Trade and Investment Limpopo (TIL)

Developing a Generic Municipal Incentive Policy for Limpopo Province

Strategic recommendations (Step 7)

July 2005

Final report
EXECUTIVE SUMMARY

Purpose of the document

This document is the final deliverable in the development of incentive packages for local and district municipalities in Limpopo. It recommends specific financial and non-financial incentives that research has indicated are potentially viable for implementation in Limpopo. The document also proposes administrative and performance management systems, as well as the allocation of roles and responsibilities to ensure the successful implementation of the incentives.

These recommendations are still in the process of finalisation within TIL, and are open to further input from local municipal officials.

Overview of methodology

In formulating the strategic recommendations made in this document, Kaiser Associates drew on the accumulated research from the previous project steps. In particular, the output of the options testing and incentive benchmarking phases was instructive, as were additional interviews conducted with stakeholders in the private and public sectors.

Further analysis was conducted to consolidate the findings of this research into the framework for an incentive policy.

Recommended principles underlying investment incentives

It is recommended that the incentives should be developed and implemented with the following principles in mind:

1. **Encouraging sustainable investments** in real economic opportunities – rather than a short-term approach where investors may leave as soon as the incentive terminates
2. **Primarily overcoming obstacles to investment that may be resolved more systematically in future** (such as uncompetitive input costs, infrastructure and government service provision)
3. **Financial sustainability**
4. **Transparency and accountability** in administration
5. **Sufficient flexibility** to accommodate diversity of needs and implementation entities, as well as changing socio-economic conditions
6. **Continuous learning and intergovernmental cooperation** - as the lessons are learnt from own and other municipalities’ experiences, officials must be prepared to make the necessary modifications to their incentive packages
7. **Inclusivity and non-discrimination** - The types of incentives and the manner in which they are rolled out should not result in unfair discrimination against certain municipalities or enterprise types, but should encourage the participation of all municipalities to the best of their abilities. Nevertheless, certain minimum requirements should be in place to participate as either an incentive administrator or beneficiary in order to safeguard the other principles set out here

Recommended incentive types, targets and geographical focus

Both financial and non-financial incentives were recommended to local and district municipalities due to their equal importance and popularity as judged in the options testing and benchmarking phases.

It was concluded that the non-financial incentives should not have a specific sectoral focus, and should be available on a first come first serve basis except where the municipality is constrained by the availability of resources. Financial incentives should target the following sectors:

- Mining and related beneficiation
- Agriculture and agro-processing
Manufacturing
Tourism
Business services

In order to remain open to future possibilities, municipalities should nevertheless become increasingly familiar with the comparative and competitive advantages of existing and potential growth sectors other than those listed above as these may also warrant financial incentives. In other words, they should learn to identify businesses within their municipal boundaries with the characteristics that merit financial incentives to encourage their growth.

It is recommended that the financial should be accessible to the following enterprise types:
- Both foreign and local investors
- New investors in Limpopo
- Expansions of operations
- Enterprises experiencing short-term financial crises, but are commercially viable in the long-term
- Large companies and small enterprises, with preference for high BEE contributions in terms of the balanced scorecard approach - however, it should be at the discretion of municipalities to assess the most appropriate and realistic enterprise types based on the current investor profile in the local area and the areas of investment opportunity. Where large firm investments are possible, municipalities may choose to target these companies and encourage commitments to local procurement.

As the financial incentives can only be accessed via an application process, it will be possible for the municipalities to screen applicants and ensure that only those who fit the specified criteria are awarded the incentives.

It is not necessary or possible for the non-financial incentives to distinguish between enterprise types as there is no application process involved for them, and they are services that open to all enterprises in municipal boundaries. Only where these services or incentives are not part of the municipalities’ legislative mandate can the municipalities exercise their discretion as to whether to accord preferential treatment to specific enterprise types or sectors.

It is recommended that, as a strategic approach, neither the financial nor the non-financial incentives should have a particular geographic focus. As the intention was to develop a generic approach for the provincial to local incentives, it is more appropriate to have common guidelines that apply across the province. However, due to variations in implementation capacity and the financial resources of municipalities, there may be uneven geographical availability of incentives in practice in the short to medium term. Where Spatial Development Initiatives have been identified in the province, greater efforts can be made to ensure intergovernmental coordination and proactive identification of suitable investors, within the capacity constraints of the implementing entities.
Potential phasing and roll out strategy

Given the capacity constraints and the limited experience of some municipalities with administration of formalised incentive policies, it is recommended that the incentive policy is implemented through a phased approach, with some initial pilots to refine the policy.

It is recommended that municipalities are invited through a consultative process to volunteer their participation in a pilot, subject to the financial and human resource capacity assessments conducted in the options testing phase, as set out below. Ideally, the pilot should include:

- At least one district municipality to pilot non-financial incentives only
- At least one local municipality that is capable of piloting both financial and non-financial incentives
- At least one local municipality to pilot non-financial incentives only

The pilot phase should last at least eighteen months in order to include the incentives in municipal decision making processes, allocate resources, generate some investor awareness of the incentives and allow for the initial impact of the incentives to be observed.

A parallel process of capacity building should be instituted, with district and local municipalities taking the initiative to identify the most critical areas for developing in terms of financial systems, organisational systems, skills and knowledge areas.

Following the pilot, the incentive policy can be further refined and rolled out to those municipalities that are ready and interested at that stage. A third phase of roll out might be required to accommodate the lowest capacity municipalities.

The table below outlines the entities responsible for financial and non-financial incentives at the provincial, district and local level.

<table>
<thead>
<tr>
<th>Types of incentives</th>
<th>Provincial government entities</th>
<th>District municipalities</th>
<th>Local municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-financial incentives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packaging and communication of</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>investment opportunities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business development &amp; enterprise support</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Collation and dissemination of economic,</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>labour market and skills information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor database development and</td>
<td>✓</td>
<td>√</td>
<td>✓</td>
</tr>
<tr>
<td>regular communication</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assistance with property and site</td>
<td>✓</td>
<td>√</td>
<td>✓</td>
</tr>
<tr>
<td>searches</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapid permitting, rezoning and building</td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>plan approvals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extended office hours / help line / help</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>desk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhancement of lifestyle attractiveness</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Partnerships to develop infrastructure</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Financial incentives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and sewage connections</td>
<td>×</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Water tariffs</td>
<td>×</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Property rates</td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Land sales</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Property rentals</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
### Types of incentives

<table>
<thead>
<tr>
<th>Financial incentives</th>
<th>Provincial government entities</th>
<th>District municipalities</th>
<th>Local municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse removal</td>
<td>×</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Overall facilitation and coordination</td>
<td>✓</td>
<td>✓</td>
<td>×</td>
</tr>
</tbody>
</table>

A **marketing and promotion strategy** for the incentives is recommended in order to alert investors to their existence and thus encourage their usage. Some suggestions in this regard are:

- Creating a website link (provincial or municipal) with a special section dedicated to investment incentives
- Inserting fliers and brochures into municipal account statements
- Displaying posters and sample incentive application forms on municipal bulletin boards
- Direct marketing via the database of local investors

### Recommended complementary strategies to support investment incentives

In recognition of the fact that investment incentives alone are not sufficient to attract investment into the different municipalities, Kaiser identified additional interventions to complement the incentives. They were:

- Improving the success rate of LED projects in the province
- Addressing economic aspects of land claim resolutions
- Improved intergovernmental coordination and communication
- Raising private sector awareness of investment opportunities in Limpopo
- Increasing awareness of and access to national incentives

### Funding mechanisms for incentives

**Municipal budgets**

Municipal budgets will have to finance the bulk of the incentives and complementary strategies identified in this document. It is for this reason that individual financial capacity is particularly important, as it is the ultimate determinant of:

- Whether or not a municipality offers incentives
- The particular types of incentive options that are available

**Limpopo EU LED Programme - Local Government Support Fund**

It is important for municipalities to realise and accept that the LGSF cannot be relied on to directly subsidise the costs of any of the financial incentives, and of most of the non-financial incentives. Only a limited number of the non-financial incentives and complementary strategies can be funded by the LGSF. They are:

- Quick processing of permits, and zoning and building plan approvals
- Improving the success rate of LED projects in the province

The main value of the LGSF lies in that it presents opportunities for municipalities to enhance their knowledge and understanding of the role of incentives in LED through training programmes and interaction with overseas municipalities. Thus, where incentives are concerned, the LGSF primarily serves an educational purpose. The LGSF therefore plays a very useful role in the province as many municipalities are inhibited by a limited understanding of the purpose and importance of incentives.
1 Introduction and purpose

Kaiser Associates was appointed by Trade and Investment Limpopo (TIL) to recommend an incentive policy to be implemented by all municipalities in the province. The purpose of this document is to make specific recommendations for these incentives. In doing so, Kaiser draws on all the research conducted to date, including:

- Consolidation of past work (Step 1)
- Verification of economic priorities and incentive gaps (Step 3)
- Development of strategic options (Step 4)
- Options testing (Step 5)
- International and local benchmarking (Step 6)

Further analysis was conducted to consolidate the findings of this research into the framework for an incentive policy. In making its strategic recommendations, Kaiser took into account the following:

- Relevance to economic and natural endowments in each district and local municipality (competitive advantages)
- Ability to address probable bottlenecks (including bureaucratic systems in the district administration)
- Finances, capacities and competencies existing within entities at local, district and provincial levels
- Ensuring that the incentives policy is in line with Provincial policies
- Ensuring long term sustainability
- Complementing cluster formations in the districts and local municipalities

These recommendations are still in the process of finalisation within TIL, and are open to further input from local municipal officials.

2 Overview of provincial policy, economic and investment context

2.1 Economic context and challenges

The Limpopo provincial economy has experienced significant growth in recent years, reaching a peak of 6.3% in 2002 compared to a national average of 2.8% in the same year. However, although the regional economy’s growth rate is still above the national average, it has declined significantly since 2002. Although this is still a relatively good performance, Limpopo had only the 6th largest provincial economy in 2003, indicating that the province must seek to perform at a consistently high level if it is to close the gaps between itself and provinces such as Gauteng, which had the biggest provincial GDP in 2003.

The province, whose population numbers 5.5 million people, faces the following challenges:

- High unemployment
- Low productivity and income levels characteristic of rural areas (e.g. the disposable income per capita in 2002 was R6021 in Limpopo vs. the national average of R13,502)
- A lack of beneficiation of natural resources, similar to experiences in other parts of RSA
- Inequalities in economic performance, and human and financial resources between local and district municipalities in the province

2.2 Provincial socio-economic policy objectives

The province’s socio-economic policy objectives are identified in its 2004 Provincial Growth and Development Strategy. They include:
Increase the provincial growth rate - Vision 2020 projects Limpopo making a provincial contribution of 12% to national wealth by the year 2020, approximately double the province’s current contribution of 6.5% to national GDP

Economic diversification - The provincial economy is dominated by the mining sector, which accounted for 27% of provincial GDP in 2003, the largest share of private commercial activity

SMME growth - Increasing the number and success rate of SMMEs in the province has been identified as key to job and wealth creation in the province

Integration of the informal sector into the formal economy

Spatial redistribution - The provincial government is seeking to establish at least one prominent growth point in every municipality throughout the Province, thereby ensuring that there is some commercial activity linked to a priority sector in each municipality

Cluster development - In line with national government’s main strategy, the Province is promoting a “cluster” approach to drive investment – i.e. through improving infrastructure and the investment climate in areas with the greatest potential, investors will be encouraged to cluster in these areas and realise opportunities in value-add to primary products and raw materials that have historically been processed outside the province

2.3 Investment promotion and after-care strategy

Limpopo’s investment promotion and after-care strategy is coordinated at the provincial level by Trade and Investment Limpopo. TIL’s activities in this regard include:

- Representing the province at international investment conferences and exhibitions
- Hosting local road shows
- Interfacing with investors before and after a firm commitment has been made to establish operations in the province
- Entering into PPPs for various projects of economic benefit to stakeholders in the provincial economy

To date the role of local and district municipalities in promoting investment and providing after-care services has largely been passive and uncoordinated, with only a few municipalities taking the initiative to address the needs of the business community. The financial and non-financial incentives recommended in this document address this shortcoming by creating a role for municipalities in investment promotion and facilitation.

3 Summary of key findings

3.1 Identified gaps in incentive support

Kaiser identified the following gaps in existing incentive support within the province:

- National incentives do not adequately address a number of high priority areas of importance to business operating costs e.g. support on availability of and tariffs for water and electricity utilities, and support on availability of and tariffs for road/rail logistics. The termination of the Strategic Industrial Projects incentive leaves a further gap in the suite of national incentives
- There are not enough national incentives to cater to Limpopo’s identified priority sectors in a representative manner, in particular non-manufacturing sectors such as agriculture and tourism
- Limpopo companies have experienced limited success when applying for national incentives, hence they have not been able to use the incentives to their advantage
- There is evidence of current and past investment incentives at the local and district municipal level. However, the incentives do not appear to have been successful, suggesting the municipalities should re-examine the marketing and packaging of incentives
- At the national and local government level (in Limpopo), the emphasis has been on tax and financial incentives. Non-financial incentives have been either understated or neglected altogether
## 3.2 Initial proposed incentives

This section describes the initial potential incentives at the local, district and provincial levels, and the process by which they were gradually eliminated until only the most realistic and relevant options were identified.

### 3.2.1 Potential financial incentives at the district and local level

<table>
<thead>
<tr>
<th>Key constraint</th>
<th>Potential incentive</th>
<th>Target investors</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water- availability &amp; tariffs</td>
<td>▶ % discount on bulk water rates (potentially on a sliding scale based on either usage rate or prioritised investor/enterprise types) ▶ % discount on connection fees</td>
<td>▶ Business of all sizes in water intensive sectors – esp. agriculture, manufacturing, and mining</td>
<td>▶ Increase the number of new businesses attracted ▶ Increase inward investment ▶ Retain and support expansion of existing businesses ▶ Increase the number of SMME/ BEE start-ups ▶ Increase competitiveness of investment location through reduced operating costs</td>
</tr>
<tr>
<td><strong>Local level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water- availability &amp; tariffs</td>
<td>▶ % discount on bulk water rates (potentially on a sliding scale based on either usage rate or prioritised investor/enterprise types) ▶ % discount on connection fees</td>
<td>▶ Business of all sizes in water intensive sectors – esp. agriculture, manufacturing, and mining</td>
<td>▶ Increase the number of new businesses attracted ▶ Increase inward investment ▶ Retain and support expansion of existing businesses ▶ Increase the number of SMME/ BEE start-ups ▶ Increase competitiveness of investment location through reduced operating costs</td>
</tr>
<tr>
<td>Electricity - availability &amp; tariffs</td>
<td>▶ % discount on electricity rates ((potentially on a sliding scale based on either usage rate or prioritised investor/enterprise types)</td>
<td>▶ Business of all sizes in water intensive sectors – esp. manufacturing and mining</td>
<td>▶ Attract new businesses &amp; increase inward investment ▶ Retain and support expansion of existing businesses ▶ Increase competitiveness of investment location through reduced operating costs</td>
</tr>
</tbody>
</table>
## 3.2.2 Potential non-financial incentives at the district and local level

- **Improving everyday service to members of the business community** – e.g. processes for rates and utilities payments, processing of applications, rezoning etc
- **Creating a conducive environment for investment, by improving infrastructure for transport and amenities.** This can be funded through PPPs, and more aggressively utilising national municipal infrastructure grants and disbursements
- **Maintaining a database of available national incentives, and marketing these to local investors**
- **Close, regular and systematic communication** with local investors to keep abreast of their needs and problems, and to identify gaps or deficiencies in municipal service delivery
- **Comprehensive profiling of investors** operating in their municipal boundaries e.g. sector, years in existence, financing and other requirement
- **Enhancing the life-style attractiveness** of Limpopo. The creation of more attractive central areas and assets that contribute to quality of life in Limpopo would raise its profile as an investment destination. For example, any municipality that wishes to embark on such an initiative in Limpopo could decide on an area to be declared a special rating area (as permitted by the Property Rates Act). Some suggestions of possible improvements are:
  - Improving cleanliness through increasing the frequency of refusal removals, street sweeping etc
  - **Crime prevention** strategies
  - **Resurfacing roads and pavements**
  - Closing off roads and creating “no-drive” areas that are traffic free and therefore quieter and attract eateries and businesses that want to operate out of quieter areas
  - **Improved electricity and water services** (greater kilowatts and pressure)
  - **Greening** (tree planting) initiatives
  - **Repainting** and creating standard and attractive architecture or architectural themes
- **Enhancing benefits of proximity to nature and “green areas”** – this could includes actions such as the removal of alien vegetation, the restoration of wetlands to their natural state, and

### Key constraint | Potential incentive | Target investors | Purpose
---|---|---|---
Land & building costs | Refund % of building plan fees | Large enterprises | Attract new businesses & increase inward investment
| Discounted rental or sale of municipal land or commercial, industrial and warehousing buildings | SMMEs | Increase the number of SMME/BEE start-ups
Refuse removal | Total exemption from rates over a fixed period of time | All investors | To complement water and electricity incentives, as these two utilities are far more costly to business
BEE components | BEE fund | BEE investors (SMME only) in manufacturing and tourism sectors | Increase the number of SMME/BEE start-ups
lack of capital/equity | Soft loans | | |
Access to capital | Loans and/or grants for business plan development | SMMEs across all sectors | Increase the number of SMME/BEE start-ups
for SMMEs and potential start-ups | | | |
Lack of funds for LED | Fund or loan facility | SMMEs across all sectors | Increase number of micro-business and community project start-ups
declaring areas rich in biodiversity or endemic flora and fauna as protected areas. A positive spin-off of this investment might be that residents close to the area will benefit increased property values, thereby increasing property rates revenue. This increased revenue could then be re-invested in the environment

- **Developing residential areas with appropriate housing stock for rental and purchase.** This would be part of efforts to enhance the lifestyle attractiveness of Limpopo
- **Working collaboratively with the private sector to develop and promote other lifestyle assets e.g. schools, recreation facilities, cultural areas**

### 3.2.3 Potential provincial incentives

Potential incentives from **provincial government and provincial-level institutions** were:

<table>
<thead>
<tr>
<th>Key constraint</th>
<th>Potential incentive</th>
<th>Target investors</th>
<th>Purpose</th>
</tr>
</thead>
</table>
| Rail logistics – availability & tariffs | - Discount or rebate on transportation charges for bulk rail freight shipments  
- Discount or rebate for freight pooling to common destinations e.g. Durban Port, Gauteng | Large enterprises | - Increase competitiveness of investment location & reduce failure rates through reduced operating costs  
- Increase export potential of businesses & access to new markets |
| Rail/road logistics – infrastructure development | - Discount/subsidise the costs of developing transportation infrastructure  
- Negotiated tax concession or rebate for private sector investment in rail infrastructure | Large enterprises or groups of enterprises  
Consortia of SMMEs | Attract new businesses & increase inward investment  
Increase the number of SMME/BEE start-ups |
| ICT –infrastructure development | - Discount/subsidise the cost of ICT infrastructure development | Large enterprises | Attract new businesses & increase inward investment  
Increase the number of SMME/BEE start-ups |
| Water- infrastructure development | - Discount/subsidise the costs of establishing water infrastructure | Large enterprises  
Consortia of SMMEs | Attract new businesses & increase inward investment  
Retain and support expansion of existing businesses  
Increase the number of SMME/BEE start-ups |
<table>
<thead>
<tr>
<th>Key constraint</th>
<th>Potential incentive</th>
<th>Target investors</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity - infrastructure development</strong></td>
<td>▶ Discount/subsidise the costs of developing electricity infrastructure</td>
<td>▶ Large enterprises</td>
<td>▶ Attract new businesses &amp; increase inward investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▶ Consortia of SMMEs</td>
<td>▶ Retain and support expansion of existing businesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▶ Increase the number of SMME/BEE start-ups</td>
</tr>
<tr>
<td><strong>Land &amp; building costs</strong></td>
<td>▶ Rebates on capital expenditure (e.g. for equipment)</td>
<td>▶ Large enterprises</td>
<td>▶ Attract new businesses &amp; increase inward investment</td>
</tr>
<tr>
<td></td>
<td>▶ Provision of buildings to specification</td>
<td></td>
<td>▶ Increase the number of SMME/BEE start-ups</td>
</tr>
<tr>
<td></td>
<td>▶ Refund % of building plan fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Human capital development</strong></td>
<td>▶ Rebates on skills development (training courses)</td>
<td>▶ Sector specific</td>
<td>▶ Increase in the skills specialisation and competency levels</td>
</tr>
<tr>
<td></td>
<td>▶ Funding of training institutes for priority sectors</td>
<td></td>
<td>▶ Attracting investment through the provision of specialised skills</td>
</tr>
<tr>
<td></td>
<td>▶ (partnerships with private sector)</td>
<td></td>
<td>sought by investors</td>
</tr>
<tr>
<td></td>
<td>▶ Discount/subsidise skills development of BEE staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BEE components’ lack of capital/equity</strong></td>
<td>▶ BEE fund</td>
<td>▶ BEE investors (SMME and large enterprise) in</td>
<td>▶ Increase the number of SMME/BEE start-ups</td>
</tr>
<tr>
<td></td>
<td>▶ Soft loans</td>
<td>manufacturing and tourism sectors</td>
<td></td>
</tr>
<tr>
<td><strong>Access to capital for SMMEs</strong></td>
<td>▶ Loans and/or grants for business plan development</td>
<td>▶ SMMEs across all sectors</td>
<td>▶ Increase the number of SMME/BEE start-ups</td>
</tr>
<tr>
<td></td>
<td>▶ VC fund for start-up finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Access to markets</strong></td>
<td>▶ Fund for trade missions</td>
<td>▶ Large enterprises in priority sectors</td>
<td>▶ Increase export potential of existing businesses &amp; access to new</td>
</tr>
<tr>
<td></td>
<td>▶ Fund for market research assistance</td>
<td></td>
<td>markets</td>
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</tbody>
</table>
3.3 **Summary of results from options testing**

This section summarises the key outputs from the options testing phase. Detailed information is contained in the [Step 5&6](#) (Options testing & International benchmarking) document.

### 3.3.1 Results from legal assessment of local, district and provincial incentives

The key findings of the legal assessment are as follows:

- **Municipal incentives that are prohibited**: municipalities are *not* legally entitled to establish, administer or in any way participate in BEE/SMME funds, and loans and/or grants to facilitate investment. These incentives were therefore eliminated from the list of potential local incentive options.

- **Municipal incentives that are permitted by statute**:
  - A percent reduction in water and sewage connections to new entrants
  - Reduction of water and electricity tariffs charged by municipalities
  - Percentage rebates on building plan fees
  - Discounted rentals on municipal land
  - Discounted sales of municipal land
  - A reduction in property taxes

- **Implications for district level incentives**:
  - The only areas open to district municipalities are (in some cases) water discounts, district-managed road upgrades, refuse removal in two districts, as well as non-financial incentives

- **Implications for provincial level incentives**:
  - Most entities at provincial level, including TIL, are not in a position to offer soft loans
  - Infrastructure development is best facilitated by public private partnerships involving the provincial government and provincial-level entities such as the National Road Agency (through Limpopo regional office). These PPPs are not prohibited by statute but must adhere to National Treasury regulations and standards

### 3.3.2 Organisational capacity of local and district municipalities

The overall organisational capacity of the municipalities was assessed according to their:

- **Financial capacity**
- **Human resource capacity**

*Results of financial capacity assessment*

Based on the National Treasury’s 2004 municipal capacity audited, the following capacity ratings were awarded:
<table>
<thead>
<tr>
<th>Municipality</th>
<th>NT Capacity Rating</th>
<th>Audit Opinion Qualified and better</th>
<th>Fin statements on time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>03/04 &amp; 02/03</td>
<td>02/03 &amp; 01/02</td>
</tr>
<tr>
<td>Greater Sekhukhune District</td>
<td>H</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Makhuduthamaga</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fetakgomo</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater Marble Hall</td>
<td>L</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Greater Groblersdal</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater Tubatse</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater Tzaneen</td>
<td>H</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Ba-Phalaborwa</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vhembe District Municipality</td>
<td>L</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Musina</strong></td>
<td>L</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mutale</td>
<td>L</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Thulamela</td>
<td>M</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Makhado</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capricorn District Municipality</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blouberg</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aganang</td>
<td>L</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Molemele</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Polokwane</strong></td>
<td>H</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Lepelle-Nkumpi</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waterberg District Municipality</td>
<td>L</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Thabazimbi</td>
<td>L</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lephaleale</strong></td>
<td>M</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mookgophong</td>
<td>M</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Modimolle</strong></td>
<td>L</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Bela-Bela</td>
<td>M</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mogalakwena</td>
<td>L</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

- **Only 3 municipalities were identified as having high financial capacity** They were Greater Tzaneen, Polokwane, and Greater Sekhukhune district

- **A further eight municipalities were classified as having medium financial capacity.** They were Greater Groblersdal, Phalaborwa, Thulamela, Makhado, Capricorn district, Lephaleale, Mookopong, and Bela Bela

The 11 municipalities should therefore be able to cope with financial and/or non-financial incentives.
Results of human resources capacity assessment

Drawing on Kaiser’s primary research and the output of the Demarcation Board’s 2002 capacity assessment of Limpopo municipalities:

- It appears that many of the district municipalities do not currently have the human resource capacity to administer a water incentive.
- The local municipalities differ from each other in their human resource capacity to implement incentives relating to water, electricity and refuse removal. There are also unequal staff allocations within municipalities, so that a municipality has the capacity to implement an electricity incentive, but not one for water and/or refuse removal or vice versa. As a result of these factors, it proved impossible to derive a coherent picture of the municipalities’ capacity with respect to each of the financial incentives for comparative purposes.

The required capacity to administer non-financial incentives is less tangible. However, one positive development is that most local municipalities have the capacity to perform the building regulations function. It can be inferred from this that the quick and efficient approvals for building plans and other permits linked to building regulations is at least one viable non-financial incentive.

Conclusions on organisational capacity

Combining the results of the financial and human resource capacity assessments, the following conclusions were reached:

- The organisational capacity to administer incentives should be present in Lephalale and Greater Sekhukhune, and may be present in the following eight municipalities: Polokwane, Tzaneen, Musina, Aganang, Modimolle, Bela-Bela and Mogalakwena, if the appropriate capacity building measures are taken, including securing additional human resources.

3.3.3 Results from options testing with the business community

Members of the business community in Limpopo were consulted to obtain their views on whether incentives would be helpful, and if so, the specific types of incentives and how they should be structured. Their responses are summarised below:

- Existing businesses in various sectors showed an equally high level of interest in both financial and non-financial municipal incentives.
- The most popular incentives were those relating to electricity and water.
- Reduced property taxes and refuse removal tariffs were less popular and useful incentives when considered individually.
- Investors preferred all of the incentive to be bundled together as a package instead of being offered piecemeal.
- Businesses were unable to quantify the exact percentage rebates and discounts that would ideally constitute the incentives.
- SMMEs and BEEs were prioritised as targets for the incentives.

3.3.4 Results from options testing with TIL sector heads

Kaiser interviewed all the TIL sector heads to benefit from their understanding of industry needs as well as the province’s challenges, opportunities and socio-economic priorities. Views raised included the following:

- Tariff reduction incentives should only be applicable for a period of 6 to 12 months, and not as medium to long term rate reductions as this could adversely affect the municipalities revenue.
- The incentives should be packaged and standardised instead of being offered piecemeal.
- SMMEs and BEEs should be prioritised as targets for the incentives.
- The incentives should be heavily marketed if they are going to succeed.
Special cognisance should be taken of rural municipalities as they may be completely excluded from offering incentives. Alternatives should therefore be developed for them to channel the few resources at their disposal to attract investment.

There is a lack of communication between municipalities and business.

Based on input from both TIL sector heads and the Limpopo business community, the table below indicates views on the likely impact of the incentives within each sector based on their different cost structures and investment constraints (H=High, M=Medium, L=Low):

### Anticipated sectoral impact of financial incentives

<table>
<thead>
<tr>
<th>Sector</th>
<th>Water</th>
<th>Electricity</th>
<th>Refuse removal</th>
<th>Land and building costs</th>
<th>Property taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>M-H</td>
<td>H</td>
<td>L</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Mining</td>
<td>L</td>
<td>M</td>
<td>L</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Agriculture</td>
<td>H</td>
<td>H</td>
<td>L</td>
<td>H</td>
<td>L</td>
</tr>
<tr>
<td>Tourism</td>
<td>L-M</td>
<td>M-H</td>
<td>L</td>
<td>H</td>
<td>H</td>
</tr>
</tbody>
</table>

#### 3.3.5 Results from options testing with local and district municipalities

Local and district municipalities were asked for their views on the roles to be played by TIL and themselves in designing and implementing investment incentives. The results were:

- Both local and district municipalities were open to advice and guidance from TIL on how to design and administer incentives, even in instances where they already have their own incentive policies.
- The financial and non-financial incentives should prioritise the tourism sector, as it is considered to have the largest growth potential.
- Local and district municipalities should assist each other with designing and implementing incentives; however, there are significant challenges currently in coordination between district and local municipalities.
4 Lessons from benchmarking

Local and international incentives were benchmarked in order to identify best practice in incentive design and administration and reflect these insights in the strategic recommendations developed.

4.1 South African incentives benchmarking

The sections below provide summaries of the lessons learned from benchmarking incentive development and implementation in South Africa\(^1\).

Financial incentives

- Municipalities should have a clear understanding of their role in the incentive administration process, and the relevant departments and line staff must be identified and briefed accordingly
- The qualifying criteria for the incentives should not be overly stringent or ambiguous
- A simple and speedy application process (in the case of financial incentives) is desirable
- A designated official or department in TIL should be assigned to take responsibility for the incentive policy
- It is essential to maintain a database of incentive applicants, and to organise workshops and other regular points of contact between investors and government authorities

Non-financial incentives

- Wider enterprise support and business services can play a key role in determining the investment-attractiveness of a region
- However, these have seldom been packaged as “non-financial incentives”
- There is potentially more scope for provincial and local government interventions with non-financial incentives than with financial incentives; however, human resources capacity and organisational systems remain challenges even with non-financial incentives

4.2 International incentives benchmarking

Key insights from the international benchmarking are as follows\(^2\):

- There is no one-size-fits-all approach to incentive design and administration. Each region must take into account its own particular circumstances, especially the regulatory environment and the availability of resources, in developing its unique approach
- Non-financial incentives are just as consuming and detailed as financial incentives, and should not be regarded as the less demanding of the two types of incentives
- The availability of appropriate technology and information management systems is essential to ensure coordination and efficiency in incentive administration
- Performance management systems are also essential to ensure coordination and efficiency in incentive administration

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\(^1\) Local benchmarks included The Enterprise Organisation (TEO), City of Cape Town, Modimolle and KZN municipalities – further details are available on request (refer to Step 5&6 deliverable available from TIL)

\(^2\) International benchmarks included the Chinese province of Zhenjiang, Canadian provinces of Manitoba and Ontario, City of Toronto, UK regional economic development agencies, United States municipalities - further details are available on request (refer to Step 5&6 deliverable available from TIL)
5 Strategic recommendations

5.1 Recommended principles underpinning investment incentives and the relationship to wider investment support in the province

It is recommended that the incentives should be developed and implemented with the following principles in mind:

1. **Encouraging sustainable investments** in real economic opportunities – rather than a short-term approach where investors may leave as soon as the incentive terminates.

2. **Primarily overcoming obstacles to investment that may be resolved more systematically in future** (such as uncompetitive input costs, infrastructure and government service provision). Incentives are therefore stop-gap measures to address problems that will be more appropriately dealt with through improved infrastructure and service delivery in future.

3. **Financial sustainability**

4. **Transparency and accountability** in administration

5. **Sufficient flexibility** to accommodate diversity of needs and implementation entities, as well as changing socio-economic conditions

6. **Continuous learning and intergovernmental cooperation** - as the lessons are learnt from own and other municipalities' experiences, officials must be prepared to make the necessary modifications to their incentive packages; while some competition between municipalities is inevitable, destructive competition that allows investors to engage in “rent-seeking” behaviour should be kept to a minimum.

7. **Inclusivity and non-discrimination** - The types of incentives and the manner in which they are rolled out should not result in unfair discrimination against certain municipalities or enterprise types, but should encourage the participation of all municipalities to the best of their abilities. Nevertheless, certain minimum requirements should be in place to participate as either an incentive administrator or beneficiary, in order to safeguard the other principles set out here.

In order to support the principle of encouraging sustainable investments in real economic opportunities, it is recommended that the process of negotiating incentives with individual enterprises is **carefully integrated into the overall investment promotion strategy** for the Province. Therefore, where possible, the following approach should apply:

- The selection of potential investment locations within the Province should be driven primarily by identifying locations with the most appropriate economic conditions for long-term competitiveness, rather than the attractiveness of their respective incentive packages.

- Any referrals of potential investors by provincial entities or district municipalities to local municipalities should therefore be conducted on this basis.

- Similarly, local municipalities should make every effort to assess the economic viability of proposed investments or expansions prior to entering into incentive agreements.

- Pro-active attraction of potential investors should be managed in a coordinated fashion, and should be aligned with the Provincial Growth and Development Strategy objectives.

- Common messages with respect to the overall investment climate and government support available (including the incentives policy) should be conveyed by all investment promotion activities in the province, irrespective of the entities involved, in order to avoid confusion amongst potential investors.
5.2 Overview of recommended incentive types, targets and geographical focus

5.2.1 Incentive types

Based on the results of the options testing and international benchmarking, both financial and non-financial incentives were shown to be equally important in attracting investment. In addition, cooperative approaches to developing key economic infrastructure are recommended, although these may not always be categorised as incentives.

Further detail on proposed financial, non-financial and infrastructure is provided in later subsections.

5.2.2 Sectoral focus

Given principles such as non-discrimination and alignment of incentives with real economic opportunities, it is recommended that non-financial incentives should not have a sectoral focus. Ideally, these incentives should be available on a first come, first serve basis. However, in instances where a municipality is hampered by resource constraints, municipalities can be selective and align their priority sectors with those cited in either the PGDS or the municipal IDP. Another consideration would be whether or not the non-financial incentive is part of a municipality’s mandated service delivery responsibilities. Where the incentive is not a service that the municipality would ordinarily be expected to deliver, certain sectors may be prioritised depending on the local economy. Where the incentive is an integral part of service delivery, the municipality will have to treat all enterprises equally as there is no justification for preferential treatment.

However, financial incentives should have a definite sectoral focus, targeting enterprises from the following sectors:

- Mining and related beneficiation
- Agriculture and agro-processing
- Manufacturing
- Tourism
- Business services

The retail and construction sectors have been excluded because they are predominantly demand-driven, and enterprises will locate wherever there is a market. With regard to construction in particular, contract work takes place across the whole province and is not limited to a single municipal boundary. It would therefore be difficult to trace a construction company’s contribution to a local economy, thereby entitling it to financial incentives. Kaiser is of the opinion that these two sectors can thrive without the assistance of financial incentives, hence it would be wasteful to target them when other sectors would find financial incentives more useful.

In order to remain open to future possibilities, municipalities should nevertheless become increasingly familiar with the comparative and competitive advantages of existing and potential growth sectors other than those listed above as these may also warrant financial incentives.

5.2.3 Target enterprise types

It is recommended that financial incentives should be accessible to the following enterprise types:

- Both foreign and local investors
- New investors in Limpopo
- Expansions of operations
- Enterprises experiencing short-term financial crises, but are commercially viable in the long-term
- Large companies and small enterprises, with preference for high BEE contributions in terms of the balanced scorecard approach - however, it should be at the discretion of...
municipalities to assess the most appropriate and realistic enterprise types based on the current investor profile in the local area and the areas of investment opportunity. Where large firm investments are possible, municipalities may choose to target these companies and encourage commitments to local procurement, as this may prove easier to administer and create a larger net benefit.

In order to prevent negative inter-regional competition, companies that are relocating within the province or nationally should be required to motivate their relocations (where the relocation does not involve expansions or other improvements). If the municipality is satisfied that a company is not just trying to take advantage of its more generous discounts, the application can be processed and treated the same as all the others.

Non-financial incentives will be open to all enterprise types since they do not involve an application process, making it extremely difficult to distinguish between enterprise types.

### 5.2.4 Geographical focus

It is recommended that, as a strategic approach, neither the financial nor the non-financial incentives should have a particular geographic focus. As the intention was to develop a generic approach for the provincial to local incentives, it is more appropriate to have common guidelines that apply across the province. However, due to variations in implementation capacity and the financial resources of municipalities, there may be uneven geographical availability of incentives in practice in the short to medium term.

Where Spatial Development Initiatives have been identified in the province, greater efforts can be made to ensure intergovernmental coordination and pro-active identification of suitable investors, within the capacity constraints of the implementing entities.

### 5.2.5 Administering entities

As identified through the options testing process, there are significant legal constraints and limitations to mandates that confine the roles that can be played by provincial, district and local entities. The table below provides a summary of recommended administering entities.

<table>
<thead>
<tr>
<th>Types of incentives</th>
<th>Provincial government entities</th>
<th>District municipalities</th>
<th>Local municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-financial incentives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packaging and communication of investment opportunities</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Business development &amp; enterprise support</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Collation and dissemination of economic, labour market and skills information</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Investor database development and regular communication</td>
<td>✓</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Assistance with property and site searches</td>
<td>✓</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Rapid permitting, rezoning and building plan approvals</td>
<td>✗</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Extended office hours / help line / help desk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Enhancement of lifestyle attractiveness</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Partnerships to develop infrastructure</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Financial incentives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and sewage connections</td>
<td>✗</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Water tariffs</td>
<td>✗</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Role</td>
<td>Recommendation 1</td>
<td>Recommendation 2</td>
<td>Recommendation 3</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Property rates</td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Land sales</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Property rentals</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Refuse removal</td>
<td>×</td>
<td>✓ (some)</td>
<td>✓ (some)</td>
</tr>
<tr>
<td>Overall facilitation and coordination</td>
<td>✓</td>
<td>✓</td>
<td>×</td>
</tr>
</tbody>
</table>

In addition, due to capacity constraints, the implementation of these roles will need to be phased in over time (please refer to Section 7).

Further recommendations on roles and responsibilities are provided in various sections in the remainder of the document.
### 5.3 Financial incentives

Further detail on the recommendations that relate to financial incentives is provided below.

#### 5.3.1 Qualification criteria

It is recommended that applicants are assessed against transparent criteria to assess their sustainability and potential economic contribution. A set of recommended criteria is presented below:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Criteria Range</th>
<th>Maximum Points Available</th>
<th>Points awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm employs local labour in permanent positions</td>
<td>All permanent local labour (including senior management)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>&gt; 60% staff permanent and local</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>60 – 30% permanent and local</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>&lt; 30% permanent and local</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Firm has a procurement policy that demonstrates how local suppliers will be favoured</td>
<td>&gt; 60% of products/services will be purchased locally</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>60 – 30% of products/services will be purchased locally</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>&lt; 30% of products/services will be purchased locally</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Firm commits to a skills development plan</td>
<td>Skills Development Facilitator appointed and skills development plan implemented.</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>No Skills development facilitator appointed</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Firm has appointed auditors</td>
<td>Auditors appointed and contracted</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Nothing demonstrated</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Firm is able to prove it can raise sufficient bridging finance to cover operational costs as shown in business plan</td>
<td>Full bridging finance approved in respect to business plan.</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Conditions apply, but full finance available as long as business plan targets met.</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Finance not yet confirmed</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Contribution to broad-based BEE (as per Code of Practice Guidelines)</td>
<td>Excellent (≥ 80%)</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Good (65-79.9%)</td>
<td></td>
<td>11.25</td>
</tr>
<tr>
<td></td>
<td>Satisfactory (40-64.9%)</td>
<td></td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Limited (&lt; 40%)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Value of investment$^4$</td>
<td>e.g. &lt; R250 000</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>e.g. R250 000 – R 1.5mn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e.g. &gt; R1.5mn</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td><strong>Maximum Points Awarded:</strong></td>
<td><strong>100</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

$^3$ Adapted from proposed incentive scheme for Mbombela municipality, 2002

$^4$ Levels to be adjusted based on likely size of investors within the local area
Points would be awarded for responses to each of the above categories (up to a total of 100), according to a pre-determined range of values and corresponding weighting system (which is biased towards preferred outcomes). The “weight” column in the table below shows the weighting specific criteria are awarded, but the calculation of the total score would be taken from the “Points Awarded” column and those points added relative to how the applicant scores for the respective “criteria range”.

It is important that criteria used are measurable, and that applicants are able to substantiate their submissions with supporting documentation, as administering entities are unlikely to have the capacity to “audit” each application fully. Examples of further substantiation are provided below:

- **“Local” labour** should refer to residents within the boundaries of the district municipality, as indicated on a record of payroll

- For the **procurement policy**, “local” suppliers should be those with permanent offices anywhere in Limpopo. The “% of products/services purchased locally” must be calculated using the financial value of goods purchased. This may not be the most robust measure, but it is the simplest

- For the **skills development plan**, the firm will have to show it has appointed a South African Qualifications Authority (SAQA) accredited skills development facilitator to be awarded points for an incentive package. Within six months of operation the firm must submit evidence to the municipality that the skills development plan has been finalised and capacity building initiatives have been identified. After a year of operation, the firm should prove that it has implemented the skills development plan. If these last two criteria are not satisfied the municipality must deduct any points awarded for this criteria and alter the package accordingly

- Appointment of auditors – a letter from auditors can be provided, along with audited financial statements

- Proof of **bridging finance** need only be in the form of a letter from an accredited financial service provider stating that funds will be made available for the business plan. In the case of a private financier, official bank statements showing that sufficient funds are available will suffice

- A subsidiary of a larger company is eligible provided that the subsidiary meets the qualifying criteria

- For existing firms, a tax clearance certificate should also be provided. The municipalities should exercise their discretion on the issue of whether unsettled accounts at the time of application disqualify an applicant (where existing companies are concerned). In order to avoid legal disputes, whatever agreement is reached between the municipality and the applicant should be included in the incentive contract

A minimum qualifying score would need to be agreed, ideally across all administering entities involved in the contract negotiations. A decision will also need to be made whether the administering entity would like to have flexibility within a “band” of discount rates, based on the score generated and available resources, or whether specific “packages” are set out, as indicated in the example below. A “band” approach allows for greater flexibility for municipalities, but therefore relies more heavily on the discretion of officials. The “package” approach provides greater guidance, but may also be more complex to administer and explain to applicants.

For the purposes of explanation, the package approach has been utilised in the descriptions of district and local financial incentives below.

<table>
<thead>
<tr>
<th>Packages</th>
<th>Qualifying points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Package</td>
<td>≥ 60 points</td>
</tr>
<tr>
<td>Standard Package</td>
<td>30 – 59 points</td>
</tr>
<tr>
<td>Entry Package</td>
<td>&lt; 30 points</td>
</tr>
</tbody>
</table>
### 5.3.2 District level

The financial incentives that may be offered at the district level are in most cases limited to those relating to water tariffs and water connection fees.

<table>
<thead>
<tr>
<th>Municipal Service</th>
<th>Premium</th>
<th>Standard</th>
<th>Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and sewage connections</td>
<td>Up to full rebate after six months of business operating in the area.</td>
<td>Up to 50% rebate after six months of business operating in the area</td>
<td>Up to 25% rebate after 12 months of doing business in the area.</td>
</tr>
<tr>
<td>Water Tariffs</td>
<td>Exact rate will depend on municipality, but reductions should be no lower than the cost of providing water for any level of consumption up to a pre-determined maximum level of consumption.</td>
<td>Exact rate will depend on municipality, but reductions should be at no greater cost to the municipality than providing a 50% discount of the surplus usually earned for the cheapest block above basic free water offered by the municipality, up to a pre-determined maximum level of consumption.</td>
<td>Exact rate will depend on municipality, but reductions should be at no greater cost to the municipality than providing a 25% discount of the surplus usually earned for the cheapest block above basic free water offered by the municipality, up to a pre-determined maximum level of consumption.</td>
</tr>
</tbody>
</table>

**Local level**

There is a wider range of financial incentives that can be offered by local municipalities. Kaiser has formulated a package of incentives relating to water, land and buildings, and refuse removal. The options testing phase eliminated the possibility of electricity tariff incentives, due to the restructuring of the electricity distribution industry. Refuse removal by itself is not a significant cost factor for businesses in Limpopo, but discounts on it can make a difference when part of a package. The incentive package that is proposed for Limpopo local municipalities is as follows:\(^5\):

---

\(^5\) This categorisation draws on the proposed incentives for Mbombela municipality
<table>
<thead>
<tr>
<th>Municipal Service</th>
<th>Premium</th>
<th>Standard</th>
<th>Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and sewage connections</td>
<td>Up to full rebate after six months of business operating in the area.</td>
<td>Up to 50% rebate after six months of business operating in the area.</td>
<td>Up to 25% rebate after 12 months of doing business in the area.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Tariffs</td>
<td>Exact rate will depend on municipality, but reductions should be no lower than the cost of providing water for any level of consumption up to a pre-determined maximum level of consumption.</td>
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<td>Exact rate will depend on municipality, but reductions should be at no greater cost to the municipality than providing a 25% discount of the surplus usually earned for the cheapest block above basic free water offered by the municipality, up to a pre-determined maximum level of consumption.</td>
</tr>
<tr>
<td>Water tariffs</td>
<td>Up to 20% rebate on property rates for the first 24 months, payable from after the first six months of doing business. Up to complete rebate on building plan fees.</td>
<td>Up to 15% rebate on property rates for the first 18 months, payable from after the first six months of doing business. Up to complete rebate on building plan fees.</td>
<td>Up to 8% rebate on property rates for the first 12 months, payable after the year of doing business. No rebate on building plan fees.</td>
</tr>
<tr>
<td>Property Rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property rates</td>
<td>Up to 20% rebate on property rates for the first 24 months, payable from after the first six months of doing business. Up to complete rebate on building plan fees.</td>
<td>Up to 15% rebate on property rates for the first 18 months, payable from after the first six months of doing business. Up to complete rebate on building plan fees.</td>
<td>Up to 8% rebate on property rates for the first 12 months, payable after the year of doing business. No rebate on building plan fees.</td>
</tr>
<tr>
<td>Land Sales</td>
<td>Must be in context of municipality’s supply chain management policy, but allow for up to 10% discount on fair market value.</td>
<td>Must be in context of municipality’s supply chain management policy, but allow for up to 5% discount on fair market value.</td>
<td>Must be in context of municipality’s supply chain management policy, but only offer preferred buyer status.</td>
</tr>
<tr>
<td>Rentals on municipal property</td>
<td>Must be in context of municipality’s supply chain management policy, but allow for up to 10% discount on fair market rental value and given preferred renter status. Offered as a rebate after six months of doing business.</td>
<td>Must be in context of municipality’s supply chain management policy, but allow for up to 5% discount on fair market rental value and given preferred renter status. Offered as a rebate after first year of doing business.</td>
<td>Must be in context of municipality’s supply chain management policy, but only given preferred renter status.</td>
</tr>
<tr>
<td>Refuse removal</td>
<td>Up to 100% discount for first 6 months, after which full fee to be paid</td>
<td>Up to 50% discount for first six months, after which full fee to be paid</td>
<td>Up to 25% discount for first six months, after which full fee to be paid</td>
</tr>
</tbody>
</table>

6 Municipalities will have to consult the relevant local government statutes to determine the permissible percentages for discounts and rebates. Some of these are listed in Annexure E.
5.3.3 Application procedures for local and district financial incentives

Two options are available with respect to the overall management of the application process:

a. An application period is declared each year with a closing date, after which all applications are assessed relative to each other
   - This approach may enable better relative prioritisation of resource allocation to incentives, and could be aligned with municipal and private sector financial year cycles
   - However, it will place a compressed administrative burden on the entity during that period
b. Applications are open all year, on a “first come, first served” basis, subject to the maximum budget allocation for the incentive programme
   - It may be more difficult to effectively prioritise applications on this basis.

Kaiser’s assessment is that a year-round approach might allow greater flexibility and accommodate capacity constraints. Clear timings would nevertheless need to be placed on receiving feedback on the application e.g. a total of 60 calendar days from the submission of the application.

It is also recommended that the incentives are offered to companies for a period of 3 years, with an annual mutual review.

The recommended application process is illustrated and explained below:

1. Applicants to obtain application forms from local municipality/ district/ TIL offices
2. Initial explanation of requirements and process, and ref # allocated
3. Applicants completes general incentive application form
4. Applications submitted at municipal reception desk or via email
5. Designated official captures company info, calculates score against criteria
6. Official recommends qualification (Y/N) assessment of company needs & proposed package
7. Assessment committee considers recommendation & issues decision
8. Applicant receives notification of decision
9. Finalise contract: agreed incentives package; duration; dispute resolution mechanisms
10. Annual update & review

---

1. Applicants to obtain application forms from local municipality, district or TIL - the municipalities should strive to create application processing systems able to deal with electronic and hard copies of the application forms. Electronic forms could be posted on the municipal website, or obtained from the municipality on request (via e-mail), potentially with TIL providing a template that can be customised. The company information part of the form could also be aligned with the supply chain management supplier database for each municipality to simplify administration.
2. Initial discussion to be conducted to explain requirements and process, and a reference number allocated to the company. This number should be quoted in all future correspondence.
3. Applicants to complete general incentive application form and
4. Applications to be submitted at municipal reception desk or via email.
5. LED officer or designated official to capture overall company information, calculate score against criteria and assess company needs
6. LED officer or designated official to recommend whether company qualifies for incentive, and if so, propose a specific incentive package
7. Assessment committee (potentially constituted by LED officer, Chief Financial Officer, and HODs) to consider recommendation and issue decision
8. Applicant to receive notification of incentive qualified for. In cases where qualified, applicant invited to visit municipality to negotiate final details of package and finalise contract (including incentives agreed on; duration for which agreement binding; and dispute resolution mechanisms) within the boundaries of the incentive policy
9. Annual update and review of incentive and related information

An important feature of the above application process is that applicants are required to submit their basic information only once, after which the LED officer is the one who decides which particular incentive package is applied for. Reviews in subsequent years would be linked through the same reference number, and merely require an update of any changes in data or investor needs. Thus, applicants do not have to re-submit all their information each time (this has been a major criticism of national incentives).

The proposed annual review process would be to the benefit of the incentive recipients and the municipalities. The municipalities can decide whether incentive recipients still qualify for the particular package they are currently receiving, or whether they should be upgraded or downgraded. For their part, the incentive recipients can rate the municipalities on the efficiency with which the incentives have been administered, according to the terms of the contract. If either one of the parties can prove substantial non-performance by the other party during these reviews, there should be an option to terminate the contract. The municipalities need to be very careful when they commit themselves to these contracts—they should make reasonable efforts to establish their financial ability to offer the incentives. Terminating incentive contracts on the grounds that they are no longer affordable when this could reasonably be expected to have been foreseen, could very well constitute breach of contract for which legal remedies can be sought by the aggrieved party (the company that is no longer receiving the incentive).

The incentive contract should also make it clear whether the recipient can reapply once the 3 year contract has been fulfilled and terminated. Where there are many investors in the area, it might be more appropriate to have a non-renewal clause in order to give other businesses an opportunity to submit their first-time applications. Instead of placing an absolute prohibition against future applications, the non-renewal clause could include a moratorium after which the firm can once again apply for incentives. Some municipalities may have only a small pool of investors whose loyalty they want to reward, or in whom they hope to instil such loyalty (particularly if the firm is part of an existing or potential priority sector). In these instances, there may not be any need for a non-renewal clause in the contract, thus permitting firms to enter into successive contracts.
5.3.4 Roles, responsibilities and funding mechanisms

The activities, responsibility and funding sources for financial incentives are described below:

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Key tasks and responsibilities</th>
<th>Individual/ entity responsible</th>
<th>Sources of funding</th>
</tr>
</thead>
</table>
| Water incentive                                   | ▶ Process incentive application forms  
▶ Negotiate terms and conditions of incentive package with applicant  
▶ Draw up a contract reflecting roles, duties and other details of incentive package  
▶ Specify dispute resolution mechanisms, to be included in contract  
▶ Ensure that timelines are adhered to for entire process, so that incentives can be accessed as quickly as possible | ▶ LED Officer  
▶ Chief Financial Officer  
▶ Director/ Manager: Technical Services  
▶ Municipal manager (in his/her capacity as the accounting officer)  
▶ Manager: Legal Services | ▶ Municipal budget |

| Package of incentives relating to water, land and buildings, and refuse removal | ▶ Process incentive application forms  
▶ Negotiate terms and conditions of incentive package with applicant  
▶ Draw up a contract reflecting roles, duties and other details of incentive package  
▶ Specify dispute resolution mechanisms, to be included in contract  
▶ Ensure that timelines are adhered to for entire process, so that incentives can be accessed as quickly as possible | ▶ Municipal LED Officer  
▶ Chief Financial Officer  
▶ Director: Technical Services  
▶ Director: Development and Planning  
▶ Manager: Legal Services | ▶ Municipal budget |

5.4 Non-financial incentives

The recommended non-financial incentives are discussed below.

5.4.1 At district and local level

Kaiser has not developed packages of non-financial incentives similar to the packages for financial incentives. Instead, recommendations on how to develop and implement various non-financial incentives have been made, from which local and district municipalities can select a handful. It is extremely difficult to combine different non-financial incentives in a way that satisfies all the diverse needs and priorities of local and district municipalities in the province.

Kaiser recommends that local and district municipalities be presented with the options for non-financial incentives, and exercise their discretion as to which incentives they can implement. By limiting themselves to two or three non-financial incentives, Limpopo municipalities can avoid overstretching their resources, and ensure that the incentives complement municipal IDP and LED priorities. In the long term, additional non-financial incentives can be phased in that build on the accumulated lessons and experiences of previous incentives.
Quick processing of permits, and zoning and building plan approvals

The land and buildings department can commit itself to rapid processing times for the permits and approvals it must grant. This may involve redesigning the existing procedures (e.g. setting quantifiable goals and deadlines, reducing the number of steps that must be followed), or updating the technology used. In order to ensure that the municipality’s service levels are at a level that supports efficient business operations, specific service delivery targets should be set and publicly announced. A monitoring system should be put in place that allows the public to report poor quality service. Performance agreements can be discussed and consented to by the relevant staff members, detailing the standards they are expected to meet, the means by which their performance will be assessed, and the corrective measures that will be taken against parties who fail to live up to the agreements. For their part the municipalities can undertake to ensure that their employees have all the necessary materials and resources required to perform their function at the agreed standard.

Assistance with property and site searches

The development and planning department/directorate is aware of exactly which land is vacant and available for development—the HOD can designate an official to deal directly with the public in identifying suitable sites. This official need not perform this role exclusively as it is highly unlikely that expressions of interest in this incentive would keep him/her occupied on a full-time basis. The LED officer can refer clients to this person, who would then deal directly with the business and report outcomes to the LED officer. Links can also be established with local estate agents and realtors to cater to investors’ professional and commercial needs. These relationships can be formalised in PPPs and that all parties know exactly what is expected of them, to ensure consistent service delivery.

Linkages can also be established with local estate agents and realtors to cater to investors’ professional and commercial needs. These relationships can be formalised in PPPs and that all parties know exactly what is expected of them, to ensure consistent service delivery.

Creating a database of investors within municipal boundaries

The computerised records of financial incentive applications can be used as the basis for a database of investors active in municipal boundaries, to be compiled by LED officers. As not all firms will apply for financial incentives, and not all municipalities will necessarily offer them, LED officers will have to contact the regional SARS office and Registrar of Companies to get the contact details of Limpopo companies. These can then be used to directly contact the business and collect all the relevant information needed for the database. Another option is for district municipalities to use and make available the databases relied on for the collection of RSC levies as all companies should be registered on them. Local and district municipal supply chain databases can also serve as starting points for the data gathering process.

For each investor identified, the database should list:

- The name of the business
- The type of business, including its sector classification and the type of activities it engages in
- Its geographic location
- The number of employees
- Its BEE profile
- How long the business has been operational in Limpopo
- Reasons for locating in the area
- The number of branches in Limpopo and nationally
- Annual income (this may be publicly available information for the larger companies)
- Financing needs and sources of funding
- Major challenges encountered in doing business in Limpopo
- Reasons for exiting from the district or province (to be asked at a later stage if this eventuality should arise). This information can be shared with TIL’s Research and Development Unit.
whose investor targeting strategic document includes a section devoted to reasons for disinvestment in the province and how they can be addressed.

It is important for LED officers to realise that the database is merely a means to an end rather than an end in itself. The information it contains should be used to open the lines of communication between the municipality and the business community; municipal financial and non-financial incentives can be marketed and promoted directly, and business can more easily air its grievances and cooperate with the municipalities in resolving problems. Prospective or new investors would also be able to approach the LED officer for local information on vital services such as local banks, accountants and lawyers. The main function of the database is therefore to make the process of establishing or conducting business in the municipality as smooth as possible.

Highlighting potential and existing investment opportunities

In order to assess the existence of investment opportunities in an area, investors need to be exposed to information such as the primary economic activities, local economic growth rates, and available natural resources. This information should already be contained in the respective municipalities’ IDPs, but must be condensed in order to make it more accessible to the business community. The IDP Manager can assume responsibility for extracting the most relevant information from the IDP, and publishing it in a simple fact sheet or brochure. This need not be elaborate or extravagant, but should concisely draw attention to the municipality’s vital statistics and potential growth areas. It is suggested that the IDP Manager list his or her contact details on the contact sheet or brochure so that interested members of the public can request more in-depth information as contained in the IDP as well as the IDP Manager’s own knowledge and experience.

Provision of labour market and demographic information to potential investors

Existing and potential investors need to have accurate and recent data of this kind to inform their strategic decision-making. LED officers cannot be expected to have the skills and resources to collect the information. However, what they can do is contact the regional offices of entities such as Statistics South Africa, the Department of Labour, and the Demarcation Board. The LED officers can request to be placed on a mailing list so that they can receive regular updates, and post summaries of labour market and demographic statistics on municipal websites. Alternatively, the LED officer can liaise with local chapters of chambers of commerce and farmers associations to pass on the information to them. These third parties will then be responsible for the dissemination of data to their members.

Extended municipal opening hours and provision of help line / help desk

For the convenience of business people who are free only at specific times during the day, local and district municipalities could open slightly earlier in the mornings, and not close during lunch hour. Employees would have to be compensated accordingly, or a shift system introduced to ensure that municipal staff are available over a longer period of time.

Another way of efficiently dealing with customer queries is to introduce a help line or help desk. This would result in customers being routed to the personnel best equipped to deal with their queries, and also allow the municipalities to observe the most common enquiries and investigate measures to reduce their incidence.

Enhancing actual and perceived lifestyle attractiveness

Improving lifestyle assets within specific areas and raising awareness of these assets is likely to require a highly collaborative approach. It is therefore recommended that working committees are established to facilitate coordination and to ensure implementation. The LED officer/manager in the municipality should lead efforts to establish this committee, and strive to include officials from other relevant departments such as town planning. Invitations can then be issued to members of...
the public such as property owners, tenants, ward committees, chambers of commerce and rates payers associations. The LED officer would be responsible for sourcing funds from the municipality on behalf of the committee for initiatives such as special ratings areas, municipal service districts, and green areas. The LED officer would also report to the municipality on the activities and progress of the committee. The other members of the committee would source financial and other support from the constituencies that they represent in order to assist the municipality in any way possible.

Acting on behalf of themselves and their local municipalities, district municipalities could approach the provincial Department of Economic Development, Environment and Tourism with a proposal for it to set up a fund to subsidise such initiatives. Having been presented with the idea, it would then be up to the department to design such a fund, and stipulate its terms and qualification criteria. Local and district municipalities would apply to the provincial government in their own capacities, and if granted awards would make use of structures such as the proposed working committee to put the funds to use.

National Treasury has launched the Urban Renewal Fund and the local and district municipalities in Limpopo should verify whether they qualify for this incentive. Polokwane is an example of a local municipality that has accessed the Fund. However, there is no reason why other municipalities should not embark on similar projects of their own accord, particularly where other incentives represent a more costly and challenging alternative.

**Facilitation of small business support services**

Local and district municipalities can implement a variety of interventions in order to assist institutions that provide small business development and support services. They include:

- Housing SEDA Access Points- Local and district municipalities can invite SEDA officials to occupy vacant municipal offices or buildings on terms and conditions to be agreed upon by the respective municipalities and the provincial SEDA headquarters. This measure would extend the reach of SEDA as most people are aware of the physical location of their municipalities and interact with them on a regular basis. SEDA would have to approach the municipalities and indicate which facilities it would like to make use of

- Municipalities to acquaint themselves with all the different institutions that serve small business needs in the province, and particularly within their municipal boundaries. Basic, up-to-date information, such as the name of the organisation and its contact details will suffice as the onus should be on the interested parties to pursue more detailed information

- Raising public awareness of institutions that assist small business-Local and district municipalities can arrange public meetings at their offices to showcase individual institutions that finance, advise, and otherwise support small businesses in Limpopo. While the individual institutions would be responsible for actually conducting the session and addressing the public, the municipalities can supply the venue assist with the marketing and promotion of the events by allowing posters on their premises and on public property. Interested microfinance institutions would have to approach the municipalities, but before that can happen, they must know that this option is open to them. Section 5.5 addresses the different marketing strategies municipalities can employ to draw attention to this and other incentives

**One-stop shop to deal with commercial rate-payers**

A designated official in the municipality can act as the first port of call for potential and existing investors in the area. This person would deal with queries such as which department is responsible for rendering a particular service, describing the local economy and the opportunities that are present and so on. Instead of approaching particular departments with complaints and suggestions about service delivery or account statements, all such complaints would be channelled to that one official who would then act as a trouble shooter to resolve all problems. In order to perform this function effectively, the municipal official would have to be quite senior within the municipal hierarchy as much of his/her would entail issuing directives to other officials. It is for
this reason that the LED officer cannot be allotted this responsibility as LED is often a sub-
directorate within the municipality and therefore lacks the requisite seniority.

Some of the interventions listed already listed in this section can either be incorporated into the
one stop shop or be offered separately, depending on the municipality’s preferences. They are:

- Quick processing of permits, zoning and building plan approvals
- Assistance with property and site searches
- Highlighting potential and existing investment opportunities
- Provision of labour market and demographic information to potential investors

Because of the cross-cutting nature of this specialised treatment, only those municipalities with the
capacity to do so should attempt a one-stop shop.

5.4.2 At provincial level

In addition to collaborating on the non-financial incentives set out above, provincial entities have a
vital role to play with respect to business development services and small enterprise support.

Business development services and small enterprise support are currently rendered by various
entities such as TIL, LIMDEV, LIMAC, LIMDE, the SMME Directorate and financial service
cooperatives. However, the province does not have a flagship initiative such as the Western
Cape’s RED Door and the Gauteng Enterprise Propeller that houses all services relating to
business under one banner.

The provincial government has committed itself to a number of interventions targeting small
business. They include:

- Expansion of the cooperative regime
- Establishment of a Cooperative College
- Improvement of access to finance for SMME development
- Provision of coordinated support services for SMME development
- Linking SMMEs to procurement opportunities

TIL is in a very good position to promote these programmes-its status as a provincial entity
ensures relatively easy access to the administering provincial departments, while its recently
established municipal capacity building office is an avenue through which programme details can
be conveyed to the district and local level. TIL may also be in a position to advise the provincial
government on what investor needs are so that the provincial programmes can be tailored to meet
the most urgent needs.

An interesting and exciting development for business is the Local Competitiveness Fund (part of
the EU-funded Limpopo LED Programme). The objective of the Fund, an EU 6.7m grant, is to
support SMME and Cluster Development. It will support activities such as:

- Business plans and feasibility studies
- Improving the design and quality of products and services
- Outsourcing
- Business development services
- Access to finance

Another aspect of the Limpopo LED programme is the Financial Innovation Fund (FIF), a EU5m
grant to support a revolving credit line to support investment costs for viable SMMEs. It will be
administered by LIMDEV, and should fill the existing gaps in funding for micro and survivalist
enterprises.

The conversion of LIMAC into a SEDA Access Point is planned for September 2005. To maximise
the benefits to SMMEs in the province, both TIL and LIMDEV should consider partnerships or
MoUs with SEDA as the LCF and FIF put TIL and LIMDEV in very strategic positions where
SMMEs are concerned.
5.4.3 Partnerships to develop economic infrastructure

Economic infrastructure is an investment incentive as it reduces the challenges or obstacles that investors must take into account when making their investment location decisions. There are numerous financing options for infrastructure development in Limpopo. They are:

- **Critical Infrastructure Projects** - CIP is a cash grant that is available to municipalities, provincial government, private enterprises, and PPPs. The incentive covers up to 30% of the development costs in qualifying infrastructure. Qualifying infrastructure includes transport (e.g. road and rail infrastructure); electricity transmission and distribution systems; telecommunication networks; sewage systems; and fuel supply systems.

- **The Municipal Infrastructure Grant** - MIG focuses on infrastructure to facilitate basic service delivery, especially for the poor. Economic infrastructure for commercial purposes is funded only to the extent that it coincides with MIG’s primary mandate of improving the health and welfare of South African citizens.

- **The Special Municipal Infrastructure Fund** - The Fund was established in 2004 to encourage and support innovative infrastructure projects in municipalities. These projects must be linked to, but are not a part of municipal IDPs, and should result in sustainable benefits in the municipal area. All municipalities currently receiving MIG funds can apply for SMIF grants.

- **Project Consolidate** - is a cross-governmental programme involving various national departments such as the dplg, Water Affairs & Forestry, National Treasury and Public Works. Local and district municipalities are required to produce action plans which detail the resources (human and financial), equipment, and infrastructure required by municipalities in order to perform their functions, and focuses on their most critical needs. The national departments convene to review the action plans and respond to the stated needs according to the resources that they have available.

- **Public Private Partnerships** for road, water and ICT infrastructure hold great potential in Limpopo, and some encouraging developments have already been seen in this arena.

The combined national incentives and programmes create a role for provincial government, local, and district municipalities in infrastructure provision, and are therefore intergovernmental in nature.

5.4.4 Application procedures and qualification criteria

By their very nature, non-financial incentives do not lend themselves to an application process as they are a part of everyday municipal operations. Because the incentives described here can for the most part be categorised as public goods, it is not possible to screen recipients or charge fees for services rendered. To the extent that the non-financial incentives do not fall within the ordinary scope of a municipality’s responsibilities, recipients can be screened so that priority sectors are given preferential treatment.

However, in essence the only criterion that businesses need to meet is that they are based within the boundaries of the respective local and district municipalities. Unlike financial incentives, no negotiations need to be conducted with the business community to determine the specific content of the incentives; local and district municipalities can proceed straight away to planning and implementing their chosen non-financial incentives. However, the municipalities cannot avoid sourcing feedback from the business community and the public as a whole as to gauge the impact and relevance of the incentives. Suggestion boxes can be placed at municipal offices, and direct comments and opinions can be aired at ward meetings.

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7 Please see Annexure A for more detail on national incentives and programmes
8 Please see Annexure B for a list of the Project Consolidate municipalities in Limpopo
9 This aspect is covered in the Step 5&6 document
### 5.4.5 Roles, responsibilities and funding mechanisms

The activities, responsibility and funding sources for non-financial incentives are described below:

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Key tasks and responsibilities</th>
<th>Individual/ entity responsible</th>
<th>Sources of funding</th>
</tr>
</thead>
</table>
| Creating a database of investors within municipal boundaries                | ▶ Extracting relevant information from financial incentive application forms  
▶ Obtaining contact details from SARS, Registrar of Companies, and local chambers of commerce  
▶ Examine RSC levy register  
▶ Utilise own local and municipal supplier database  
▶ Direct communication with businesses to complete individual profiles  
▶ Maintain correspondence with local businesses and ensure complaints, queries and suggestions are addressed | LED officer                                                                               | Municipal budget                      |
| Highlighting potential and existing investment opportunities                | ▶ Collect relevant information from municipal IDP and repackage  
▶ Design and print brochures or fact sheet  
▶ Distribution of fact sheets or brochures                                                                                                                                                   | IDP Manager                                                                               | Municipal budget                      |
| Provision of labour market and demographic information to potential investors | ▶ Contact regional offices of Stats SA, Department of Labour  
▶ Ensure that municipality receives regular updates from these institutions  
▶ Pass on statistics to interested and affected parties                                                                                                                                                                                                 | LED officer                                                                               | Municipal budget                      |
| Quick processing of permits, zoning and building plan approvals            | ▶ Analyse existing procedures  
▶ Identify bottlenecks  
▶ Take necessary steps to make process more efficient                                                                                                                                                                                            | Director: Development and Planning                                                          | Municipal budget  
Local Government Support Fund                                                   |
| Assistance with property and site searches                                 | ▶ Use knowledge of municipal land uses to advise investors on best site locations, including field visits  
▶ Keep LED officer informed of outcomes                                                                                                                                                                                                              | Designated official in development and planning department  
Representatives from business community and  
National Treasury (Urban Renewal Fund)  
Municipal budget  
Potentially provincial government, if an appeal is made to set up a special fund for this purpose | Municipal budget  
National Treasury (Urban Renewal Fund)  
Municipal budget  
Potentially provincial government, if an appeal is made to set up a special fund for this purpose |
<table>
<thead>
<tr>
<th>Intervention</th>
<th>Key tasks and responsibilities</th>
<th>Individual/ entity responsible</th>
<th>Sources of funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>District and local level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facility of small business support services</td>
<td>▶ Consult with SEDA and agree on terms and conditions of rentals of municipal property&lt;br&gt;▶ Contact SEDA and the Brain Network for the contact details of the microfinance institutions in Limpopo&lt;br&gt;▶ Consult local telephone directory and institutional websites for TIL, LIMDEV, LIBSA and LIMAC contact details&lt;br&gt;▶ Cooperate with local microfinance institutions in organising public meetings at municipal venues, including publicising the events</td>
<td>▶ LED officer&lt;br&gt;▶ Chief Financial Officer</td>
<td>▶ Municipal budget</td>
</tr>
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</tr>
<tr>
<td>Extended municipal opening hours</td>
<td>▶ Consult local government legislation concerning employee rights and municipal operating hours&lt;br&gt;▶ Consult telecommunications specialist to design and install help line</td>
<td>▶ Municipal Manager&lt;br&gt;▶ Manager: Human Resources</td>
<td>▶ Municipal budget</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One stop shop for commercial rate payers</td>
<td>▶ Act as interface between commercial rate payers and municipal departments&lt;br&gt;▶ Accumulate relevant information (by interacting with relevant municipal departments) to answer common investor queries&lt;br&gt;▶ Communicating investor complaints and suggestions to municipal departments and effecting change or resolution</td>
<td>▶ Senior manager in municipality</td>
<td>▶ Municipal budget</td>
</tr>
<tr>
<td>Infrastructure-related partnerships</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical Infrastructure Programme</td>
<td>▶ Prepare application according to dti standards&lt;br&gt;▶ Account for incentive award in annual report and annual financial statements</td>
<td>▶ LED officer and IDP manager of local or district municipality&lt;br&gt;▶ Provincial department of public works&lt;br&gt;▶ Road Agency Limpopo</td>
<td>▶ dti</td>
</tr>
<tr>
<td>Municipal Infrastructure Grant</td>
<td>▶ Carefully draft municipal IDP as grants are linked to IDP priorities</td>
<td>▶ IDP manager</td>
<td>▶ National Treasury</td>
</tr>
<tr>
<td>Special Municipal Infrastructure Fund</td>
<td>▶ Prepare proposals according to specified criteria&lt;br&gt;▶ Ensure that grants are used responsibly, and projects yield specified outcomes</td>
<td>▶ LED officer&lt;br&gt;▶ IDP Manager</td>
<td>▶ dplg</td>
</tr>
<tr>
<td>Intervention</td>
<td>Key tasks and responsibilities</td>
<td>Individual/ entity responsible</td>
<td>Sources of funding</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td><strong>District and local level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Consolidate</td>
<td>▶ Prepare action plans to be presented to intergovernmental committee</td>
<td>▶ Municipal manager</td>
<td>▶ Various national departments</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure that disbursements are not diverted to other uses</td>
<td>▶ IDP Manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▶ LED officer</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▶ Provincial government</td>
<td></td>
</tr>
<tr>
<td>PPPs for road infrastructure</td>
<td>▶ Ensure compliance with municipal PPP regulations issued by National Treasury</td>
<td>▶ Chief Financial Officer of local or district municipality</td>
<td>Road Agency Limpopo</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure that municipality and its partners fulfil their tasks and responsibilities as specified in the PPP agreement</td>
<td>▶ Manager: Technical Services</td>
<td>District municipality</td>
</tr>
<tr>
<td></td>
<td>▶ Comply with national policy for road infrastructure PPPs (where Road Agency Limpopo is a partner)</td>
<td>▶ Road Agency Limpopo</td>
<td>Local municipality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▶ Firm (if party to PPP)</td>
<td>Firm</td>
</tr>
<tr>
<td>PPPs for water infrastructure</td>
<td>▶ Ensure compliance with municipal PPP regulations issued by National Treasury</td>
<td>▶ Chief Financial Officer of local or district municipality</td>
<td>District municipality</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure that municipality and its partners fulfil their tasks and responsibilities as specified in the PPP agreement</td>
<td>▶ Municipal public works manager</td>
<td>Local municipality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▶ Firm</td>
<td>Firm</td>
</tr>
<tr>
<td>PPPs for ICT infrastructure</td>
<td>▶ Ensure compliance with municipal PPP regulations issued by National Treasury</td>
<td>▶ Chief Financial Officer of local or district municipality</td>
<td>Provincial government</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure compliance with provincial PPP regulations issued by National Treasury</td>
<td>▶ Municipal public works manager</td>
<td>District municipality</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure that municipality and its partners fulfil their tasks and responsibilities as specified in the PPP agreement</td>
<td>▶ Provincial government</td>
<td>Local municipality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Firm</td>
</tr>
</tbody>
</table>
6 Potential phasing/roll out strategy

Given the capacity constraints and the limited experience of some municipalities with administration of formalised incentive policies, it is recommended that the incentive policy is implemented through a phased approach, with some initial pilots to refine the policy.

Some recommendations on the approach to pilots are set out below, as well as an overview of the likely decision-making process required in each case. As TIL does not have any decision making authority over municipalities and their internal policies, any decisions with respect to piloting and implementing incentives will need to be made by district and local municipalities themselves, with the guidance and input of TIL along with other provincial and national government entities.

6.1 Pilot phase

It is recommended that municipalities are invited through a consultative process to volunteer their participation in a pilot, subject to the financial and human resource capacity assessments conducted in the options testing phase, as set out below.

Guidelines to evaluate financial capacity to offer financial and non-financial incentives

- Municipal financial statements were submitted on time for at least the two previous financial years
- Municipal financial statements received nothing more adverse than a qualified audit opinion in the previous two years
- Municipality can demonstrate that their water account has traded at a surplus for the past two years
- Municipality can demonstrate that their property rates collection levels are above 90% and that their bad debts provision for property rates accurately reflects collection levels for at least the previous two years
- The municipality has council approved tariff, debt and credit control, supply chain management and property rates policies that can be amended for the purposes of the investment incentive
- The municipality has an audit committee in place that satisfies the conditions identified for Audit committees in the Municipal Finance Management Act
- Budget allocation for LED (to administer financial and non-financial incentives) can be increased without adversely impacting basic service delivery

Guidelines to evaluate human resource capacity to offer financial and non-financial incentives

- LED officer demonstrates sound knowledge and understanding of his/her function, as reflected in the improved success rate of LED projects
- Additional staff has been recruited for LED, in keeping with the municipality’s needs
- LED personnel can develop investment incentive performance management systems
- There is consensus in the municipality that the officials who would participate in incentive administration have received adequate training, and understand and accept their additional responsibilities

It is recommended that the pilot includes:

- At least one district municipality to pilot non-financial incentives only
- At least one local municipality that is capable of piloting both financial and non-financial incentives
- At least one local municipality to pilot non-financial incentives only

The pilot phase should last at least eighteen months in order to secure decision making, allocate resources, generate some investor awareness of the incentives and allow for the initial impact of the incentives to be observed.
During this pilot stage, it may be useful to set up workshops with other municipalities around the country who are re-assessing their incentive policies.

Local municipalities have a broader scope of responsibilities where investment incentives are concerned, and can offer the following:

- Financial incentives: package of incentives relating to water, land and buildings, and refuse removal
- Non-financial incentives: individually selected

However, the financial incentives at the local level are more extensive and demanding than those at the district level, hence it cannot be expected that all the municipalities can implement both types of incentives at the outset. The reality of the situation is that some of the municipalities are in a position to implement only one category of incentives, and may need to choose their preferred incentive type according to their IDP and LED priorities.

### 6.2 Decision-making and integration of incentives into operational systems

The process by which both financial and non-financial incentives must be approved and implemented is the same at both the district and local municipality level. It is summarised in the following figure:

Further detail on each of the steps is provided below.

1 & 2: Identifying IDP priorities and formulating incentives

Both financial and non-financial incentives must be linked to municipal IDP priorities and included in the IDP document itself. New IDPs are produced every five years, but are reviewed and amended on an on-going basis. Incentives can therefore be introduced in one of two ways:

- At the beginning of a five-year IDP cycle, where the incentives are an integral part of the IDP document approved by the council
- At any point during the course of the IDP cycle: the public must be consulted on the investment incentives, and if accepted, the incentives will be included in the IDP as a council-approved amendment to the IDP
The Municipal Manager, who is also the accounting officer (as per the MFMA), is tasked with ensuring that the municipality establishes and implements tariff and rates policies. He or she is therefore responsible for formulating financial incentives, with the assistance of the Chief Financial Officer and other senior managers.

Non-financial incentives do not involve tariff or rates policies. There is therefore no explicit obligation on the Municipal Manager to be involved in their formulation. However, because they impact on the municipality's budget in various ways (e.g. human resources expenditure, purchase of equipment) the Municipal Manager, Chief Financial Officer and other senior managers must take the lead in formulating these incentives.

3 & 4: Inclusion in budget related processes and approval of cost of incentives

In the next stage, the council must approve budget related policies that detail the impact the incentives are expected to have on municipal revenue from rates and taxes on the one hand, and on municipal expenditure on the other. Financial and non-financial incentives will need to be distinguished from each other at this stage as they impact debit and credit control policies, revenue collection, supply chain management policies, and administrative costs in different ways. A cap on incentive expenditure would be a useful tool as it prevents over and under spending. Where financial incentives are concerned, each incentive (e.g. water, property taxes) could have a clearly specified upper limit showing how much the respective department is willing to forego in revenue without prejudicing service delivery. For non-financial incentives, the responsible municipal officers must indicate how much they will need to play their role in delivering the incentives, and the decision on how much to set aside overall will be made within the context of the municipalities guaranteed revenue and other IDP priorities. Once the costs of the financial and non-financial incentives have been approved by council resolution, they can be listed on the municipal budget under a separate heading for incentives specifically, which in turn further differentiates between financial and non-financial incentives.

5. Developing a performance management system for the incentives, with associated roles and responsibilities

A performance management system refers to the checks and balances that will be put in place to ensure that the financial and non-financial incentives are administered appropriately and thus result in increased investment.

The system should clarify:

- The senior managers in the council who will be responsible for managing various aspects of the incentives.
  - It is recommended that the LED officers and Chief Financial Officers should take the lead role in structuring the incentives as they are best placed to do so.
  - In the case of financial incentives, they will also primarily be responsible for processing applications from interested candidates. However, they will not act alone in performing these duties and must consult the affected HODs for both types of incentives.
  - The Municipal Manager, as the designated accounting officer, is the final authority where incentives are concerned, and must approve them to ensure that they do not result in unauthorised and wasteful expenditure.

- Who investors may approach with general speculative queries about the incentives or with any complaints/queries about incentives already negotiated.
  - It is recommended that all municipal staff who regularly interact with the public (such as reception and the telephone operator) should be trained to be customer-friendly and knowledgeable enough about the incentives to deal with simple enquiries.
  - In the event of more complex and technical queries, they should be free to refer businesses to the Chief Financial Officer or LED officer.
For financial incentives, the type of financial management system that should be in place to track how many companies are making use of the incentives, the extent to which individual businesses are using the incentives, and the costs of the administrative processes required to deliver the incentives. In this way, the total cost of providing financial incentives can easily be computed.

- To facilitate this, the municipality could keep computerised records of approved incentive applications since they will include relevant details such as the incentives applied for.
- The records can also be used by LED officers to gauge the most popular incentives by sector and by company size so that further refinements can be made to enhance the attractiveness of the incentives

For non-financial incentives, a similar financial management system which will record the incentives currently being offered by the municipality, the expenditure incurred in performing the tasks and responsibilities associated with them, and a tracking system to record the number of firms using some of the incentives e.g. assistance with site and property searches.

How the oversight role of the Mayor will be effected - according to s52 of the MFMA, the mayor is responsible for providing political guidance over the financial and fiscal affairs of the municipality.

Quantifiable intermediate performance targets that will ensure the ultimate success of the incentive policies.

- In order to be judged a success, the financial and non-financial incentives should result in significant job creation and increased municipal tariff revenue (due to the greater number of investors attracted to the area).

The table below sets out potential performance indicators. Targets in terms of the selected indicators would need to be agreed by the administering entity.

<table>
<thead>
<tr>
<th>Indicator type</th>
<th>Specific indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity-based indicator</td>
<td># enquiries about incentives</td>
</tr>
<tr>
<td></td>
<td>Staff hours/days per client during negotiation (a maximum figure)</td>
</tr>
<tr>
<td></td>
<td>% applications processed within the prescribed 60-day period</td>
</tr>
<tr>
<td></td>
<td>Staff hours/days per month providing customer support</td>
</tr>
<tr>
<td></td>
<td>Number of complaints filed by investors</td>
</tr>
<tr>
<td>Output indicators</td>
<td># incentive contracts awarded as a fraction of the total applications tendered</td>
</tr>
<tr>
<td></td>
<td>Total annual spend on incentives (including lost revenue opportunities)</td>
</tr>
<tr>
<td></td>
<td>Change in # number jobs supported by participants in incentive schemes</td>
</tr>
<tr>
<td></td>
<td>Change in % local jobs supported by participants in incentive schemes</td>
</tr>
<tr>
<td></td>
<td>Change in annual turnover by participants in incentive schemes</td>
</tr>
<tr>
<td></td>
<td>Annual % change in BEE ownership of participants in incentive schemes</td>
</tr>
<tr>
<td>Outcome indicators</td>
<td>Annual # new investors in the area</td>
</tr>
<tr>
<td></td>
<td>Annual change in GDP-R contribution by district / local municipality</td>
</tr>
<tr>
<td></td>
<td>Annual change in # people employed in district / local municipality</td>
</tr>
<tr>
<td></td>
<td>Annual change in unemployment rate</td>
</tr>
</tbody>
</table>

6. Implementing the financial and non-financial incentives

The manner in which the incentives are to be implemented will already have been largely prescribed in the performance management system. Additional obligations are that the Municipal Manager is responsible for reporting on the state of the budget and implementation of service delivery on a monthly and half yearly basis, and these report should include reporting on investment incentives.

At the end of the financial year the municipality must submit annual financial statements and a performance report. The annual financial statements will have to show the cost of the incentives and the annual performance report should report on the effectiveness of the investment.
incentives. The latter may be difficult to demonstrate within the legislated time frame as there is usually a time lag before the fruit of the incentive policies can be observed.

6.3 Parallel capacity building

There are numerous capacity building programmes that all the local and district municipalities can take advantage of throughout the pilot and rollout phases of the incentive policies. The two different types of capacity building that are being referred to here are:

- **Human resource capacity building** - municipal officers receive training and educational materials to help them acquire the knowledge and awareness that they need to perform their various functions, including financial management systems, organisational systems, economic content knowledge.

- **Financial capacity building** - the municipalities are able to access funds from external sources to finance incentives and basic service delivery. Capacity is built in that the municipalities are able to comfortably afford activities that were previously out of their reach, and improved knowledge of financial management (part of human resource capacity building) ensures that the municipality are more capably administered. Funds that would otherwise have been spent can be invested and/or used to settle outstanding debt, hence improving the financial status of the municipality.

Existing capacity building programmes that can be tapped into for these purposes are captured in the table on the following page. Only the Limpopo LED programme addresses capacity building for investment incentives specifically - the emphasis is still very much on conveying the fundamentals of basic service delivery and financial management. However, it is encouraging that LED is attracting the level of attention that it is, as issues pertaining to investment incentives may be dealt with indirectly. Overall, the combined effect of all of the above programmes should be to accelerate the rate at which Limpopo municipalities converge on the ideal of combined financial and non-financial incentive packages.
## Programme name

### Capacity Building Initiative

- **Description:** This is an initiative sponsored by ABASA, and hosted in partnership with the Confederation of Canadian Municipalities and CIDA.
  - Provides skills training for:
    - financial management
    - land use planning and development
    - local economic development
  - Is still in planning stages, expected to be finalised in next 3 years

- **Duration:** Unknown at this stage
- **Eligible institutions:** Local and district municipalities in Limpopo
- **Application procedures:**
  - All Limpopo municipalities automatically qualify for **financial management** training, and will be informed of the procedures to be followed to access the programme.
  - For the **land use planning and LED** training, dlgh pre-selects municipalities on the basis of:
    - Their active involvement in Project Consolidate (this may change once the programme details have been finalised)

- **Administering body:** Department of Local Government and Housing
- **Contact details:** DLGH will control all communication about the programme and will provide contact details as and when necessary

### Limpopo LED programme

- **Description:** Is an EU-sponsored programme.
  - Has five key result areas including:
    - Increasing the capacity of public institutions to facilitate LED
    - This aspect of the programme falls under the Local Government Support Fund, a EU3m grant
    - Specific capacity building activities include training, research, and study tours for:
      - LED officers to understand LED as a municipal function
      - Training of all municipal officers on human resource development, budget and project management
    - Another key result area is:
      - Business development, retention and expansion
    - Specific business development measures include:
      - Research on and direct financing of incentives

- **Duration:** 2005-2008
- **Eligible institutions:** Provincial government, District municipalities, Local municipalities, Government entities and parastatals supporting economic development
- **Application procedures:** DLGH will periodically issue call for proposals, specifying the qualification criteria and application procedures to be followed
- **Administering body:** Department of Local Government and Housing
- **Contact details:** Phillip Rathagane LGSF Advisor
tel: 015 295 7042
cell: 083 647 6090
e-mail: sratlhangane@limpopoled.com
<table>
<thead>
<tr>
<th>Programme name</th>
<th>Description</th>
<th>Duration</th>
<th>Eligible institutions</th>
<th>Application procedures</th>
<th>Administering body</th>
<th>Contact details</th>
</tr>
</thead>
</table>
| Local Economic Development Programme | ▶ Was initiated by Ntsika and SALGA, and is now under the SEDA/SALGA banner  
▶ Educates and informs municipal officials about different LED strategies and how they can be implemented  
▶ Includes basic and advanced training  
▶ Trainers are sent by SEDA to conduct workshops at venues identified by the municipalities | 2000-foreseeable future | Local and district municipalities nation-wide | ▶ The programme is available on request  
▶ SALGA and the interested municipalities jointly identify the individual municipal officers to be trained  
▶ The primary means of expressing interest in the programme is to submit proposal explaining:  
  o Name and location of municipality  
  o Prior experience with LED, and current level of competence  
  o Why would benefit from the programme  
  o The name and title of the person(s) who will represent the municipality | SEDA and SALGA | SALGA |
| Project Consolidate | ▶ Is an intergovernmental programme aimed at addressing the most critical operational needs and shortages of local and district municipalities  
▶ Seeks to ensure smooth delivery of basic services | On-going | Local and district municipalities nation-wide | ▶ DPLG has already selected 136 municipalities that are currently participating in the programme  
▶ It will eventually be rolled to all the remaining municipalities in the country | DPLG | Mr D Madondo  
Director for Local Government Administration: Limpopo  
Tel: 015 295 6851  
Cell: 082 570 5446 |
| Strengthening local government in Limpopo and Mpumalanga | ▶ Is now in its last 6 months of implementation  
▶ Its capacity building component focuses on financial management training (data cleansing, financial administration), and creating awareness of senior managers’ responsibilities  
▶ Has initially been piloted in the Capricorn and Waterberg districts  
▶ The capacity building component will be rolled out to rest of province after official termination of programme | 1999-2005  
2005- | Local and district municipalities in Limpopo and Mpumalanga | Municipalities pre-selected by DPLG | DPLG | Mr Chris Liversage  
Programme Coordinator  
Tel: 012 301 1050  
E-mail: chrisl@dplg.gov.za |
| National Capacity Building Framework | ▶ Is a comprehensive, nationally coordinated programme to build up the institutional, individual and environmental capacity of municipalities  
▶ The details of exactly how this is going to be achieved are still being finalised | On-going | All local and district municipalities in the country | To be announced | DPLG & SALGA | DPLG  
6.4 Refinement and roll-out

Upon completion of the pilot phase, the pilot municipalities should prepare reports describing their experiences with the incentives they were charged with administering. The reports should cover:

- The financial and human resource requirements of the incentives
- The administrative systems and procedures in place
- The number and type of personnel involved with incentive administration, and their roles
- Investor response
- Successes, failures, challenges and obstacles

In order to minimise costs, it is recommended that the reports be drafted in-house principally by the municipal LED officer, with the input of all the relevant departments. They do not have to be extremely formal or follow a prescribed format, but should capture the essential information in a manner that is easily understood and informative. The simple nature of the reports should ensure that they are easily accommodated in the annual municipal budget. The reports should be read by all the remaining municipalities before they embark on their own incentive programmes.

In addition, it may be useful at this stage to set up benchmarking workshops between municipalities within the province, and possibly with municipalities outside the province to share lessons learned. The LED Forum is ideally placed to perform this function as its very purpose is to create a platform for municipalities to interact with each other and share their experiences.

Following the pilot phase, Kaiser proposes that the incentives be rolled out in two additional stages:

- Phase 2-Once the experiences of the pilot municipalities have been noted, the other municipalities that possess the capacity and have also nominated themselves (and whose suitability has been evaluated and endorsed) should be next in line to implement the incentives
- Phase 3-The remaining local and district municipalities to implement incentives as and when they are ready, without having to follow a prescribed timeframe

It is recommended that the second stage of the roll-out should also last a minimum of eighteen months, and that this group of municipalities should also produce reports similar to those of the pilot municipalities. The value of these reports is that they are not only useful to other municipalities, but they also serve as historic records for the each participant municipality to guide future decision-making and aid legislative reporting requirements.

Lowest capacity municipalities may only be ready to roll out financial incentives during a third phase. The exact commencement and termination dates of this stage are not clear as municipalities will have had the benefit of the pilot and second stages of the roll-out, while at the same time it is impossible to predict when institutional capacity will be adequate. Realistic estimates range from 4 years upwards from the commencement of the pilot phase.

6.5 Marketing and promotion strategy for financial and non-financial incentives

Developing financial and non-financial incentives is not enough in itself. Investor awareness of these incentives is crucial if they are to serve their purpose, and if the municipalities' planning and hard work is to be rewarded – the lack of effective communication of available incentives has been considered a downfall of national incentives by name industry members. The following are proposals for how municipalities can effectively market and promote their incentives:

- Creating a provincial or municipal website with a special section dedicated to investment incentives. The website should provide a short description of available financial and non-financial incentives, and the contact details of the relevant official(s). Section 75 of the MFMA stipulates that the accounting officer (Municipal Manager) must make performance...
agreements and budget related policies and documents available on the website. Posting performance agreements related to incentives on the website would serve to demonstrate the municipality’s commitment to ensuring that the incentives deliver exactly what they are supposed to, as well as allowing the municipality to manage expectations as investors cannot legally expect standards over and above what is stated in the performance agreement. Making budget-related documents available would serve two purposes:

- It demonstrates that the municipality is willing and able to make efforts to attract investment into the area
- It contributes to transparency and accountability in the administration of the incentives- investors can see for themselves how much has been set aside for incentives, and thus understand that the number of incentive applications that are awarded is limited by budgetary constraints (in the case of financial incentives). Where non-financial incentives are concerned, investors can satisfy themselves that the municipality is offering the widest possible variety of incentives, and at the best possible standard with the resources that are available

- **Inserting fliers and brochures detailing the incentives in municipal account statements**
- **Displaying posters and sample incentive application forms on municipal bulletin boards**
- **Direct marketing via the database of investors**- LED officers can contact businesses telephonically and explain the incentives to senior managers, as well as e-mailing promotional materials. It is important for LED officers to target the right people in the organisation e.g. Financial Manager, Project/Technical Manager as they are the ones involved in important decision-making

7 Complementary strategies to support investment facilitation

7.1 **Overview**

Improving the investment climate in Limpopo requires a host of interventions that cannot and should not be limited to the financial and non-financial incentives described in this document. These interventions are not necessarily classified as financial or non-financial incentives but are nonetheless essential to improving Limpopo’s investor friendliness.

7.2 **Improving the success rate of LED projects in the province**

LED projects should not be seen as isolated municipal outputs, but rather as intrinsic to LED as a whole. Improving the success rate of LED projects would therefore be a reflection of the enhanced understanding of the LED process, of which incentive administration is a part. More successful LED projects can therefore be translated as more successful incentive design and implementation.

One of the objectives of the **Local Government Support Fund** is to facilitate better LED service delivery, and a EU 5m grant has been set aside especially for this purpose. Provincial government, and local and district municipalities are eligible to apply for the Fund, creating an opportunity for all these levels of government to strengthen and support the LED function in the province.

7.3 **Addressing the economic issues relating to land claim resolution**

Land claims are a very topical issue in Limpopo, and affect investment possibilities in all economic sectors, not just the priority sectors. The swift resolution of these claims will create more certainty and give prospective investors the confidence to commit themselves to Limpopo without fearing the loss or disruption of their property rights.

Where not doing so already, the local and district municipalities could play a meaningful role by taking it upon themselves to identify and list the areas in their boundaries that are currently under dispute, and maintaining a progress report of the land claims cases. These reports could be posted on bulletin boards in the municipal offices, and distributed to the local chambers of commerce, bank branches, LIMDEV, LIMAC, TIL and LIBSA.
Another important aspect of the resolved land claims is that successful commercial claimants may in many instances find themselves in need of assistance to get their businesses off the ground. They may require financing, technical advice and training, as well as investment incentives to reduce their start-up costs. Local and district municipalities can specifically target these claimants and draw their attention to the available municipal financial and non-financial incentives. The municipalities can also refer the claimants to SEDA Access Points, microfinance institutions, as well as TIL, LIBSA and LIMDEV.

### 7.4 Improved intergovernmental coordination and communication

A general rule of thumb in intergovernmental relations is that local and district municipalities need to align their IDPs and LED strategies with provincial government priorities and programmes. This is particularly important within the context of municipal investment incentives they should contribute to the realisation of the investment, employment and skills levels envisaged in the Provincial Growth and Development Strategy. It also means that local and district municipalities are more likely to benefit from provincial government grants and training programmes in the areas linked to investment incentives.

TIL’s municipal capacity building office can act as an interface between local and district municipalities and various provincial departments. This would mean that this particular department of TIL would have to acquaint itself with provincial programmes that directly benefit municipalities (including in the sphere of incentive administration), and create a network of contacts in the provincial government and with the municipal LED officers.

The local and district municipalities should also make more determined and consistent efforts to communicate with each other if incentive implementation is going to be successful. LED officers should share their progress with the proposed financial and non-financial incentives, including successes, obstacles and challenges. The lessons learnt from this could prevent some municipalities from struggling unnecessarily, and help others to maximise their investment potential as the municipalities have different prior experience with investment incentives. As a first step, Kaiser proposes that the district municipalities compile the contact details of LED officers (their own) and also in their respective local municipalities. These can be forwarded to TIL’s municipal capacity building office, which will then consolidate them into one master file and distribute this version to all local and district municipalities in the province. In the long term, one particular district municipality can be nominated (or volunteer) to update and circulate the record, as it is more convenient and useful for the information to be located at the local level than with TIL.

### 7.5 Raising private sector awareness of opportunities in Limpopo

The marketing and promotion of Limpopo as an investment location is TIL’s primary purpose as a provincial entity. To date, TIL has attracted a significant number of investors into the region through a variety of events and interventions. Kaiser recommends that TIL explore innovative methods of securing investors. An example of an initiative from which lessons can be learned is the Home Coming Revolution initiative.
The Home Coming Revolution is dedicated to convincing skilled and/or wealthy South Africans living abroad to return to their home country. The objective is to utilise their skills or wealth to advance South Africa, instead of the foreign countries they reside in. Home Coming Revolution provides them with information about potential investment and job opportunities in South Africa, and also assists with the associated immigration and relocation processes. In the same way, TIL could identify professionals, entrepreneurs and business people who originate from Limpopo but have established themselves elsewhere and can encourage them to relocate to Limpopo. The most immediate and obvious difficulty with this idea is that it is extremely difficult for TIL to identify and track individuals, and they would therefore need to work in partnership with other entities such as schools, university and local clubs / associations.

Another measure that TIL could take is to aggressively lobby to host (even in part), and participate in events such as the South African Investment Conference that will be held in KwaZulu-Natal sometime in 2005 or 2006. The Conference will showcase investment opportunities in South Africa, and hopes to attract 500 representatives from:

- International, national, and local business
- National, provincial, and local government
- Local and district municipalities
- Financiers and service industries

What is of particular interest and relevance is that all South African provincial governments and local and district municipalities have been invited to use the Conference as a forum to market themselves and the investment opportunities present in their regions. The conference will be hosted by TIKZN, but is backed by the dti. TIL and the local and district municipalities in Limpopo should therefore commit themselves to actively participating in the Conference. As it is hoped that the conference will become an annual event, TIL should be on the alert for opportunities to lobby the dti to host the event.

7.6 Increasing awareness of, and access to, national incentives

As noted in section 4 of Step 1 & 3, Limpopo companies have had very limited success in accessing national incentives, especially when compared to other provinces. This is a worrying trend as it negatively affects investor morale in the province. It is also a cause for concern for local and district municipalities and provincial government, as the Critical Infrastructure Projects incentive has been identified as a very useful tool to encourage infrastructure development in the province. The various national incentives that Limpopo businesses should be informed of are described in Annexure C.

Kaiser Associates has been in contact with Patrick Khumalo, the TEO regional manager appointed to Limpopo. He has indicated that the following opportunities are available for cooperation and interaction with TEO:

- Establishing a relationship between TEO and TIL
- Establishing a relationship between TEO and Limpopo municipalities. This includes issues such as the possibility of MoUs between the dti and local and district municipalities in Limpopo, the creation of an accessible database of dti incentives, and the role of municipalities in promoting and marketing dti
- A potential role for TIL and/or the provincial government in lobbying TEO for the establishment of a regional dti office in Limpopo, and for the relaxation of some of the qualifying criteria for incentives

These are discussed in more detail below.

Establishing a more formal relationship between TEO and TIL

Both TEO and TIL have expressed a willingness to establish a formal relationship through a Memorandum of Understanding. However, if this relationship is to become a reality, TIL must take the initiative by organising a working session with TEO in order to identify areas of common
interest. Although the initial discussions would take place at a senior level, Kaiser recommends that TEO’s regional manager for Limpopo should be included in the process at a later stage.

Kaiser Associates suggests that TIL should include the following in the MoU:

- Joint road shows between TIL and TEO in the province, including agreements on timing, and the division of costs and organisational responsibility
- Mechanism for regular updates on the status of incentive applications from the province, and TIL to keep record of reasons for rejections of applications (provided there are no legal restrictions relating to privacy)
- TIL to assist TEO with organising and advertising dti workshops, including interacting with stakeholders in the business community and local government to find out the issues they would like to be discussed in the workshops
- Rapid communication mechanisms

**Establishing a relationship between TEO and Limpopo municipalities**

TEO has indicated that it is particularly interested in the district municipalities in Limpopo, as they are administratively easier to deal with than each local municipality on its own; they can serve as a gateway to the local municipalities. Towards this end, the dti conducted workshops with the district municipalities in Limpopo in 2004 which focused on promoting dti incentives, their qualification criteria and application procedures.

However, interviews with local municipal officers during the course of this project revealed that many district and especially local municipalities have very limited or no knowledge of dti incentives. This suggests that the 2004 dti workshops were largely ineffective as they resulted in neither the retention of knowledge among the district municipalities themselves, nor the transfer of information from the district to the local level. Possible reasons for this are: high staff turnover at both the local and district level (including the fact that many LED officers are recent appointees); district municipalities may not have fully appreciated the role that they were expected to play in relaying information to the local municipalities; and cases of poor relationships between district municipalities and their respective local municipalities.

It may therefore be more appropriate for individual municipalities to initiate MOUs with TEO where they feel there may be a high demand for national incentives within their boundaries or where other benefits can be accrued by developing this formal understanding. Examples of potential areas of cooperation include:

- The municipality in question undertakes to develop a database profiling companies operating in its boundaries (one of the non-financial incentives proposed in section 5). TEO can then use this to advise the municipality on which incentives it should be promoting to the different categories of investors
- TEO agrees to host training workshops for LED officers on the dti incentives available, their qualification criteria, and the application procedures.
- The municipality will assist SMMEs, particularly HDIs, to complete incentive application forms
- TEO provides an accessible contact point for any queries relating to incentive applications
- The municipality, with the cooperation of TEO, could make regularly updated dti information packs available to companies on its database.
- The municipality will market and promote relevant dti incentives to the local business community where appropriate

MoUs are a simple and direct way of establishing relationships between the dti and TIL, and the dti and Limpopo municipalities. Only those parties that are committed to the process and grasp its benefits to the province will approach TEO and see it through to its conclusion. The terms suggested above place a seemingly disproportionate amount of responsibility on TIL and local and district municipalities vis-à-vis TEO. This is not necessarily an unfair allocation as it reflects the reality that TIL and Limpopo municipalities stand to gain more from the MoU than TEO itself.
It is important to clearly delineate the roles of TIL and the local and district municipalities with respect to dti incentives to avoid duplication and confusion. TIL and the local and district municipalities can cooperate in the following ways:

- **Assisting TEO to organise dti workshops in the province** - TIL can take the lead in this process by jointly deciding with TEO the audience and content of the workshops. The municipalities can play a supportive role by marketing and advertising the workshops, and proposing appropriate venues. The municipalities would have to await instructions from TIL on what is expected from them and when.

- **Training and supporting LED officers on incentives** - TIL can advise local and district municipalities when they are unsure about how to respond to specific queries from clients, or have their own reservations about aspects of dti incentives. TIL would therefore serve as the first port of call for municipalities, a convenient arrangement considering TIL’s greater accessibility compared to the dti. This would reduce the burden on the dti whilst allowing TIL to strengthen its relationships with the municipalities in the province.

- **Improving the success rate of national incentive applications** - TIL can pass on to municipalities the reasons obtained from TEO on why incentive applications from Limpopo have been rejected. TIL can then use this as the basis to strategise with local and district municipalities on how to improve the success rate of applications, with clearly roles for TIL and local and district municipalities.

### 7.7 Lobbying the dti

Stakeholders in the Limpopo economy can lobby the dti e.g. to amend stringent qualification criteria for incentives, and use of accessible language on application forms. The stakeholders who may do so are not limited to TIL, but could include LIMDEV, LIBSA, LIMAC, local chapters of the Chamber of Commerce, the SMME Directorate and various agricultural associations. There is a separate procedure that must be followed when lobbying TEO to when concluding MoUs, hence the two should not be regarded as constituting one and the same thing.

### 7.8 Roles, responsibilities and funding mechanisms

The roles, responsibilities and funding mechanisms for the complementary strategies are consolidated below:

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Key tasks and responsibilities</th>
<th>Individual/ entity liable</th>
<th>Sources of funding</th>
</tr>
</thead>
</table>
| **Improving the success rate of LED projects** | - Becoming familiar with different LED strategies, and understanding their relationship with LED plans and projects  
   - Orienting LED plans with district and local priorities and objectives  
   - Designing and putting in place appropriate LED project management systems | LED officer of local or district municipality  
   Provincial government | Local Government Support Fund |
| **Swift resolution of land claims** | - Maintaining a roll of pending and current land claims disputes  
   - Circulating the roll to all entities that deal with business community | Local and district municipal land use planning department  
   LED officer | Municipal budget |
| **Improved intergovernmental coordination and communication** | - TIL to act as intermediary between municipalities and various provincial government departments  
   - Initiate and maintain regular correspondence among all the | TIL municipal capacity building department  
   LED officer of local or district | Local and district municipal budget  
   TIL budget |
<table>
<thead>
<tr>
<th>Intervention</th>
<th>Key tasks and responsibilities</th>
<th>Individual/ entity liable</th>
<th>Sources of funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Complementary strategies to support investment facilitation</td>
<td>local and district municipalities</td>
<td>municipality</td>
</tr>
<tr>
<td>Raising private sector awareness of investment opportunities in Limpopo</td>
<td>➢ Devise innovative marketing ploys to promote province ➢ Explore possibility of hosting national investment conferences or trade fairs with national exposure</td>
<td>➢ TIL</td>
<td>➢ TIL budget</td>
</tr>
<tr>
<td>Increasing awareness of, and access to, national incentives</td>
<td>➢ Negotiate and conclude MoUs with dti</td>
<td>➢ TIL ➢ LED officer of local or district municipality</td>
<td>➢ TIL budget ➢ Local and district municipal budget</td>
</tr>
<tr>
<td>Lobbying the dti</td>
<td>➢ Approach TEO executive with grievance and motivate why it is important and should be addressed</td>
<td>➢ TIL</td>
<td>➢ TIL</td>
</tr>
</tbody>
</table>

8 Funding mechanisms for proposed incentives

Both the financial and non-financial incentives identified during the course of this project require large inputs of money. The options testing revealed that the financial capacity of the majority of local and district municipalities is limited and may not withstand the strain of implementing incentives. Financial management systems must be identified and put in place to ensure responsible incentive administration, both in the present (for those municipalities that are already in a position to offer incentives), and in the future (for those municipalities that will only be ready to offer incentives at a later stage).

8.1 Municipal budgets

Municipal budgets are likely to be the main source of funding for all the financial incentives, the bulk of the non-financial incentives and complementary strategies, and for the marketing and promotion strategy of the incentives. The medium and high capacity municipalities (as classified in the 2004 National Treasury municipal financial capacity audit)\(^\text{10}\) can realistically expect to implement some of the non-financial incentives and/or the financial incentive packages.

The low capacity municipalities are less fortunate as their own financial resources are meagre, and they cannot expect transfers from either TIL (which could potentially jointly find specific project e.g. feasibility studies, but cannot subsidise municipal discounts, and would not have adequate budget to do so even if it was permitted to do so), or the provincial government (transfers can only take place if a district or local municipality is experiencing a financial crisis, and even then there are limits on the amounts that can be transferred).

The best option for these municipalities is therefore to concentrate on the various capacity building and infrastructure programmes that are available and have been discussed in this document, until such a time as they can afford incentives and complementary strategies. The implications for the roll out of the incentives are:

➤ Only the municipalities that already have relatively high financial capacity can realistically implement the incentives in the short to medium term

➤ There cannot be an orderly, sequenced roll out of the incentives after the pilot phase and second wave as the severe inequalities in the institutional capacities of the remaining Limpopo municipalities make it impossible to predict which municipalities will eventually be able to administer incentives, and when. This means that once the first two waves of the roll out have

\(^{10}\) Please see Annexure H for capacity classifications of Limpopo municipalities
been completed, there can be no real sense of direction or a timeline to govern the remaining local and district municipalities. The only option will be to adopt a ‘wait and see attitude’

8.2 The Local Government Support Fund

The Limpopo EU LED Programme, of which the Local Government Support Fund is a part, has emerged as an important source of funds for the incentives and complementary strategies recommended in this document. There is no doubt that the programme is well endowed and capable of supporting the various interventions that have been identified here.

With respective to the incentives and complementary strategies referred to in this document, what the Fund can and cannot finance is presented below:

<table>
<thead>
<tr>
<th>Within scope of LGSF</th>
<th>Outside scope of LGSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Direct costs of certain non-financial incentives:</td>
<td>▶ Subsiding direct costs of all the financial incentives, and of most of the non-financial incentives</td>
</tr>
<tr>
<td>o Quick processing of building plans, permits, and zoning approvals</td>
<td></td>
</tr>
<tr>
<td>o Any other incentives that deal with regulatory reform at municipal level</td>
<td></td>
</tr>
<tr>
<td>▶ Training and research activities to educate municipal and provincial government staff about the principles of LED and how they can be applied to the Limpopo context. This may also involve twinning projects with EU municipalities</td>
<td>▶ Expenditure on:</td>
</tr>
<tr>
<td></td>
<td>o Computer hardware and software</td>
</tr>
<tr>
<td></td>
<td>o Visits and phone calls to government departments and businesses</td>
</tr>
<tr>
<td></td>
<td>o Recruitment of additional staff to perform LED function</td>
</tr>
<tr>
<td></td>
<td>o Designing application procedures (including printing and distributing application forms)</td>
</tr>
<tr>
<td>▶ Training and research activities to educate municipal LED staff and Chief Financial Officers about incentive administration as a component of LED</td>
<td>▶ Marketing and promoting the incentives and complementary strategies</td>
</tr>
</tbody>
</table>

The budget allocation for the overall LED programme is structured as follows:

▶ Municipalities may apply for a minimum grant of R50 000
▶ Municipalities may apply for a maximum grant of R800 000
▶ Grant to comprise no more than 80% of total eligible costs
▶ Balance must be financed from applicant’s own resources

The municipalities may apply for more than one grant during the course of the LGSF. However, they are required to observe a twelve-month expenditure period in which the previous grant comes into effect. At the end of those twelve months, the municipality must report to the dlgh how the money was used, including the presentation of audited financial statements.

It will be up to local and district municipalities to decide to what extent the municipal budget should accommodate the incentives, and to what extent to rely on the Local Government Support Fund. In doing so, municipalities should be mindful of the fact that the Limpopo LED Programme terminates in 2008; municipalities should not find themselves in the position that some or all of the incentives collapse because the LGSF is no longer running. The LGSF takes this into account by requiring municipalities to specify in their proposals how the proposed activity or project will be financed when the LGSF ends. The training that will be provided to LED staff will also focus on building the institutional capacity to sustain LED in the province well beyond the LGSF. Finally, the backers of the LED Programme, the European Commission Delegation and the dlgh are willing and able to continue to support Limpopo municipalities by way of funding and technical assistance in the aftermath of the Programme, depending on the specific needs articulated by interested municipalities.

The greatest strength of the LGSF is that it is potentially accessible to all local and district municipalities, provided they meet the eligibility criteria stipulated in the call for proposals. There is...
therefore a good chance that all the municipalities will be able to implement at least one of the proposed non-financial incentives (quick processing of building plan and zoning approvals), and one of the complementary strategies (improving the success rate of LED projects).

The Gantt chart in Annexure D shows the planned timetable for all activities relating to the LGSF, including the scheduled dates for calls for proposals. Interviews with members of the Limpopo LED team have established that the entire programme is behind schedule due to delays in the bureaucratic procedures. To illustrate this point, the first call for proposals has only recently been issued in the first week of July 2005, instead of the anticipated date at the end of February 2005. While this does not affect the expected benefits of the Fund to the Limpopo community, it does mean that the Fund will probably exceed the planned termination date in 2008 as shown in the chart. This means that local and district municipalities may have more time at their disposal to fully understand how the Fund works, and to utilise it in such a way as to maximise its gains.
9 Summary of proposes roles and responsibilities

This section summarises the roles and responsibilities of local and district municipalities and TIL in their individual capacities and within the context of joint responsibilities.

9.1 Local and district municipalities

- Assess own readiness to offer incentives, and select the specific financial and/or non-financial incentives to be implemented
- Contact the different institutions offering municipal capacity building programmes (as identified in this document), and comply with the requisite application procedures
- In the case of financial incentives
  - Customise incentive application form and application processing system
  - Decide duration of incentive contracts, and finalise review mechanisms and termination/renewal clauses to be included in contract
  - Lead negotiations on incentive packages and conclude contract with investors
  - Modify and align proposed qualification criteria and weighting system with local priorities
  - Refine eligibility criteria, including the policy stance towards debtors who would like to apply for incentives
- In the case of non-financial incentives, take the necessary steps to ensure high standards of service delivery.
- Ensure that both financial and non-financial incentives are administered in a way that conforms to local government legislation, including fulfilling the reporting requirements
- Market and promote the incentives
- Improve success rate of LED projects
- Publicising progress and outcome of land claims
- Establish a relationship with TEO in order to increase awareness of and access to national incentives
- Find out about funding options for infrastructure development and taking the necessary steps to access them
- Fund incentives and complementary strategies from municipal budget, and where applicable apply for grants from LGSF

9.2 TIL

- Where appropriate, assist with the development of incentive application templates and guidelines for marketing materials
- Improve and expand business development and after-care services
- Devise innovative strategies and campaigns to raise private sector awareness of investment opportunities in Limpopo
- Establish a relationship with TEO in order to increase awareness of and access to national incentives
- Lobby the dti for concessions such as less stringent qualification criteria for incentives, and the establishment of a regional dti office in Limpopo
- Raise private sector awareness of investment opportunities in Limpopo

9.3 Actions requiring joint interventions by TIL and local and district municipalities

- Participating in PPPs for infrastructure development
- Improving intergovernmental coordination and communication
- Circulation of reports produced at the end of the first two stages of the incentive roll out
- Compiling and sharing databases of local investors, investment opportunities and dti incentives so that TIL can advise municipalities on which incentives to promote in their particular areas
9.4 **Key contacts**

The following table identifies some of the key institutions and individuals that TIL and the local and district municipalities will need to contact in order to perform their roles and responsibilities with respect to incentives implementation:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Contact person</th>
<th>Contact details</th>
<th>Issue</th>
</tr>
</thead>
</table>
| dplg            | Mr D Masondo (Director for local government administration) | **Tel:** 015 295 6851  
**Cell:** 082 570 5446          | Project Consolidate           |
| TEO             | Patrick Khumalo (Limpopo Regional Manager) | **Tel:** 012 394 1253         | Concluding MoUs with TEO       |
| TEO             | CEO’s office                             | **Tel:** 012 394 1462         | Lobbying TEO                   |
| Limpopo LED     | Phillip Ratlhagane (LGSF Advisor)        | **Tel:** +27(0)15 295 7002  
**Fax:** +27(0)15 291 4756  
**E-mail:** sratlhagane@limpo pled.com | LGSF                           |
ANNEXURE A: National incentives and programmes for infrastructure

Infrastructure development can take place at the provincial as well as district and local levels. The role of national government in infrastructure development will not be considered here as national policy and resources are not as directly and immediately influenced as those at provincial and local government level. The private sector can also play an important role, whether independently or in cooperation with national or local governments in a PPP. In this section, the following topics will be covered in order to exhaust all possible options for infrastructure development in Limpopo:

- National incentives
- The Municipal Infrastructure Grant programme
- The Special Municipal Infrastructure Fund
- Project Consolidate
- Public Private Partnerships

National incentives

The two national (dti) incentives that directly promote economic infrastructure development are the Strategic Industrial Projects (SIP) programme, and the Critical Infrastructure Projects (CIP) programme.

Strategic Industrial Projects - The SIP incentive programme is a tax allowance designed to encourage fixed investments by local and foreign investors in specific industry sectors. The allowance reduces the overall cost of the industrial project. The SIP incentive is accessible to industrial projects participating within the following sectors:

- Manufacturing of products: all listed manufacturing activities excluding tobacco and tobacco related products
- Computer and computer related activities: hardware consultancy, software consultancy and supply, data processing (excluding standard secretarial services), and database activities
- Research and development activities: research and experimental development on natural sciences and engineering

Since large industrial projects in the above sectors typically involve infrastructure development of some kind, SIP indirectly promotes economic infrastructure development. Despite the success of this incentive at the national level, no incentive applications from Limpopo have been approved since 2000, meaning that infrastructure development in the province has not really benefited from the incentive. In any case, SIP will be terminated on 31 July 2005, and thus offers no future prospects for Limpopo as a stimulant to infrastructure development.

Critical Infrastructure Projects - CIP is a cash grant that is available to municipalities, provincial government, private enterprises, and PPPs. The incentive covers up to 30% of the development costs in qualifying infrastructure. Qualifying infrastructure includes transport (e.g. road and rail infrastructure); electricity transmission and distribution systems; telecommunication networks; sewage systems; and fuel supply systems. Unlike SIP, this incentive is specifically designed to promote infrastructure development, and applies to a broader set of parties.

Municipalities must commit themselves to quantifiable targets in the areas of SMME supplier development, job creation, business equity, the development of the South African industry, economic growth in underdeveloped areas and social responsibility. For private enterprises, one of the qualifying criteria is that they must spend more than R15 million on enabling infrastructure.

- Figures provided by the dti (from 2002 to February 2005) reveal the following:
- Of the total 27 applications received for CIP, 12 were approved, 12 were rejected, 1 was approved and subsequently cancelled, and two were still under consideration in February 2005
Only two applications for the CIP incentive were received from Limpopo between 2002/3 and February 2005, both of which were rejected. The first was from AngloPlatinum for a pipeline, pumpstation, treatment plant and sewerage works in 2003/4. The second CIP application was from Foskor in 2004/5 for water storage infrastructure in Phalaborwa.

Interestingly, only one application was submitted by a municipality (and rejected by the dti). The municipality in question was located in the Northern Cape, and applied for the CIP incentive for water infrastructure valued at R5m in 2003/4.

Based on these statistics, the conclusion might be reached that the CIP incentive is out of reach for many of its intended targets, especially local and district municipalities. However, the dti has announced that the termination of the SIP programme at the end of July this year will result in more emphasis on CIP. There is therefore every reason to expect that municipalities will begin to feature much more prominently as beneficiaries of the incentive. Limpopo municipalities should therefore familiarise themselves with the qualification criteria and application procedures of CIP in order to take full advantage of the incentive.

The Municipal Infrastructure Grant Programme

The MIG programme was approved in March 2003. It replaces and consolidates the following municipal infrastructure programmes, all of which were previously administered by different national departments:

- Consolidated Municipal Infrastructure Programme (CMIP)
- Water Services Projects
- Community Based Public Works Programme
- Local Economic Development Fund
- Building for Sports and Recreation Programme
- Integrated National Electrification Programme to local government, and the National Integrated Electrification Programme by Eskom
- Urban Transport Fund

MIG focuses on infrastructure to facilitate basic service delivery, especially for the poor. Economic infrastructure for commercial purposes is funded only to the extent that it coincides with MIG’s primary mandate of improving the health and welfare of South African citizens. Funding allocations for MIG are linked to the projects identified in the IDPs, hence the municipalities are responsible for infrastructure planning.

- All metros, **district municipalities and high capacity local municipalities** administer MIG funds and manage MIG projects right from the outset
- District municipalities will administer MIG funds and manage MIG projects on behalf of moderate and low capacity municipalities
- The dplg, and national and provincial government will develop a phased-in capacity building approach to elevate the status of other municipalities so that they can administer the funds and all other functions related to MIG.

In Limpopo, all district and local municipalities are making use of MIG funds in the 2005/06 financial year. The grants awarded to the district municipalities averaged R93,990, with the largest being the R155,393 awarded to Greater Sekhukhune Cross Boundary District Municipality, and the lowest the R38,927 awarded to Waterberg District Municipality. The grants to the local municipalities ranged from a low of R1,233 (Fetakgomo) to a high of R74,992 (Polokwane). The forecasted MIG allocations for 2006/7 and 2007/8 both represent successive annual increases for all the municipalities in Limpopo.
The Special Municipal Infrastructure Fund

The Fund, a component of MIG, was established in 2004 to encourage and support innovative infrastructure projects in municipalities. These projects must be linked to, but are not a part of municipal IDPs, and should result in sustainable benefits in the municipal area.

All municipalities currently receiving MIG funds can apply for SMIF grants. Preference will be given to municipalities in financial need, and whose projects will have the highest return. Proposed projects are encouraged to fall within the following categories:

- Basic residential infrastructure
- Municipal public service infrastructure
- Infrastructure for social institutions
- Infrastructure for micro-enterprise development
- Infrastructure in urban and rural nodes
- Regional infrastructure

The projects must yield tangible outcomes within a three-year period, and utilize the skills base in government, the private sector and civil society. The value and duration of the grants are as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Period</th>
<th>Value</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-renewable once-off grant</td>
<td>One year</td>
<td>Up to R5m</td>
<td>Quick and easy implementation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Outcomes within 10-12mths</td>
</tr>
<tr>
<td>Multi-year grant</td>
<td>Three years</td>
<td>Up to R10m</td>
<td>Can be extended for an additional two years depending on a favourable evaluation</td>
</tr>
<tr>
<td>Multi-year grant</td>
<td>Three years</td>
<td>R10m – R20m</td>
<td>Can be extended for an additional two years depending on a favourable evaluation</td>
</tr>
</tbody>
</table>

Source: dplg, 2004

The deadline for this year’s project proposals is 31 July 2005. It is recommended that this fund should be brought to the attention of all local and district municipalities in Limpopo so that those unaware of it can make submissions in future.

Project Consolidate

Project Consolidate is a cross-governmental programme involving various national departments such as the dplg, Water Affairs & Forestry, National Treasury and Public Works to mention just a few. Local and district municipalities are required to produce action plans which detail the resources (human and financial), equipment, and infrastructure required by municipalities in order to perform their functions, and focuses on their most critical needs. The national departments convene to review the action plans and respond to the stated needs according to the resources that they have available. The provincial governments play a role through programme management units which assist municipalities with their action plans and act as intermediaries between the national and local spheres of government.

At the moment, only 136 local and district municipalities in the whole country have been selected to participate in Project Consolidate, but it is anticipated that the programme will eventually be rolled out to all 284.
ANNEXURE B: Project Consolidate Municipalities in Limpopo

- Greater Tubatse
- Makhuduthamakga
- Fetakgomo
- Bushbuckridge
- Maruleng
- Aganang
- Blouberg
- Mutale
- Greater Letaba
- Greater Giyane
- Lepelle-Nkumpi
- Thulamela,
- Makhado
- Thabazimbi

11 As at June 2005
## ANNEXURE C: Summary of national incentives

Size of business targeted:

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Purpose</th>
<th>Objective</th>
<th>Description</th>
<th>Administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology for development programme</td>
<td>ICT</td>
<td>Innovation</td>
<td>To serve the needs of historically disadvantaged communities by engaging in initiatives that address priorities such as food security and nutrition, poverty alleviation and job creation.</td>
<td>Identifies and recognises existing indigenous knowledge and technologies. This knowledge is adapted using modern scientific approaches to provide opportunities for the creation of sustainable business enterprises.</td>
<td>CSIR</td>
</tr>
<tr>
<td>Material and manufacturing support</td>
<td>SMMEs</td>
<td>SMME-related</td>
<td>To create sustainable jobs in globally competitive SMMEs</td>
<td>Implementation of national SMME support programmes in collaboration with all the relevant stakeholders</td>
<td>CSIR</td>
</tr>
<tr>
<td>Enterprise development model</td>
<td>All</td>
<td>SMME-related</td>
<td>Enterprise Development Centre (EDC) is to promote socio-economic growth in the manufacturing sector with the ultimate objective being to create sustainable jobs in globally competitive SMMEs</td>
<td>Establishment of sustainable manufacturing enterprises Implementation of a comprehensive range of competitiveness improvement services to enterprises, and Implementation of national SMME support programmes in collaboration with all the relevant stakeholders</td>
<td>CSIR and the EDC</td>
</tr>
<tr>
<td>International Tourism Marketing Assistance Scheme</td>
<td>Tourism</td>
<td>Marketing</td>
<td>To promote the marketing of the South African tourism industry</td>
<td>Partial compensation of businesses for predetermined costs incurred in promotion of products related to tourism</td>
<td>IDC</td>
</tr>
<tr>
<td>Bridging Finance for Contractors and Tenders</td>
<td>All</td>
<td>New investments</td>
<td>Promotion of entrepreneurship in South Africa</td>
<td>The finance for those who have firm contracts excluding construction</td>
<td>IDC</td>
</tr>
<tr>
<td>Finance for the Textiles, Clothing, Leather and Footwear Industries</td>
<td>Clothing and Textiles</td>
<td>New investments</td>
<td>Development and expansion of textile/clothing sector by providing necessary finance</td>
<td>Financial contribution of 35-50% of with minimum financing requirement of R500 000. In the form of loans, suspensive sales and equity.</td>
<td>IDC</td>
</tr>
<tr>
<td>Accelerated Depreciation Allowance</td>
<td>Manufacturing</td>
<td>New investments</td>
<td>Promote acquisition of new assets in manufacturing sector</td>
<td>Allowance to write off manufacturing asset over 4 years. +40% for cost in first year and + 20% for next 3. Assets acquired after 1 March 2002</td>
<td>IDC</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
</tr>
<tr>
<td>-------------------------------------</td>
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<td>-----------------------------------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Techno-Industry Development Finance</td>
<td>Computers and Communications</td>
<td>New investments/SMME-related/Research and development</td>
<td>Development and expansion of IT intensive businesses</td>
<td>Equity or loan finance for companies with minimum financing requirement of R1 million for expansion or new ventures</td>
<td>IDC</td>
</tr>
<tr>
<td>Research and Development</td>
<td>All</td>
<td>Research and development</td>
<td>Promote research and innovation</td>
<td>Tax deduction for operating costs related to R&amp;D of 25% of the cost of capital expenditure approved by CSIR</td>
<td>IDC</td>
</tr>
<tr>
<td>Partnership in Industrial Innovation</td>
<td>Manufacturing / Information Technology</td>
<td>Research and development</td>
<td>Stimulate industrial research and innovation</td>
<td>Reimbursive grant for up to 50% of development cost of product. Amount based on commercial success of product.</td>
<td>IDC</td>
</tr>
<tr>
<td>Tourism Development Finance</td>
<td>Tourism</td>
<td>Research and development/ skills/new investment</td>
<td>Development and expansion of tourism</td>
<td>Minimum finance requirement of R1 million. Provision of medium-term finance (loan, equity) for upgrading or renovation of tourist facilities</td>
<td>IDC</td>
</tr>
<tr>
<td>Wage Incentive</td>
<td>Education and Training</td>
<td>Skills</td>
<td>To promote employee training</td>
<td>Available to employers offering approved (National Qualification Framework) learnerships. A tax deduction allowed on conclusion of learnership agreement and further R25000 on successful course completion</td>
<td>IDC</td>
</tr>
<tr>
<td>Empowerment Finance</td>
<td>All</td>
<td>Skills/ Research and development</td>
<td>To promote emerging industrialists/entrepreneurs</td>
<td>Medium-term finance (loans or equity) for buyouts or leveraged buyouts and strategic equity partnerships. For ventures worth R1 - 100 million</td>
<td>IDC</td>
</tr>
<tr>
<td>Tax Threshold for Small Businesses</td>
<td>All</td>
<td>SMME-related</td>
<td>Encourage development of SMMEs</td>
<td>SMMEs with annual turnover of less than R3 million eligible for 15% graduated tax rate with taxable income of R150000</td>
<td>IDC</td>
</tr>
<tr>
<td>Entrepreneurial Mining and Beneficiation Finance</td>
<td>Mining, Beneficiation and Jewellery</td>
<td>SMME-related</td>
<td>Expansion and promotion of small and medium mining and jewellery manufacturers</td>
<td>Finance for business with minimum requirement of R1 million</td>
<td>IDC</td>
</tr>
<tr>
<td>GODISA incubator programme</td>
<td>SMMEs</td>
<td>SMME-related</td>
<td>To facilitate technology transfer and incubation in SMMEs</td>
<td>Formed as a partnership with the Department of Trade and Industry and the European Union. The European Union is proving a valuable partner in these projects.</td>
<td>IDC</td>
</tr>
<tr>
<td>Business Loans for Retail Finance Intermediaries</td>
<td>Retail Lending</td>
<td>RFI Support</td>
<td>To provide finance for RFI to finance</td>
<td>Loans between R1 and R10 million (less experienced) loans from R5 to R100 million for (more experienced)</td>
<td>Khula</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
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</tr>
<tr>
<td>Seed Loans for Retail Finance Intermediaries</td>
<td>Retail Lending</td>
<td>RFI support</td>
<td>Provide finance for the initial establishment and expansion of RFI</td>
<td>Loan of between R50 000 to R20 million. Turned into grant once performance criteria have been agreed upon</td>
<td>Khula</td>
</tr>
<tr>
<td>Khula Start</td>
<td>Rural Community Development</td>
<td>Rural development</td>
<td>Increase access to micro credit to rural communities in South Africa</td>
<td>NGOs and CBOs involved in training and various mall enterprise activities. Groups of 3 – 10 with loans of R300– R3500 per member</td>
<td>Khula</td>
</tr>
<tr>
<td>The Land Reform Credit Facility</td>
<td>Agriculture</td>
<td>Skills</td>
<td>Promoting increased access to commercial land. Empowerment and job creation</td>
<td>Loans with deferred payments. Available to investors/banks financing land or shares for emerging farmers or farm workers</td>
<td>Khula</td>
</tr>
<tr>
<td>Danida Business to Business Programme</td>
<td>Financing</td>
<td>Skills/ New investments</td>
<td>Create jobs for eligible entrepreneurs. Formation of business partnerships between South Africa and Denmark</td>
<td>Financial support for the costs of transferring management skills and technology form Denmark to SA. Khula may provide up to100% guarantee for bank loaning money to firm</td>
<td>Khula</td>
</tr>
<tr>
<td>Technology Transfer Guarantee Fund</td>
<td>Technology</td>
<td>SMME/ Innovation</td>
<td>Allowing SMMEs access to loans for acquisition of manufacturing technology</td>
<td>90% of the technology transfer transaction costs over five years. Maximum is R1 million</td>
<td>Khula</td>
</tr>
<tr>
<td>Khula Equity Fund</td>
<td>All</td>
<td>SMME-related</td>
<td>Promotion of SMMEs with potential for growth. Funding of joint ventures and buyouts</td>
<td>Available to SMMEs with min. value of R500 000. Proof of viability required</td>
<td>Khula</td>
</tr>
<tr>
<td>Khula Credit Guarantee</td>
<td>Financing</td>
<td>SMME-related</td>
<td>Promote SMMEs and RFI through the provision of guarantees for the securing of bank loans.</td>
<td>Provides maximum guarantee of R600 000 over 3years for SMMEs. Firm must have net asset value of at least R2 million and must meet bank’s normal lending requirements.</td>
<td>Khula</td>
</tr>
<tr>
<td>Business Linkage Challenge Fund</td>
<td>Finance</td>
<td>Skills</td>
<td>To link businesses to ensure transfer of knowledge, technology, skills, information and market access required for global competitiveness of particular benefit to the poor</td>
<td>On bidding basis. Must have private sector partner. Projects compete on global basis for available funds. Grants range from £50 000 to £1 million</td>
<td>Ntsika and Khula</td>
</tr>
<tr>
<td>SMME Promotion Programme</td>
<td>SMMEs</td>
<td>SMME-related</td>
<td>To render an efficient and effective promotion and support service to small, medium and micro enterprises (SMMEs) in order to contribute towards equitable economic growth in South Africa. Ntsika provides wholesale non-</td>
<td>Provision of professional services to Local Government in SMME programme design, monitoring and evaluation, Manage and/or conduct SMME related research, Provision of SMME related information in printed and electronic format</td>
<td>Ntsika and Khula</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
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</tr>
<tr>
<td>Missing link training programme</td>
<td>Manufacture</td>
<td>Skills</td>
<td>To provide custom training to the various manufacturing sub-sectors</td>
<td>This is a training program provided and tailor made for different industries to improve the quality of any performing area in the company, specifically for Welding, clothing, timber, construction, etc.</td>
<td>SABS</td>
</tr>
<tr>
<td>Assistance by Individual Primary Steel Producers</td>
<td>Steel</td>
<td>Export rebates</td>
<td>Rebates determined between producer and exporter on an individual basis</td>
<td>Primary steel producers offer price rebate scheme used by exporters of secondary steel products.</td>
<td>SAISA</td>
</tr>
<tr>
<td>Fund for the Committee on Secondary Manufacture</td>
<td>Manufacturing</td>
<td>Exports regarding steel</td>
<td>Aimed at encouraging the use of primary steel in the manufacture of secondary steel products for export.</td>
<td>Financially supported by primary steel producers.</td>
<td>SAISI</td>
</tr>
<tr>
<td>Technology and Human Resources for Industry Programme (THRIP)</td>
<td>Organisations involved in Research and Training of Students</td>
<td>Competitiveness promotion</td>
<td>To increase South African industry’s competitiveness</td>
<td>Contribution of R1 for every R2 spent on research project of which project and project leader is in higher education facility</td>
<td>dti</td>
</tr>
<tr>
<td>Development programme for the textile and clothing industry</td>
<td>Textile/ Clothing</td>
<td>Competitiveness promotion</td>
<td>To achieve international competitiveness within sector</td>
<td>Phase down of ad valorem rates by Sept 2002. Removal of minimum duties</td>
<td>dti</td>
</tr>
<tr>
<td>Work Place Challenge</td>
<td>Manpower and Employment</td>
<td>Competitiveness promotion</td>
<td>Aims to improve country’s competitiveness and employment creation</td>
<td>Enhancement of cooperation between workers and management</td>
<td>dti</td>
</tr>
<tr>
<td>Export Marketing and Export</td>
<td>Export</td>
<td>Export assistance</td>
<td>The purpose of the EMIA scheme is</td>
<td>The following EMIA schemes are available:</td>
<td>dti</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
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</tr>
</tbody>
</table>
| Investment Assistance Scheme (EMIA)       |                         | for exhibitions, market research and FDI attraction/ SMME-related       | to partially compensate exporters for certain costs incurred in respect of activities aimed at developing export markets for South African products and to recruit new foreign direct investment into South Africa. Additional benefits are awarded to small, medium and micro-sized enterprises (SMME’s) and previously disadvantaged businesses (PDIs). | 1. Exhibition Assistance (including National Pavilions)  
2. Outward Selling Trade Missions  
3. Outward Investment Recruitment Missions  
4. Inward Buying Trade Missions  
5. Inward Investment Missions  
6. Assistance to Industry Specific Sectors  
7. Primary Export Market Research  
8. Foreign Direct Investment Research |             |
| Sector Assistance Scheme (SSAS)           | Export                  | Export assistance for market identification / SMME-related / BEE         | Financial assistance is available to industry sectors with the objectives of developing new export markets; broadening the export base; stimulating the participation of SMME’s in the export sector, promoting black economic empowerment (BEE) and women empowerment (WE) within the overall objective of job creation. | Organisations eligible to apply for assistance from the scheme include:  
Export Councils formally approved by DTI.  
An Export Council is a Section 21 (non-profit) company that serves to represent the developmental and promotional objectives of a particular industry on a national level, where the needs of that industry justify the formation of an Export Council and where the identified industry falls within DTI’s key priority sectors.  
Recognised Industry Associations; and  
Joint Action Groups (JAGS) consisting of three or more companies which associate for the primary objective of embarking on project/s that benefit industry or industries as a whole. | dti          |
<p>| Industrial Development Zones              | Development / Manufacturing / Exports | Export of SA manufactured goods | Promote manufacturing and encourage and improve South African exports | Excellent infrastructure and streamlined, efficient customs in importation of goods/raw materials used for manufacturing. However, it must be borne in mind that there is current suspension on any new IDZ designations | dti          |
| Export Credit Insurance                    | Export                  | Export promotion                                                        | Offers subsidised medium to long-term facilities to promote the export/import of capital goods | Financing facilities offered by banks and financial institutions such as Industrial Development Corporation of South Africa | dti          |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Purpose</th>
<th>Objective</th>
<th>Description</th>
<th>Administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Investment Grant</td>
<td>Manufacturing (SA company with foreign direct shareholding of minimum 50%)</td>
<td>FDI/ New investments</td>
<td>Encourage foreign investment in manufacturing sector</td>
<td>Grant covering transport costs of machinery from abroad or 15% of value of new machinery. Conditional to SMEDP or SIP approval</td>
<td>dti</td>
</tr>
<tr>
<td>Critical Infrastructure Programme</td>
<td>Infrastructure development</td>
<td>Infrastructure-related</td>
<td>Promote construction of key infrastructure for industrial development</td>
<td>For municipalities and companies constructing infrastructure. Between 10 – 30% of costs covered</td>
<td>dti</td>
</tr>
<tr>
<td>Venture Capital Scheme</td>
<td>All</td>
<td>Innovation</td>
<td>To promote product innovation</td>
<td>Capital for products with good growth potential. Package structured in terms of risk and growth potential</td>
<td>dti</td>
</tr>
<tr>
<td>Business Partners</td>
<td>Finance</td>
<td>Innovation/ New investments</td>
<td>A customised debt and equity investment of up to R1m</td>
<td>Innovation Investment Product</td>
<td>dti</td>
</tr>
<tr>
<td>Agro-Industries Development Finance</td>
<td>Agriculture, Food, Beverage and Marine</td>
<td>New investments in the agriculture sector</td>
<td>To promote the expansion of the agriculture and related industries</td>
<td>For business needing minimum of R1 million finance. Loans, equity and quasi-equity and suspensive sales. Competitive and risk-related interest rate</td>
<td>dti</td>
</tr>
<tr>
<td>Small and Medium Enterprise Development Programme (SMEDP)</td>
<td>Manufacturing and Tourism</td>
<td>New investments/ SMME-related support</td>
<td>To encourage investment of up to R100 million in small and medium SA companies</td>
<td>Two year cash incentive on qualifying assets and 3rd year if labour requirement is met.</td>
<td>dti</td>
</tr>
<tr>
<td>Skills Support Programme</td>
<td>Training</td>
<td>New investments/ Skills</td>
<td>Assist new and growing companies with training costs</td>
<td>50% grant of training costs for SMEDP project for up to 30% of annual wage bill.</td>
<td>dti</td>
</tr>
<tr>
<td>Sector Partnership Fund</td>
<td>Manufacturing and Agro-processing</td>
<td>New investments/ Skills/ Research and development</td>
<td>To encourage economic growth and job creation</td>
<td>Grant (max R 1 million) covering up to 65% of preparation costs for technical and marketing programmes</td>
<td>dti</td>
</tr>
<tr>
<td>The National Industrial Participation Programme</td>
<td>All</td>
<td>New investments/ Skills/ Research and development</td>
<td>Promote the development of South African industry</td>
<td>Available to government suppliers with imported content equal to or over $10 million with commitment to further</td>
<td>dti</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
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</tr>
<tr>
<td>Financing for the Expansion of the Manufacturing Sector</td>
<td>Manufacturing</td>
<td>Innovation</td>
<td>Development of manufacturing sector through the expansion of manufacturing capacity</td>
<td>Minimum of R1 million. Medium-term finance (loans or equity) for buyouts or leveraged buyouts and strategic equity partnerships.</td>
<td>dti</td>
</tr>
<tr>
<td>Tourism schemes</td>
<td>Tourism</td>
<td>Promotion of tourism/ New investments</td>
<td>Development of tourism especially eco-tourism</td>
<td>Capital for development of new or existing tourism facilities</td>
<td>dti</td>
</tr>
<tr>
<td>The Innovation Fund</td>
<td>Science Biotechnology and Engineering</td>
<td>Research and development</td>
<td>Encourage research community towards technical innovation</td>
<td>Grant of R1 – 5 million over three years</td>
<td>dti</td>
</tr>
<tr>
<td>Orchards Schemes</td>
<td>Agriculture</td>
<td>Skills development / Job creation</td>
<td>Encourage job creation in the agricultural sector</td>
<td>Low interest loans granted to those establishing orchards and thus creating jobs</td>
<td>dti</td>
</tr>
<tr>
<td>Employment Promotion Scheme</td>
<td>Job creation</td>
<td>Skills development / Job creation</td>
<td>To promote job creation</td>
<td>Provides capital up to R100 000 per opportunity</td>
<td>dti</td>
</tr>
<tr>
<td>Technology for Women in Business (TWIB)</td>
<td>Science / Technology and Engineering and Empowerment</td>
<td>SMME-related/ Skills</td>
<td>Enhancing accessibility of technology to women in business (esp. SMMEs)</td>
<td>Identification of specific technological needs of women in business</td>
<td>dti</td>
</tr>
<tr>
<td>Black business supplier development programme</td>
<td>All</td>
<td>SMME-related/ BEE</td>
<td>The scheme aims to fast-track existing SMMEs that exhibit a good potential for growth into the mainstream of the formal economy; foster linkages between black-owned SMMEs and corporate and public sector enterprises; complement current affirmative procurement and outsourcing initiatives in the corporate and public sector enterprises. Help recipient companies build capacity in order to successfully compete for corporate and public sector tenders and outsourcing opportunities.</td>
<td>The Black Business Supplier Development Programme (BBSDP) is an 80:20 cost-sharing, cash grant incentive scheme, which offers support to black-owned enterprises in South Africa. The scheme provides such companies with access to business development services in order to assist them in improving their core competencies, upgrading managerial capabilities and restructuring to become more competitive.</td>
<td>dti (TEO)</td>
</tr>
<tr>
<td>Innovation Support Programmes</td>
<td>Export</td>
<td>Export that encourage Innovation</td>
<td>The programme provides an incentive for the development of innovative products and processes</td>
<td>This is part of government’s strategy for the promotion of technology in South Africa's manufacturing industry. The programme is</td>
<td>dti and IDC</td>
</tr>
<tr>
<td>Name</td>
<td>Sector</td>
<td>Purpose</td>
<td>Objective</td>
<td>Description</td>
<td>Administrator</td>
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<tr>
<td>Learnership grant</td>
<td>Aimed at employers, training providers or SETAs in ALL sectors</td>
<td>Skills</td>
<td>To train and encourage the training of the unemployed</td>
<td>Employers, training providers or SETAs can ask the Department to help them find unemployed learners. The Department will search on their database, hold interviews and make a list of the best unemployed people for the learnership.</td>
<td>Department of Labour</td>
</tr>
</tbody>
</table>
## ANNEXURE D: Local Government Support Fund Activity Gantt Chart

<table>
<thead>
<tr>
<th>WBS</th>
<th>Task Name</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>3.1</td>
<td>Prepare, launch and manage LGSF</td>
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<tr>
<td>3.1.1</td>
<td>Prepare and launch CfP(s) for LGSF</td>
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<tr>
<td>3.1.1.1</td>
<td>Finalise LGSF criteria for eligibility and selection</td>
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<tr>
<td>3.1.1.2</td>
<td>Criteria and documents for 1st CfP submitted for approval</td>
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<tr>
<td>3.1.1.3</td>
<td>CfP review and approval (by DLGH &amp; ECD)</td>
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<tr>
<td>3.1.1.4</td>
<td>1st CfP for LGSF approved and advertised</td>
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<tr>
<td>3.1.1.5</td>
<td>Finalise the LGSF manual for applicants</td>
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<tr>
<td>3.1.1.6</td>
<td>LGSF manual released and published on website</td>
<td></td>
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<tr>
<td>3.1.1.7</td>
<td>1st round of LGSF applications received</td>
<td></td>
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<tr>
<td>3.1.1.8</td>
<td>Revise LGSF criteria for eligibility and selection</td>
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<tr>
<td>3.1.1.9</td>
<td>Criteria and documents for 2nd CfP submitted for approval</td>
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<tr>
<td>3.1.1.10</td>
<td>CfP review and approval (by DLGH &amp; ECD)</td>
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<tr>
<td>3.1.1.11</td>
<td>2nd CfP for LGSF approved and advertised</td>
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<td>3.1.1.12</td>
<td>Revise the LGSF manual for applicants</td>
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<tr>
<td>3.1.1.13</td>
<td>Revised LGSF manual released and published on website</td>
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<td>3.1.1.14</td>
<td>2nd round of LGSF applications received</td>
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<td></td>
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<tr>
<td>3.1.1.15</td>
<td>Revise LGSF criteria for eligibility and selection</td>
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<td>3.1.1.16</td>
<td>Criteria and documents for 3rd CfP submitted for approval</td>
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<td>3.1.1.17</td>
<td>CfP review and approval (by DLGH &amp; ECD)</td>
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<tr>
<td>3.1.1.18</td>
<td>3rd CfP for LGSF approved and advertised</td>
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<td></td>
<td></td>
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<td>3.1.1.19</td>
<td>Revise the LGSF manual for applicants</td>
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<td>3.1.1.20</td>
<td>Revised LGSF manual released and published on website</td>
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<td>3.1.1.21</td>
<td>3rd round of LGSF applications received</td>
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<td>3.1.2</td>
<td>Select and contract subprojects under LGSF</td>
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<td>3.1.2.1</td>
<td>Identify, appoint &amp; train members of LGSF Evaluation Committee</td>
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<td>3.1.2.2</td>
<td>Check compliance of applications received</td>
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<td>3.1.2.3</td>
<td>Assess &amp; evaluate proposals</td>
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<td>3.1.2.4</td>
<td>Recommendations for grant award formulated</td>
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<td>3.1.2.5</td>
<td>Endorse recommendations of Evaluation Committee (DLGH &amp; ECD)</td>
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<td>3.1.2.6</td>
<td>Notify award of grants</td>
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<td>3.1.2.7</td>
<td>Prepare and issue contracts</td>
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<td>3.1.2.8</td>
<td>Confirm set up of separate bank accounts for each beneficiary</td>
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<td>3.1.2.9</td>
<td>Confirm VAT registration for each beneficiary</td>
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<td>3.1.2.10</td>
<td>1st round of LGSF contracts signed</td>
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<td>3.1.2.11</td>
<td>Assess &amp; evaluate 2nd round of proposals</td>
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<td>Award, prepare and sign 2nd round of grant contracts</td>
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<td>Assess &amp; evaluate 3rd round of proposals</td>
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<td>Award, prepare and sign 3rd round of grant contracts</td>
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<td>3.1.3</td>
<td>Supervise and monitor implementation of LGSF projects</td>
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<td>Supervise &amp; monitor implementation of 1st round of LGSF projects</td>
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<td>3.1.3.2</td>
<td>1st round of LGSF projects concluded &amp; budget disbursed</td>
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<td>3.1.3.3</td>
<td>Supervise &amp; monitor implementation of 2nd round of LGSF projects</td>
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<td>3.1.3.5</td>
<td>Supervise &amp; monitor implementation of 3rd round of LGSF projects</td>
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<td>3.1.3.6</td>
<td>3rd round of LGSF projects concluded &amp; budget disbursed</td>
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<td>3.1.3.7</td>
<td>Issue advance, interim and final payments to LGSF beneficiaries</td>
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<td>3.1.3.8</td>
<td>Receive and approve reject LGSF project progress reports</td>
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<td>3.1.3.9</td>
<td>Conduct progress meeting with beneficiaries</td>
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<td>3.1.3.10</td>
<td>Monitor visit and review granted projects</td>
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<td>3.1.3.11</td>
<td>LGSF grant projects implemented in compliance with PRAG</td>
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**Prepared by Kaiser Associates Economic Development Practice**
ANNEXURE E: Relevant statutes and documents

2. The Municipal Systems Act 32 of 2000
3. The Municipal Finance Management Act 56 of 2003
4. Generally Accepted Accounting Practices
7. The Development Facilitation Act of 1995
8. The Property Rates Act 6 of 2004
9. The Intergovernmental Fiscal Review, 2003/4
10. The audit of local and district municipal capacity in Limpopo performed by National Treasury in 2004
11. The Demarcation Board’s 2002 Limpopo municipal capacity assessment