. Those with the normal expenses attached to running a business (rent, utilities, infrastructure and a stable workforce) – have closed their doors a long time ago.

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But the MCCI has survived by implementing the above and our doors are open even wider than before. For 2 years we did not issue invoices for membership in certain categories, because it felt “wrong”. A membership payment could have paid an employee for a month or 2.

Apart from some of the activities mentioned above which lure people to the city AND create the large number of employment opportunities – the majority are still experiencing dire economic activities (or lack of) and are back at square one without non-financial and financial support.

MCCI linked up with about 7 corporates and we have put heads together and came up with a project that can bring much needed relief in the townships and Botshabelo & Thaba N ‘Chu. The MCCI opened fully operational Branches in those regions.

IN CONCLUSION

I want to conclude with the following interesting information. A large number of people we spoke to told us that the first 3 months were not as “deadly” as the latter months. The reason be that they bought out policies, pensions, etc. They sold whatever they could to survive (vehicles, properties, etc). Then they ran out of things to sell and that is why the latter months (especially toward the second year) broke the camel’s back and businesses could not survive anymore, because the severe lock-down was just too long.

Please feel free to contact me at president@bcci.co.za