

# INCENTIVE POLICY

## GREATER TZANEEN MUNICIPALITY

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Version.01



## Preamble

The offering of investment incentives and business retention measures is a worldwide practice in both developed and developing countries, provinces and cities. Governments use this tool to attract and grow investment, to steer investment into favored industries and/or regions, or to influence the character of an investment, use investment incentives, e.g. labor-intensive investment. On the other hand, governments often introduce business retention measures to either (a) keep a business from leaving or (b) try to keep a facility from shutting down, i.e. to assist business in distress. Incentives attract new investment to priority disadvantaged areas, with the aim to accelerate job and business opportunities. Incentives are supplementary to the wider range of initiatives to develop areas

### 1. Investment incentive description

Investment incentives are often defined according to their typology or the nature of the outcome they are trying to achieve. Investment incentives can be defined as measurable economic advantages that governments provide to specific businesses or groups of business, with the goal of steering investment into favored sectors or regions or of influencing the character of such investments. These benefits can be fiscal (as with tax concessions) or non-fiscal (as with grants, loans or rebates to support business development or enhance competitiveness).

### 2. Purpose

The purpose of this document is to provide framework that will promote Greater Tzaneen Municipal area as an investment destination for both domestic and foreign investment as well as to retain commitments made by existing businesses and investors to the area.

The proposed frameworks main objectives include the following:

- To attract and retain investment
- To create an enabling investment environment
- To provide policy framework to identify and nurture potential development
- To ensure that relevant mechanisms and tools are available and speed up processes

2.1. The Incentive Policy focuses specifically to attract additional investments from new and existing investors to Greater Tzaneen Municipality in the following prioritized key sectors:

- Agriculture

- Tourism
- Green Economy
- Manufacturing
- Wholesale and retail
- Information Technology(broadband)
- Critical infrastructure

### 3. Scope

The Incentive Policy covers the whole municipal area, but special focus is on the key economic development nodes as identified in the GTM Spatial Development Framework (SDF) and Local Economic Development (LED) strategy.

The Incentive Policy is directed at new medium to large investments, as defined by the National Small Business Amendment Act (2003), i.e. new investments that will create 50 or more permanent jobs and have minimum asset values of between R5 million and R50million, depending on which sector the business operates.

### 4. TYPES OF INCENTIVES OFFERED

- Financing of Feasibility Study and/or Business Plan Development
- Rebate on Municipal Building Plan Approval Costs for Approved Investments
- Discounts on rates and services for new investments
- Discount on Municipal Land and Buildings

#### 4.1. FINANCING OF FEASIBILITY STUDY &/OR BUSINESS PLAN DEVELOPMENT

There are a number of potential economic development projects identified in the LED strategy. However, these projects may require more detailed feasibility studies to attract investors. In addition, any local investors have ideas and/or rights to potentially large investment opportunities, but lack the funds to undertake detailed feasibility studies and/or business plans.

The Greater Tzaneen Municipality through Greater Tzaneen Economic Development Agency (GTEDA) should collaborate with other organizations and enterprises to provide some financial

support for the development of business plans and feasibility studies of potential / new investments where such investments are deemed beneficial to the local economy and within the targeted sectors of the respective municipality. The contribution by GTM is dependent on the availability of funds and is limited to R50, 000 or 50% of the total cost of developing the business plan and/or, whichever is the lowest. The investor must approach GTM individually to apply for this incentive.

#### 4.2. REBATE ON MUNICIPAL BUILDING PLAN APPROVAL COSTS FOR APPROVED

The municipality will provide a rebate on approved investments for the approval costs for building plans submitted by investors to the municipality. This will not apply to residential investments or investments on land zoned for residential development. The rebate only applies if:

- The business also owns the premises on which the development is set to take place
- The business has signed at least a 10-year lease agreement for premises in an area in GTM

The rebate does not apply to any additional costs or penalties that the developer may incur when submitting the building plans.

#### 4.3. DISCOUNTS ON RATES & SERVICES FOR NEW INVESTMENTS

The first few years of any new investment faces significant cash flow challenges with high capital expenditure costs, low but fast growing income levels, and relative low levels of efficiency in many processes of the new enterprise, amongst others. The aim of this incentive is to lower the start-up costs and initial utility expenses of a new investment to improve cash flow and survival rate. The municipality recovers this investment through higher rates and utility services income in future.

The municipality will provide discounts on municipal services and/or costs to new business investments, or expansion of existing investments, for a limited period (maximum five (5) years) following such investments. The municipal services and rates eligible for discounts are:

- Water
- Sewerage
- Refuse removal
- Electricity
- Rates

In addition, the full basic service connection fees for electricity, water and sewerage will be refunded on application approval. However, the developer remains liable for the cost of providing and installing cables and municipality owned equipment on the relevant premises for electricity, sewerage and water connections if these are absent or not to the specifications of the developer.

These discounts are similar to those applied by some municipalities in South Africa. The following restrictions apply to these discounts:

- Discounts will only apply where GTM is the utility service provider.
- Discounts will only apply if the applicant is also the owner of the premises from which the business operates.

Where there are no services at the identified investment site and additional service infrastructure is required for the investment to take place, GTM through GTEDA will assist the investor in leveraging the necessary resources such as applications for the DTI's Critical Infrastructure Programme (C/F Section 2.3) or make special application to the Municipal Infrastructure Grant (MIG) fund at the National Treasury.

#### 4.4. DISCOUNT ON LANDS & BUILDINGS

The GTM has strategic parcels of land available that might be offered to investors at a reduced rate to ensure the investment takes place. However, GTM is bound by the restrictions of the Municipal Finance Management Act (MFMA). The MFMA requires that municipalities, in selling/letting of assets (including land) non-essential for service delivery, have to consider the fair market value of the asset, as well as the economic and community value to be received from selling/letting the asset. The process has to be open and transparent, and aligned with the respective municipality's supply chain management policy. Selling/letting of municipal land would have a direct cost implication for the municipality if land is sold under market value, e.g. if it is deemed the economic value the investment would generate for the local area exceeds the financial loss to the municipality.

GTM will negotiate with the relevant investor about possible discounts on selling/letting of municipal land. Private land sold directly to new investors is not included in this incentive. As per MFMA requirements, GTM must determine the economic value of the investment in deciding whether to grant a discount and the size of the discount.

Selling municipal land/buildings to approved investors: the discount will not exceed 10% of the cost of the land and only applies to the purchase price of the land. The economic value of the capital expenditure (excluding the purchase value of the land) of the investment must be at least double the size of the discount of the land.

#### 4.5. OTHER INVESTMENT INCENTIVES

The Department of Trade and Industry (DTI), as well as other government departments at a national level, developed a list of side supply measures to be used in accordance with the government's incentives and initiatives programme. These side measures range from direct grants, production support, export promotion, human skills development, infrastructure and strategic investment support, tax allowances and duty drawback facilities to name a few. The regional (provincial) government also focuses on specific support measures such as investment promotion and investor support services, while local government focuses on specific requirements, including location and general support services. The incentives (tabled below) are available to South African and foreign investors alike.

For more information visit: [www.thedti.gov.za](http://www.thedti.gov.za)

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## ANNEXURE A

### FINANCIAL INCENTIVES

KEY CONSTRAINT	POTENTIAL INCENTIVE	TARGET INVESTORS	PURPOSE
Water and sewage connections	25% rebate after 12 months of doing business in the area	Business of all sizes	Increase the number of new businesses attracted.
Electricity-availability & tariffs	5% discount on electricity rates	Business of all sizes in electricity intensive sectors, e.g. Manufacturing	Attract new businesses & increase inward investment Retain and support expansion of existing businesses. Increase competitiveness of investment location through reduced operating costs
Land sales	Must be in context of the municipal SCM policy, but allow 10% discount on fair market value.	All investors	Attract new businesses & increase inward investment
Refuse removal	Up to 25% discount for first six months, after which full fee to be paid.	All investors	To compliment water and electricity tariffs as these two utilities are far more costly to business
Access to capital for SMMEs and potential star-ups	Loans and or grants for business plan development	SMMEs across all sectors	Increase the number of SMMEs start-ups

## ANNEXURE B

### FINANCIAL INCENTIVES: QUALIFYING CRITERIA

FACTOR	CRITERIA RANGE	MAXIMUM POINTS AVAILABLE	POINTS AWARDED
Firm employs local labour in permanent positions	All permanent local labour(including senior management) >60% staff permanent and local 60-30% permanent and local <30% permanent and local	20	20  15 10 0
Firm has procurement policy that demonstrate how local suppliers will be favored	>60% of products/services will be purchased locally. 60-30% of products/services will be purchased locally <30% of products/services will be purchased locally	20	20  15 0
Firm commits to a skills development plan	Skills development facilitator appointed and skills development plan implemented No skills development facilitator appointed	10	10  0
Firm has appointed auditors	Auditor appointed and contracted Nothing demonstrated	5	5 0
Firm is able to prove it can raise sufficient bridging finance to cover operational costs as shown in a business plan	Full bridging finance approves in respect to business plan Conditions apply but full finance available as long as business plan targets met Finance not yet confirmed	10	10  5  0



Contribution to BBBEE(as per code of practices guidelines)	>80%	15	15
	>65-79.9%		12
	>40-64.9%		8
	<40%		0
Value of investment	>R1,5m	20	20
	<R250 000		5
Maximum Points Awarded		100	

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## ANNEXURE C

### ROLES AND RESPONSIBILITIES FOR FINANCIAL INCETIVES

Intervention	Key tasks and responsibilities	Individual/ent ity responsible	Source of funding
Water incentive	<ul style="list-style-type: none"> <li>- Process incentive application forms</li> <li>- Negotiate terms and conditions of incentive package with applicant</li> <li>- Draw up a contract reflecting,roles,duties and other details of the incentive package</li> <li>- Specify dispute resolution mechanisms, to be included in the contract</li> <li>- Ensure that times are adhered to for entire process, so that incentives can be accessed as quickly as possible</li> </ul>	Municipal manager CFO Director: Engineering Services Director:PED LED manager Legal advisor	Municipal budget
Package of incentives relating to water, land and buildings ,and refuse removal	<ul style="list-style-type: none"> <li>- Process incentive application forms</li> <li>- Negotiate terms and conditions of incentive package with applicant</li> <li>- Draw up a contract reflecting,roles,duties and other details of the incentive package</li> <li>- Specify dispute resolution mechanisms, to be included in the contract</li> </ul> <p>Ensure that times are adhered to for entire process, so that incentives can be accessed as quickly as possible</p>	Municipal manager CFO Director: Engineering Services Director:PED Director: Community Services LED manager Legal advisor Human settlement manager	

## ANNEXURE D

**The activities, responsibility and funding sources for non-financial incentives.**

Intervention	Key tasks and responsibilities	Individual/entity responsible	Sources of funding
Creating a database of investors within municipal boundaries	<ul style="list-style-type: none"> <li>- Extracting relevant information from the incentive applications form</li> <li>- Obtaining contact details from SARS, registration of companies and local chamber of commerce</li> <li>- Direct communication with businesses to complete individual profiles</li> <li>- Maintain correspondence with local businesses and ensure complaints, queries and suggestions are addressed</li> </ul>	GTEDA	Municipal budget
Highlighting potential and existing investment opportunities	<ul style="list-style-type: none"> <li>- Design and print brochure or factsheet</li> <li>- Distribution of fact sheets or brochures</li> </ul>	GTEDA	Municipal budget
Provision of labour market and demographic information to potential investors	<ul style="list-style-type: none"> <li>- Contact regional offices of Stats SA, Department of Labour</li> <li>- Ensure that the municipal receives regular updates from these institutions</li> <li>- Pass on statistics to interested and affected parties</li> </ul>	LED manager IDP Officer	Municipal budget
Quick processing of permits, zoning	<ul style="list-style-type: none"> <li>- Analyze existing procedures</li> </ul>	Director:PED	Municipal budget

and building plan approvals		Director: Engineering Services Manager: Town Planning Municipal Planning Tribunal	
Assistance with property and site searches	- Use knowledge of the municipal land uses to advise investors	Manager: Land and Human Settlement Manager: Town Planning	Municipal budget
Facilitation of small business support services	- Consult with SEDA - Cooperate with local microfinance institutions in organizing public meetings at municipal venues.	GTEDA Director: PED Manager: LED	

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