
GENERAL NOTICE

NOTICE 563 OF 2014

DEPARTMENT OF TRADE AND INDUSTRY

I, Dr Rob Davies, Minister of Trade and Industry hereby;

- (a) Issue for public comment, the **APPLICATION FOR DESIGNATION OF TSHIAME PROJECT AS AN IDZ AT MALUTI-A-PHOFUNG, HARRISMITH, FREE STATE PROVINCE, and THE GRANTING OF THE OPERATOR PERMIT**, and
- (b) Invite interested persons and the public to submit comments on the application for designation within 30 days of this publication.

Interested parties are requested to access the details of this application on the **dti's website (www.thedti.gov.za)**, and respond to the email address provided. Alternately, interested parties can forward their comments in writing for the attention of Mr Kenneth Mojela of the **dti**, or Mr Mzwakhe Shoba of **Free State Development Corporation**, at the following addresses:

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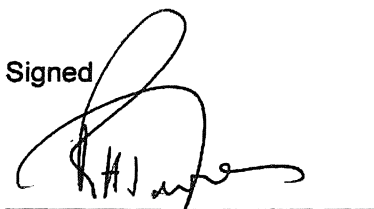
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Dr Rob Davies, (MP)
Minister of Trade & Industry
Date: 30/6/14

TIDZ

Tshiame Industrial
Development Zone

APPLICATION FOR IDZ DESIGNATION AND OPERATOR PERMIT FOR THE TSHIAME INDUSTRIAL DEVELOPMENT ZONE

INFORMATION DOCUMENT FOR GOVERNMENT GAZETTE NOTICE

Notice of Public Consultation Period

SUBMITTED ON BEHALF OF THE FREE STATE DEVELOPMENT CORPORATION (THE FDC)

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1. INTRODUCTION

1.1 Purpose of this Document

This document provides an introduction to the proposed Tshiame Industrial Development Zone (TIDZ). A summarised background is given of the development and a synopsis of important characteristics of the proposed development. This is done for the purposes of informing the required public consultative period, upon the gazetting of a notice of an application for Designation and for an Operator's Permit for an IDZ being considered by the Minister of Trade and Industry, as described in the applicable regulations of the Legislative Framework.

1.2 Legislative Framework

The IDZ programme was gazetted in 1999 as an incentive programme under the Manufacturing Development Act (no. 187 of 1993). The regulations for the IDZ programme were promulgated in 2000, published under regulation gazette number 1224 of 1 December 2000, as amended by government notice number R1065, published in the Government gazette number 29320 of 27 October 2006. The overall regulatory framework for the IDZ programme comprises of the following legislation:

- The Manufacturing Development Act (MDA), Act 87 of 1993 as amended.
- The IDZ Regulations and subsequent amendments.
- Section 21A of the Customs and Excise Act, and relevant provisions of the Value Added Tax.
- Report No. 14 promulgated by the International Trade Administration Commission in accordance with the Customs and Excise Act.

The IDZ programme is aimed at promoting the competitiveness of South African enterprises through leveraging investment in export-oriented manufacturing industries and promoting the competitiveness of South African firms through the export of value-added manufactured products. The key objectives and rationale behind the IDZ programme are:

- To position South African-based manufacturing industries to meet the challenges of globalisation
- To attract advanced foreign production and technology methods in order to gain experience in global manufacturing and production networks through attracting foreign direct investment (FDI).

- To develop linkages between local and international-based industries.
- To provide world class infrastructure and proximity to international ports to offer low cost and efficient logistics services.
- To provide services to facilitate overcoming administrative hurdles for investors securing permits required for their operations.

1.3 Structure of this Document

In accordance with the purpose stated previously, this document has been compiled on the basis of the application at hand, namely for the Free State Development Corporation (the FDC) to develop an IDZ in Tshiame. The intention is for the FDC to form the ***Tshiame IDZ Licensing Company (Pty) Ltd (the TIDZ LiCo)*** which in turn would service the needs of the public and private stakeholders that were identified.

Hence the content herein is focused on the target markets of the TIDZ and the proposed service offerings of the TIDZ. The content is derived from the various feasibility and business planning processes that were conducted by the FDC especially at the identified sub-project level of detail. Please see Chapter 2 for the background to the overall Tshiame Development and the sub-projects.

1.4 Vision and Mission for the TIDZ

The ***Vision*** for the TIDZ is the creation of a functional, self-sustaining industrial entity that would be allowed to grow into the envisaged Maluti-A-Phofung (MAP) Special Economic Zone (SEZ) thereby supporting the overall vision, mission and strategic objectives of the Free State Government for the Region

The ***Mission*** of the TIDZ is the creation of a functional, self-sustaining industrial entity with international and domestic public and private investors that contribute to economic development and sustainable socio-economic impact at the Tshiame, local, district and provincial levels in the Free State Province

1.5 Strategic Objectives for the TIDZ

A successful IDZ within the Tshiame region will be achieved by working towards the following strategic objectives:

- Consolidate and/or eliminate inefficient and bureaucratic administration processes.

- Focus initially on the establishment of a single cluster within the IDZ, i.e. the automotive and retail garment cluster within the selected Tshiame precincts and surrounding areas.
- Provide supporting infrastructure that differentiates the Cluster in Tshiame from competitors e.g. transport and logistics, land availability, utilities etc.
- Provide efficient free IDZ and customs controlled area operations and processes that facilitate timeous and cost-effective operations for both international and domestic investors.
- Provide a single point-of-contact for investors to address their concerns and queries.

1.6 Synopsis of the Value Proposition

The value proposition of the TIDZ is to provide a competitive and highly efficient industrial mixed sector entity that positions itself as the leading location for its targeted sector activities along the SIP2 Corridor in response to investor demand. This value proposition will be achieved through the depth and level of infrastructure support (e.g. transport & logistics); facilitation of the ease of doing business through the provision of One-Stop-Shops and a Freezone; a competitive and transparent market environment; and timeous and efficient response to investors' market requirements

1.7 SWOT Analysis

To contextualise the vision, mission and strategic goals and objectives of the TIDZ the initial focus would be on the establishment of a single mixed cluster within the IDZ, i.e. the automotive and retail garment cluster within the selected Tshiame precincts and surrounding areas. The required supporting infrastructure and utility services need to be provided to differentiate Tshiame from any competitors e.g. transport and logistics, accessibility by road and rail, land availability, etc.

In order for the FDC and the TIDZ to achieve the latter it is crucial to understand where the IDZ's strengths and weaknesses may reside, what threats it may face, and overall, what the opportunities would be.

The high-level SWOT analysis (below) of the TIDZ is inextricably linked to the analysis of the strengths, weaknesses, threats and opportunities that the FDC is experiencing.

The SWOT analysis of the TIDZ and the FDC is imperative in considering external conditions that result in the development of the relevant and appropriate strategic responses.

Table 1: SWOT Analysis of the TIDZ

<p>Strengths</p> <ul style="list-style-type: none"> • Tshiame is situated along the SIP2 corridor route • Road and rail link between Durban (KZN) and Johannesburg (Gauteng) • Land for development of TIDZ belongs to the Free State Government (the FDC) • Existing infrastructure and activity surrounding the intended IDZ location • Road transport currently uses the Harrismith area as a stop-over between KZN and Gauteng • Relative geographical proximity to most of the provinces in RSA and Lesotho • Relative proximity to food processing raw materials and farming communities • Excellent ease of doing business relative to other African countries • Strong private sector investor interest in servicing the supplier, intermediary and end-market • Strong supporting industries and regional linkages, including strong transport and logistics network • Human capital – strong recruitment and training potential of local community • FDC has infrastructure across the Province and at Tshiame to implement the FDC mandate and the TIDZ mandate • FDC has a fully functional structure at Board, executive management and staff level • FDC has an improved audit outcome with revenue generation from properties, bulk services, SMME and home loans 	<p>Weakness</p> <ul style="list-style-type: none"> • Long lead time of capital projects due to budgetary issues and complexities surrounding CAPEX investment • South Africa currently has state-of-the-art IDZ, cluster and industrial park development experience that is not being leveraged • Limited qualified and skilled labor that meets specific standards within the targeted sectors • Underdeveloped physical infrastructure: road and rail • High rail tariffs • Environmentally sensitive area • Vague and limited financial/fiscal incentives • Perceived complacency and bureaucracy • FDC is experiencing non-payment by tenants at 1 of 3 lettable units and is experiencing poor collection of debt which is now handed to attorneys • FDC properties are generally in poor physical condition
<p>Threats</p> <ul style="list-style-type: none"> • The De Beers Bypass that would divert CAPEX for road and rail improvement away from Harrismith Gateway / Tshiame Area • Neighbouring provinces developing their own infrastructure, services and value proposition to attract interest and investment away from Tshiame • Poor ICT (including Broadband infrastructure) • Pilot studies with interested parties not realising will delay signing of lease and investment agreements with interested parties • Fixation of politicians to rather develop the Harrismith Gateway as opposed to the Tshiame IDZ • FDC is experiencing poor economic conditions • FDC is expecting increased competition from other investment destinations • FDC is prone to negative reputational risk if product and service delivery performance should decrease 	<p>Opportunities</p> <ul style="list-style-type: none"> • Development of strong industrial capabilities and logistics relative to other parts of RSA and Southern Africa • Develop Tshiame into a state of the art food processing hub providing value-adding beneficiation and food processing • Future improvements to the rail infrastructure by TFR • Service a highly lucrative market through the existing infrastructure base in South Africa • Profitability and viability of projects and IDZ • Stimulate regional and national economic activity • Increase local employment through skills development and skills transfer initiatives • Strengthen South Africa's industrial capabilities • Develop ICT (including Broadband) infrastructure • FDC is experiencing increased revenue from its products and services • FDC is partnering with strategic stakeholders to improve delivery of FDC products and services • FDC is experiencing improved stakeholder confidence in FDC capability

The ***Strategic Responses*** that the FDC identified in its Corporate Plan for the period 2014/15 to 2016/17 are valid for the development and roll-out of the Tshiame IDZ:

- Implement revenue generating strategies;
- Improve the public levels of awareness of FDC products and services;
- Leverage FDC infrastructure to improve service delivery;
- Build capability to deliver the FDC business model;
- Establish partnerships that bridge FDC skills deficiencies;
- Utilize systems, policies and procedures, in service delivery;
- Improve FDC compliance with governance imperatives;
- Build mutually beneficial stakeholder relations;
- Increase stakeholder awareness of FDC products and services;
- Rebuild FDC brand and reputation
- Improve FDC service delivery efficiency;
- Improve levels of compliance to governance imperatives
- Implementing targeted investment promotion and facilitation strategy

The FDC is mandated through its Act as an “implementing agent” to execute projects on behalf of the Free State Provincial Government. Project developments such as the Tshiame IDZ will be undertaken as a subsidiary company in its portfolio. The FDC will participate in establishing the Tshiame IDZ to ensure that it is viably governed and managed properly.

1.8 The Goal, Aim and Objectives of the Tshiame IDZ

The Goal and Aim of the Tshiame IDZ support the overall Free State Government goals and objectives for the Province:

Goal of the Tshiame IDZ

To help contribute to the long-term survival of the Eastern Free State Region and the selected target sectors of the Economy

Aim of the Tshiame IDZ

To group different technologies, services and service providers for various customers in the selected target sectors of the economy, in order to achieve synergies and optimisation of processes through economies of scale, thereby helping to contribute to the long-term survival of the Eastern Free State Region and the selected target sectors of the Economy

Overall Objective of the Tshiame IDZ

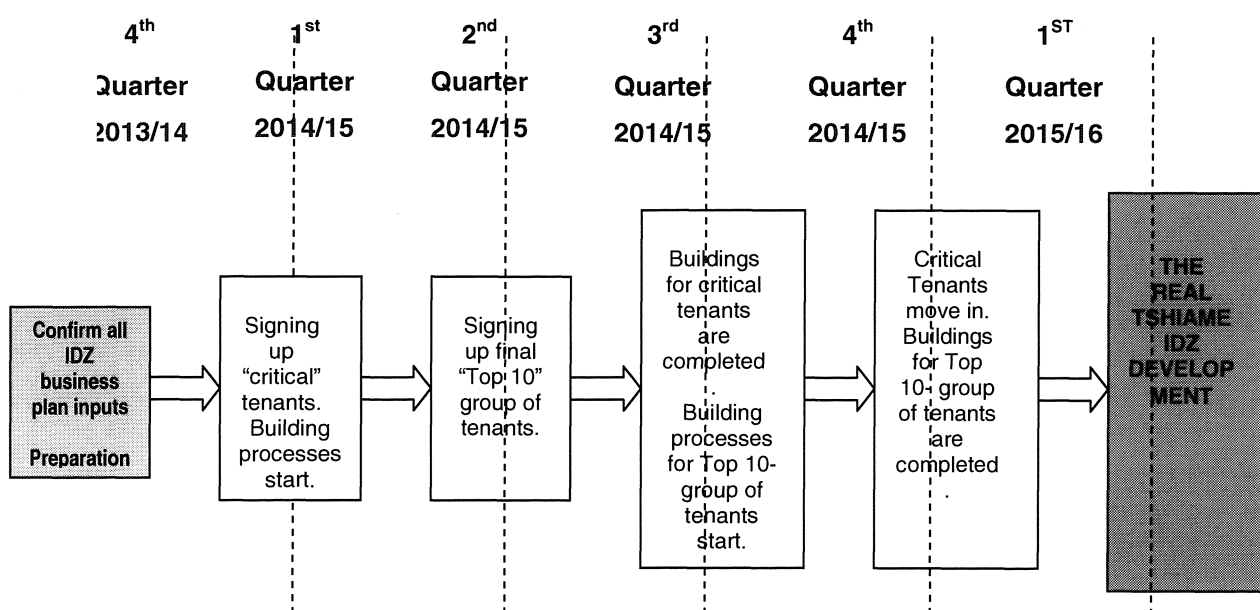
To ensure success and sustainability of the Development by getting the right mix of tenants and service providers to commit to lease and related service-use agreements within the timeframe required to ensure an optimal return on investment to all public and private investors

The following ***specific measurable objectives*** are being targeted:

- OBJECTIVE 1:** To have signed agreements between FDC and at least **two (2) first-mover interested parties** for space & services for 3-5-8 years (**June 2014**)
- OBJECTIVE 2:** To have signed agreements with **four of the Top 10** Sector Suppliers / Service Providers / Role Players of selected sectors (**September 2014**)
- OBJECTIVE 3:** To have signed agreements with all Essential Services Suppliers / Service Providers, necessary for providing logistical and ancillary services (**November 2014**)
- OBJECTIVE 4:** To continuously sign agreements with any other interested tenant, who approaches the FDC for space, but does not fall within the primary target group for the first 18 months of the development (**Continuously**)

In order to achieve the goal, aim and objectives of the IDZ the roll-out strategy for the IDZ is based on the following ***milestones*** that are in line with the IDZ's financial model, all of which would be leading to real time commencing of IDZ activities in the second semester of calendar year 2014.

Figure 1: Milestones and Roll-out Plan



2. BACKGROUND

2.1 The Tshiame Development

The Tshiame area has been acknowledged as an important resource for the sustainable growth and development of the Eastern Free State Region ever since the days when previous governments (pre-1994) developed the Industriqwa geographical area.

After the elections of April 2009, a new national administration was appointed to manage the transport mandate for South Africa for the next five years. A new set of environmental challenges, transport and logistics imperatives and corridor developments have presented themselves requiring urgent responses and application of developmental principles across South Africa.

Challenges that were identified included the following which were also applicable to the Free State Province and particularly to the then intended Harrismith Logistics Hub (the HLH) Development:

- The global economic and environmental dynamics
- New policy and service delivery thrust
- A balanced modal and spatial development agenda
- Better coordination between the core department, provincial and local transport and logistics administrations, agencies and other strategic delivery agents
- Mobilization of social stakeholders into a shared transport and logistics agenda to reverse a sense of marginalization and exclusion
- Identification of alternative sources of funding and investments

The development of the initial Harrismith Logistics Hub was earmarked to be located in Hardustria in Harrismith. Whilst the latter was in process the then Free State Investment Promotion Agency (FIPA) identified the need for the development of an Agri-Processing Park at Tshiame which would form part of the Maluti-A-Phofung (MAP) Local Municipality which in turn forms part of the Thabo Mofutsanyana District Municipality which is a Category C municipality located in the Eastern Free State province. The RFP for the development of the Tshiame Area in and around IndustriQwa, Harrismith, created the opportunity for the establishment of various downstream and upstream automotive, as well as agriculture and food processing (value added) initiatives. Interested potential industry partners were to be engaged with in anticipation of the intended

involvement of the stated opportunities. Initial interest was indeed shown by various operator and processing companies in the development of Short to Medium Term Food Processing Sub-Projects (such as Messrs Dowmont, Willards and Simba as the forerunners of medium to longer term sub-projects) including:

- Chips / Crisps, Cereals and Grits Processing Plants, and
- A Fresh Produce Hub with links to emerging and established farmers, as well as co-operatives

As the initial Tshiame development gained momentum a further need was identified for the development of a Vehicle Distribution Centre and a Distribution Centre initially for parts and accessories for the automotive industry. Later this was extended across various industries. Interest was shown by various operator companies in the development of Short to Medium term VDC and DC Sub-Projects (as the forerunners of medium to longer term sub-projects). These development opportunities included:

- A Vehicle Distribution Centre (a VDC) with mainly automotive OEM interest that was registered
- A Distribution Centre (a DC), including the requirements of retail industry role players and including the requirements of the automotive OEMs for cross docking and parts' distribution)
- A first phase container terminal developed together with the FDC, TFR and the identified preferred DC and VDC operators (including a company from the retail garment), as well as the potential DC clients from the retail sector
- Another short term cross-docking logistics and transport facility for a leading local OEM in the Automotive Industry utilizing existing buildings, infrastructure and Services available in Tshiame itself albeit with refurbishing of facilities as may be agreed to
- The medium to longer term development of a cross-docking facility that would be integrated with the intended rail-based container development complete with bonded areas and integrated multi-nodal transport and logistics characteristics

During the business planning process of the Tshiame Development a 30 year view was taken in discussions between the CEO of the FDC and the appointed Project Management and Project Technical Team to include the following:

- To take a 30 year multi-phased master plan approach for the Tshiame Development in preparing the Tshiame Urban Design

- To prepare Guideline Building and Construction Specifications for the Tshiame Development
- To engage with the Maluti-A-Phofung (MaP) municipal authorities amongst others, to determine and confirm the status of surveys and assessments for the envisaged Tshiame Development area
- To engage with the FDC technical and procurement process officials
- To prepare inputs to the FDC's tender process documentation
- To hand over the outcomes of the 30 year development view process to the to-be-appointed Project Management and Technical Team, including the FDC's Principal Agent

The approach that was applied in considering the business planning options that were identified for the Tshiame Industrial and Related Development were along identified time periods:

- **Short Term Development Approach:**
 - ✓ Appropriate infrastructure development
 - ✓ Basic and specific type of facilities and services
 - ✓ Development intentions and standards
 - ✓ Principles of first mover advantage and capturing of low hanging fruits
- **Medium to Longer Term Development Approach:**
 - ✓ Higher order type of facilities and services
 - ✓ Principles of economies of scale

The latter would lead the Tshiame Development to the broader Medium to Longer Term development of the Tshiame Area that would require extended bulk services and other infrastructure development (estimated at an amount of at least ca **R600m**), more rail infrastructure upgrades (which could amount to ca **R800m of the overall rail-based container terminal development need of R1.6bn which is to be informed by the current Forward Loading (FEL) Process**) and more development CAPEX for food processing (to include development of fruit juice and deciduous fruit processing, more decentralised farmer support, collection and distribution networks for fruits and vegetables) and other developments (to include the yellow goods, electronic products and pharmaceutical value chains) at minimum ca **R85m**. This amount will be reviewed upwards once more feasibility and business planning processes are conclude with interested operators, developers, funders, tenants and users of facilities.

2.2 Activities leading to the Application

As was described in this report the Free State Government conducted numerous feasibility and business planning engagements. Increasingly, attention turned to the possibility of establishing the Maluti-A-Phofung (MAP) SEZ as a mechanism that could co-ordinate planning and implementation of mega infrastructure investments, and serve to attract or crowd-in complementary investments boosting processing, manufacturing and industrial development in the region.

The Tshiame Project Management Unit (the PMU) considered elements of the phased and multi-sectoral industrial development:

- An overall assessment of the Tshiame development area
- A local market profile for the targeted sectors
- An industrial market analysis for the target sectors
- A physical environment assessment of the Tshiame Area together with the FDC's technical personnel
- A best practice analysis focused on relevant case studies for the Tshiame Development
- A pre-feasibility and business planning assessment for each of the identified business development opportunities with identified interested parties
- All along the Transnet Freight Rail (TFR) Front End Loading (FEL) process was progressing supported by the FDC and its PMU for Tshiame.

The FDC made a submission to the dti via the offices of the Premier of the Free State Government and the Chair Person of the FDC Board for the feasibility Study and Business Planning process for the envisaged MAP SEZ to be embarked upon. The dti appointed Mott Macdonald PDNA (MMPDNA) to conduct the MAP SEZ feasibility and business planning process. The dti also made resources available to support the FDC in the roll-out of the intended SEZ. The Tshiame PMU was tasked to support the team of SEZ consultants in the process that is expected to be completed in the second part of the 2014 calendar year.

By April 2014 the MAP SEZ pre-feasibility study outcome recommended that the SEZ feasibility process be continued as part of the overall business planning process.

Drawbacks of following the SEZ approach were identified in a meeting with the SEZ Implementation Unit where it was suggested that the FDC submit an application for the Tshiame Development to be designated as an IDZ:

- The SEZ Bill was not written into legislation by April 2014
- The outcomes of the dti's SEZ business planning process for MAP (Tshiame) would not be known before end of June 2014
- The drawbacks implied that the FDC would not be in a position to access any funding soon for the initial infrastructure and bulk services development at MAP (Tshiame) as well as for specific sector facility development

The FDC made a further submission to the dti via the offices of the Premier of the Free State Government and the Chair Person of the FDC Board for the application of the designation of Tshiame as an IDZ to be considered. A submission to the Manufacturing Development Board (MDB) followed upon which further submissions were made. The MDB recommended to the Minister of the dti that the FDC's application for the designation of the Tshiame IDZ to be progressed with under specific conditions that were to be met.

2.3 The Application for Designation and Operator's Permit

The MDB's conditions for the processing of the designation of the Tshiame IDZ supported the implementation and roll-out of the Tshiame IDZ on a phased business development concept basis. Therefore, the concept of the development of the Tshiame IDZ as a phased, multi-sectoral development is promoted in this document based on the core business planning documentation that exists for each of the Tshiame Sub-Project developments referred to in this report. This report and the documents for each of the sub-projects serve as the core documents for the Application for Designation and Operator's Permit in terms of the applicable legislation).

The initial focus of the suggested TIDZ development is for the required infrastructure and utility services' to be upgraded and improved to allow for selected sector involvement to take place. The following sectors are targeted:

- (1) The **pilot study** at the Tshiame Brownfields' facilities with the interested parties in the retail garment sector and the resultant **roll-out** to Greenfields' facilities
- (2) The **pilot study** at the Tshiame Brownfields' facilities in the cross-docking operations with an automotive industry Original Equipment Manufacturer (an OEM) and the **resultant** roll-out to Greenfields' facilities

3. ROLE OF FDC AND THE TSHIAME IDZ LICENSING COMPANY

3.1 Definition

The FDC will act as the implementing vehicle of the TIDZ. The intention is for the FDC to form the ***Tshiame IDZ Licencing Company (Pty) Ltd*** which is to be established as the TIDZ LiCo as a subsidiary under the FDC.

The Free State Development Corporation (FDC) was established by the Free State Development Corporation Act 6 of 1995 for the purpose of promoting urban and rural development in the Province, with special emphasis on small business development. The FDC is a Schedule 3, Part D entity governed by a duly appointed Board of Directors which is the Accounting Authority of the FDC, in terms of the FDC Act, and as contemplated in Section 49(2) (a) of the PFMA.

The Free State Development Corporation Amendment Act 5 of 2010 stipulates the main objects of the FDC as:

- “the promotion and development of small, medium and micro enterprises;
- to assist Free State based small, medium and micro enterprises with funding by advancing loans;
- to assist Free State based small, medium and micro enterprises in financial distress;
- to initiate economic empowerment projects that would benefit the Free State;
- to promote investment in and trade with the Province and to identify, analyse, publicise and market investment and trade opportunities in the provincial economy, in such manner and by such means as the Board may from time to time deem appropriate; and
- to undertake, at the request of the responsible member or other stakeholders or agencies, activities for which necessary resources can be raised and which, in the opinion of the Board will contribute to the strengthening of the provincial economy”

In addition to its founding Act, the FDC’s functions and operations are also governed by a range of legislative instruments and policy frameworks and guidelines such as the:

- Constitution of the Republic of South Africa Act 108 of 1996
- Public Finance Management Act 1 of 1999
- Treasury Regulations for departments, trading entities, constitutional institutions and public entities (March 2005)

- Companies Act 71 of 2008 (Replaces Act 61 of 1973)
- National Credit Act 34 of 2005
- National Small Enterprise Act 102 of 1996
- Protocol on Corporate Governance in State Owned Entities · Framework for Managing Performance Information
- Public Sector Risk Management Framework · Policy Framework for Government-wide Monitoring and Evaluation
- King Report on Governance for South Africa 2009 (King III)

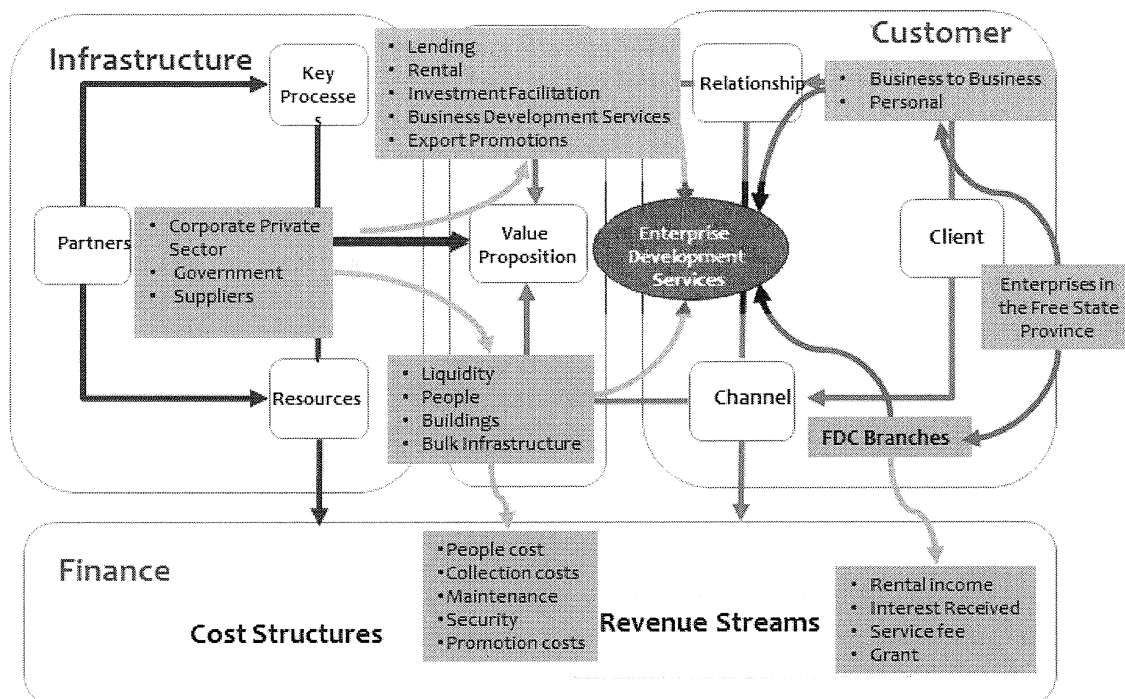
The FDC is also subject to a wide array of legislation in the areas of labour, environmental protection, corporate law, procurement, consumer protection, ICT etc. The role of the FDC regarding the TIDZ will be defined in the Memorandum of Incorporation (MOI) of the TIDZ LiCo where its day-to-day responsibilities would include the promotion, management and marketing of the Industrial Development Zone, including but not limited to:

- Managing contracts with one or more interested parties (also as operators);
- Controlling the relevant land; and
- Facilitating infrastructure investment, as well as ancillary activities that may be required for the establishment of the IDZ.
- Attracting investment through infrastructure provisioning, land and lease options, and facilitating the ease of doing business

FDC's Business Model indicates how the organisation delivers value to its customers, creates value through its internal structures, how FDC sources revenue, and how FDC utilises its resources in line with the value proposition. The model explains how the organisation delivers value to its customers using its infrastructure to create the value. It further identifies the revenue streams that emanate from the customers and the related costs from the infrastructure. The model also gives a high level view of the organisation operations.

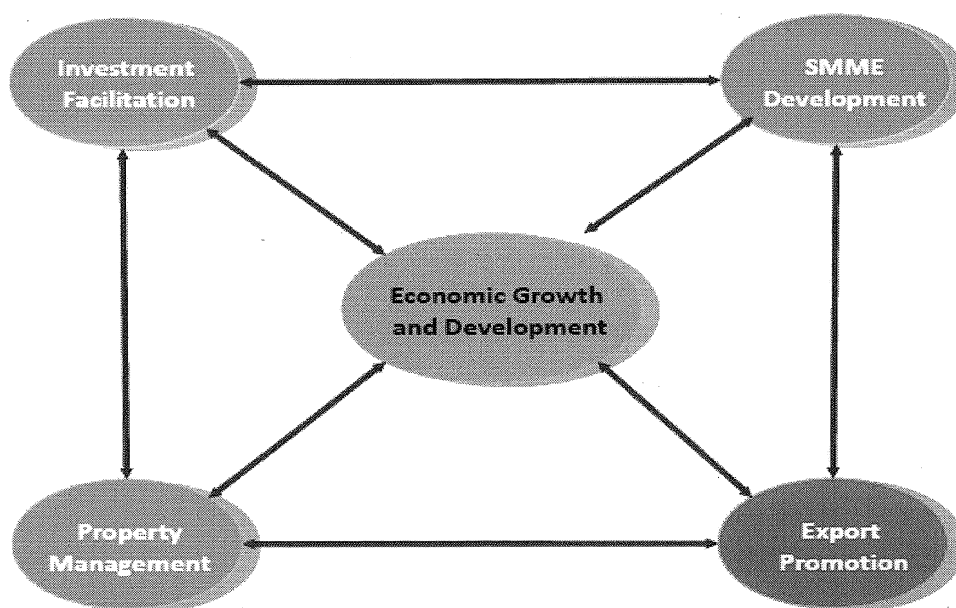
The model is made up of four components i.e. the Value proposition at the centre – a service offering for customers; the customer section – describes the nature of the relationship with the customer and the channels for service delivery; the infrastructure sections - a description of key business processes, resources required, and partners value creation; and the finance section – a description of the revenue sources and associated costs.

Figure 2: The FDC's Business Model



The FDC Service Offering is divided into five lines of business viz: SMMEs, Investment and Trade Facilitation, Industrial and Commercial Properties, Bulk Services, and Residential Property Development. Each of the lines of services delivers products and services. All the lines of business are underpinned by developmental credit assessment. The lines of business are:

Figure 3: The FDC Lines of Business



3.2 TIDZ LiCo Governance

The structure of the TIDZ LiCo Board takes cognisance of both the legal constraints placed on the FDC and the Companies Act. The provisions of the Companies Act pertaining to the directors and governance will be adopted within the MOI of the TIDZ LiCo, except where the restrictions on the FDC has express stipulations regulating matters pertaining to the Board.

The Board of Directors may be comprised of sixteen directors of which twelve will be appointed by the shareholder/s (fulfilling the requirements of section 68(1) of the Companies Act). In appointing the directors, the shareholder/s will be governed by a voting agreement in terms of which directors will be appointed:

- Three (3) directors by the MAP Municipality
- One (1) director by the Thabo Mofutsanyana District Municipality
- Two (2) directors by FDC
- Two (2) directors by the Free State Government and
- Four (4) directors by National Government (of which one shall be appointed by the IDC and one by National Treasury).
- In addition to the above, four (4) non-voting directors shall be appointed in an advisory capacity after consultation with the relevant stakeholders

The Free State Development Corporation (the FDC) will act as the TIDZ Licencing Company (TIDZ LiCo) as the initial implementing vehicle of the TIDZ:

- The FDC with offices that are established in Tshiame, as the TIDZ LiCo, will be responsible for the promotion, management and marketing of the IDZ in Tshiame.
- A TIDZ Licensing Company, a TIDZ LiCo, is being formed as a subsidiary under the FDC and as a subsidiary, TIDZ LiCo automatically is a public entity defined by the Public Finance Management Act 1 of 1999.
- Co-funding allowances for operational funding for the FDC and then the TIDZ LiCo should be made from the National, Provincial, District and Local levels of Government until the TIDZ LiCo becomes an independent entity.
- The TIDZ LiCo will be responsible for the delivery of internal infrastructure in the IDZ, land purchase/lease costs, etc. Sources of revenue for the TIDZ LiCo are to be derived from rental and fee agreements with respective tenants, operators and/or enterprises active in the TIDZ.

- The Department of Trade and Industry (the dti) should consider utilizing the SEZ fund envisaged in the SEZ Bill to finance approved site servicing, bulk infrastructure provision and business development of the IDZ, once Designation has been awarded.

3.3 Relationship with Government Partners

The TIDZ LiCo is to be an entirely independent entity with its own infrastructure, offices, and financial and human resources. It is envisioned that the TIDZ LiCo will operate as an independent company and would initially report to FDC as a shareholder and incorporating entity as governed by legislation.

It is not intended for the TIDZ LiCo to have any dependency on FDC, the Local and District Municipal Authorities, the Provincial Government or **the dti**. Consequent to the TIDZ LiCo being an independent entity, no resource or asset sharing with its government partners would take place.

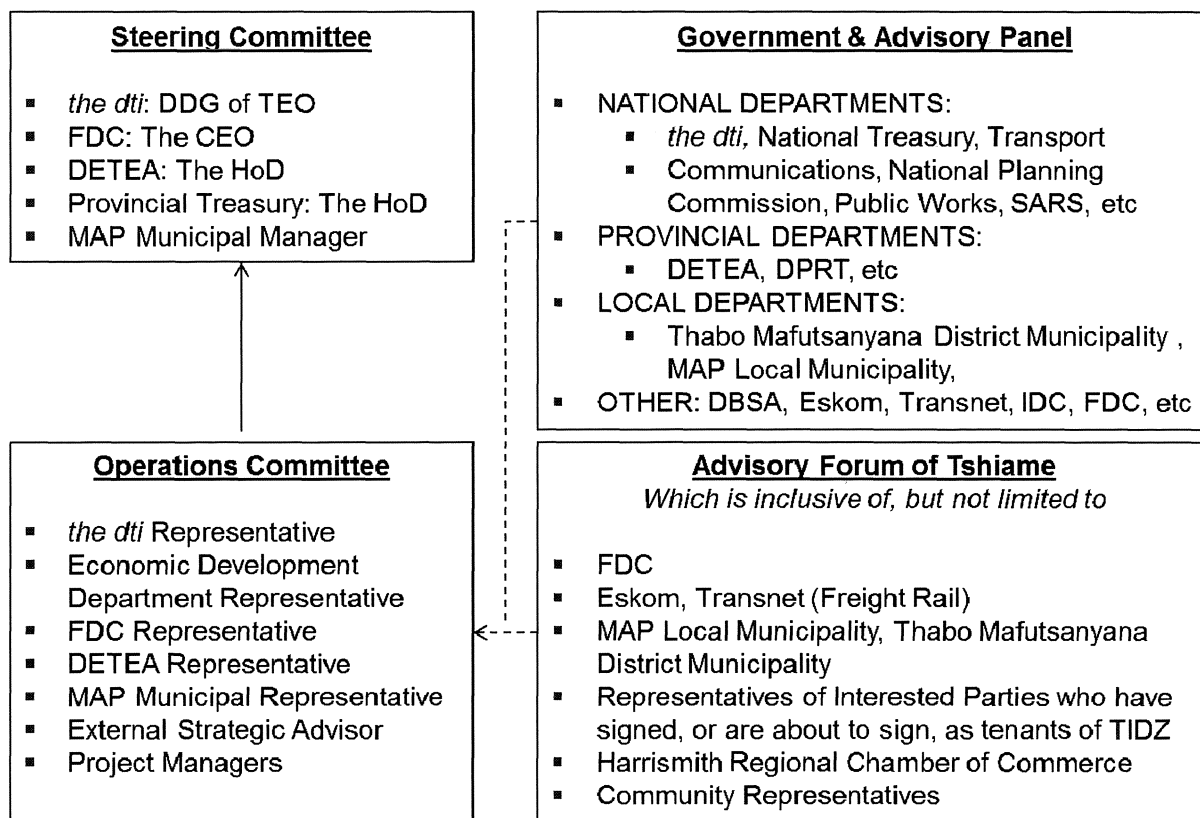
However, in the establishing phase of the TIDZ, the TIDZ LiCo would outsource its corporate services to FDC, as the latter is the incorporating entity and the TIDZ LiCo is a subsidiary entity thereof. Thus, as the TIDZ LiCo is set up and becomes operational it would make use of FDC's corporate services after which certain resources would be migrated into the LiCo. FDC will make provision for the use of these services and resource migration in the 2014/15 financial year. Funding allowances need to be made from the Municipal and Provincial Government for co-funding of the operational expenses until the TIDZ LiCo becomes an independent entity.

The TIDZ is a Partnership between all spheres of Government

- The dti, the Free State Government via DETEA, the FDC, the Thabo Mofutsanyana District Municipality and the Maluti-A-Phofung (MAP) Local Municipality
- The TIDZ is an anchor project in the future MAP SEZ and is part of SIP2, within the Infrastructure Plan of the President's Infrastructure Coordinating Commission (PICC).
- The TIDZ is a demand-led infrastructure project, identified within the Free State Province as an Eastern Cape Catalyst Project, meeting the requirements of the Strategic Objectives of economic growth and job creation for the region.
- The TIDZ has been identified as a mechanism to deliver on the MAP Municipality's resolution to stimulate sustainable Local Economic Development and employment opportunities within the municipal area.

The overall relationship between the Tshiame IDZ and its identified stakeholders and partners is shown below:

Figure 4: Relationship between Stakeholders and Partners



The nature and the extent of involvement by all parties will be reviewed by the FDC in setting up and deploying the Licensing Company (the LiCo).

4. RATIONALE FOR COMMERCIAL SUSTAINABILITY

The Free State Province has had ambitions to actively participate in the South African economy by using its location and its historical contribution through farming. The province borders seven of South Africa's nine Provinces, whilst also sharing a border with Lesotho. Furthermore, the Province lies with critical freight and passenger corridors supported by both rail and road.

4.1 Key Market research

The N1 that connects the North part namely Gauteng to the Cape provinces runs through the heart of Mangaung the Free State's capital city. This corridor connects cargo from the Port of Cape Town and the highly dense Gauteng city of Johannesburg and South Africa's capital city of Pretoria. The N3 which connects Gauteng to the port of Durban runs through Harrismith, which often seen as the midpoint between the two provinces.

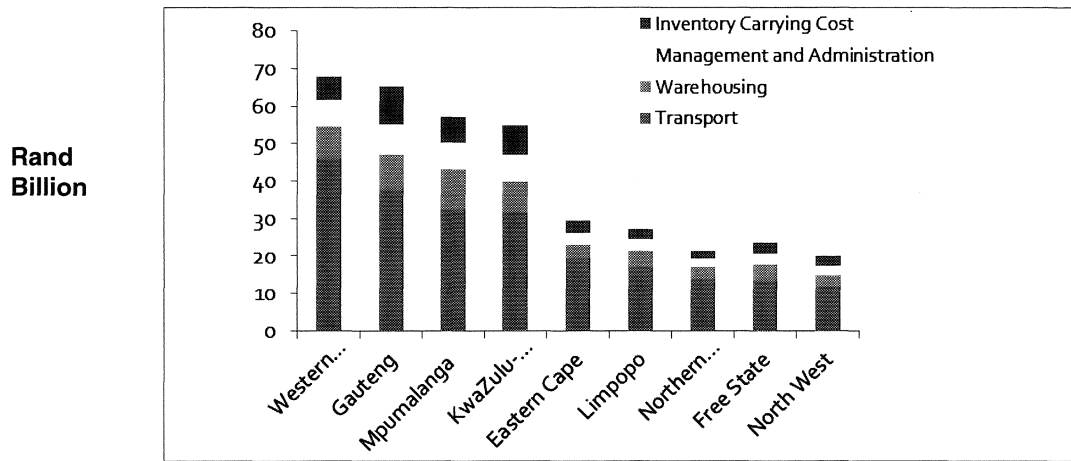
Leveraging its location, the Province took a decision to establish a rail based Intermodal terminal comprising of mainly a container terminal, a Vehicle Distribution Centre, warehouse facilities and different product processing facilities at Tshiame. This facility will seek to offer opportunities for the automotive industry, Fast Moving Consumer Goods (FMCG), the agricultural industry and other sectors of the economy to improve their supply chain, by providing a cost effective and efficient multi-sectoral and integrated logistics hub.

Considering that the Durban port handles transshipment, Durban destined and hinterland destined cargo. At least 80% of the hinterland destined cargo ends up in Gauteng. Some of this cargo arrives in Gauteng for further repacking, value adds and cross docking activities. It is then distributed to other parts of the country. Similarly, the cargo that is destined for Durban is mainly accommodated in the local warehouses for further processing.

According to the 9th SOL the Western Cape incurs the highest transportation costs, this is mainly due to the possibility that the majority of the import cargo that is destined to this province is discharged in Durban, processed within Durban warehouse or even send through to Gauteng, and later transported to the Western Cape.

The figure below indicates the logistics cost incurred by provinces for transportation, warehousing, management and administration and inventory carrying costs (based on 2011 statistics).

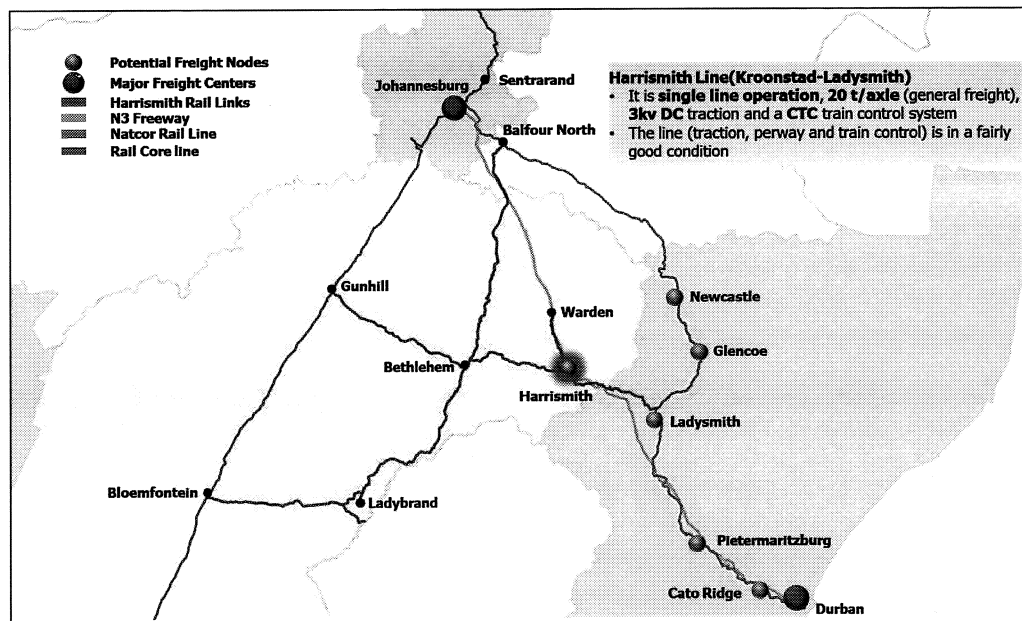
Figure 5: Logistics Costs per Province broken down into Cost Components for 2011



Source: 9th SOL for South Africa

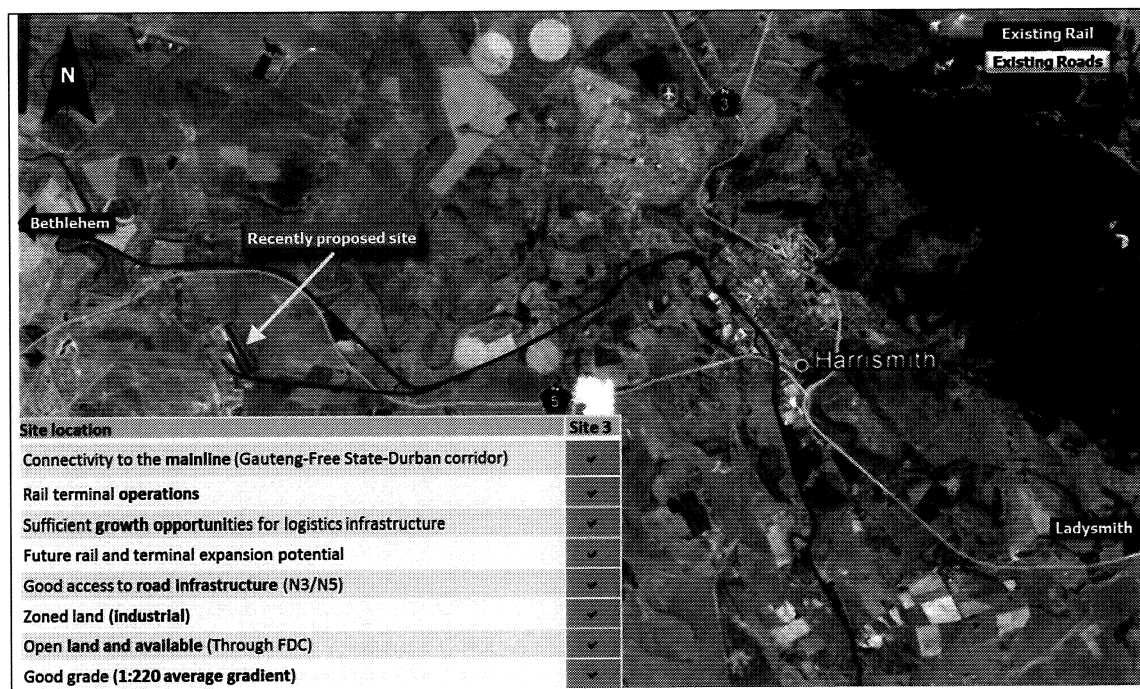
The FDC considers the cargo processed in Durban and Gauteng warehouses as the low hanging fruit for the Tshiame Development. This is mainly due to the fact that warehouse facilities are more expensive in Durban and Johannesburg compared to what Tshiame would intend charging. Tshiame seeks to exploit its distance from the major hubs together with its low labour and warehousing costs. The relative positioning of Johannesburg, Harrismith and Durban is shown:

Figure 6: The Harrismith (Kroonstad) Line



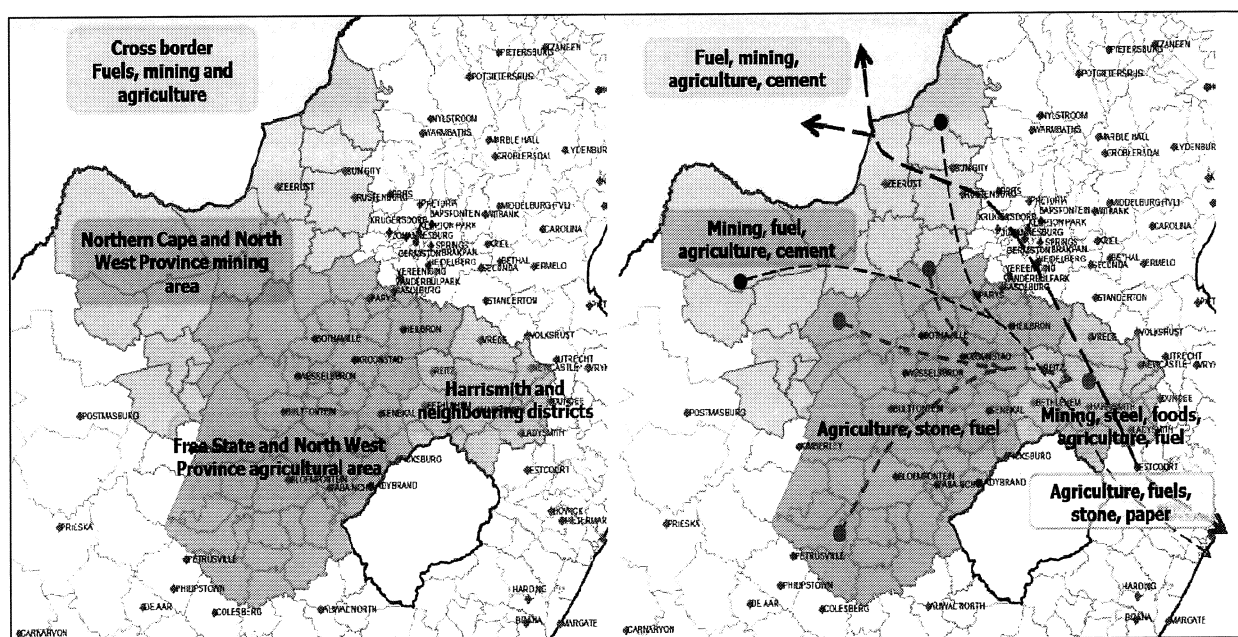
The proposed site location for the Tshiame rail-based container terminal is shown:

Figure 7: Recently Preferred Hub Site at Tshiame



The following maps graphically show the potential areas which could provide volumes to a Harrismith hub. This is broken down into key market areas, based on the region and the type of production. Volumes are shown in totals for 2012 and for 2042.

Figure 8: Potential Market Areas & Types of Production



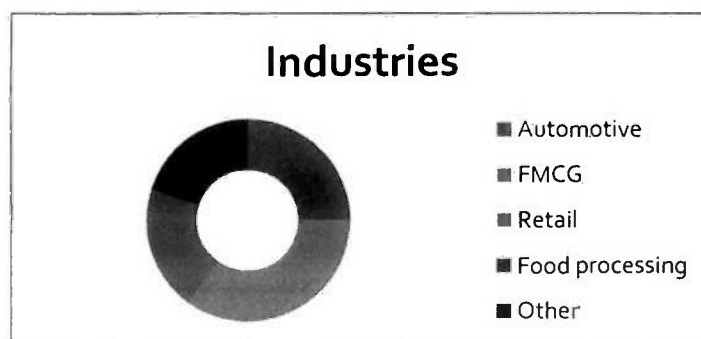
The Tshiame Development includes warehousing facilities and an intended Vehicle Distribution Centre (a VDC), a cross-docking facility as well as general parts and accessory facilities for the automotive industry. The development of the Tshiame Logistics and Transport Model was in fact considered based on stated warehousing cost data as shown in the table below where the Durban Port warehousing cost was shown as being the highest at R60/m².

Table 2: Warehouse Costs per m²

	Warehouse cost R/m²
DURBAN PORTS	60.00
JOHANNESBURG	31.39
CAPE TOWN	48.00

The industries targeted (refer the figure below) by the Tshiame Development (Fast Moving Consumer Goods or FMCG, automotive and retail) are seen as being in line with the extent of volumes carried by the warehousing development areas shown above.

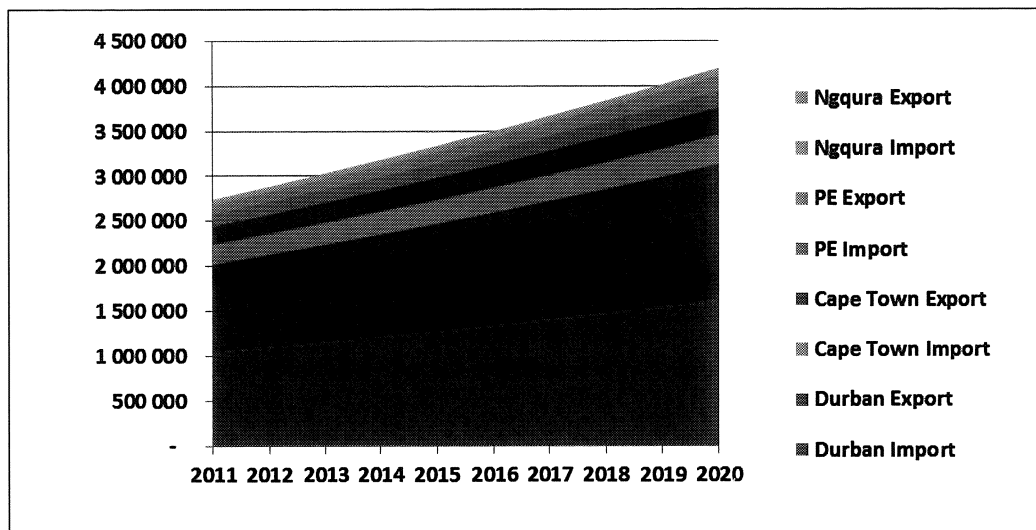
Figure 9: Targeted Industries



4.2 Projected Volumes

The projected ten (10) year volumes for each of the identified ports that were used in developing the Tshiame Transport and Logistics Model are shown in the figure below.

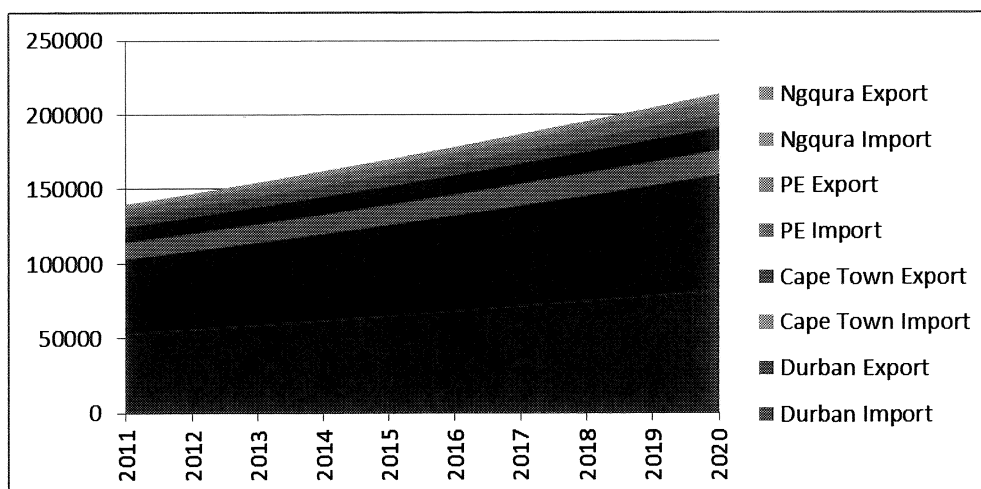
Figure 10: Ten (10) Year Port Volume Projections



The projected ten (10) year budget volumes for Tshiame to and from each of the identified ports that were used in developing the Tshiame Transport and Logistics Model are shown in the figure below. In developing the Tshiame Transport and Logistics Model the following assumptions are made:

- Of the 35% of all imported TEU's that remain in Durban Tshiame would be taking 40% of that to the Tshiame IDZ
- The above would imply that 30 000 TEU's will be picking up to some 200 000 TEU's, including exports via the Durban Port

Figure 11: Tshiame Budget Volume Projections



4.3 Development Opportunities

The Development of the Tshiame Industrial Development Zone (the Tshiame IDZ), as part of the future envisaged Maluti-A-Phofung (MAP) Special Economic Zone (SEZ), includes infrastructure, bulk services and specific sector development across various sectors of the economy to include at least the following:

- Infrastructure and bulk services development:
 - Refurbishment and expansion of external and internal rail and road infrastructure
 - Refurbishment and expansion of bulk utility services
- Automotive and General Industry Development
 - Vehicle Distribution Centre (VDC) Development for the automotive industry
 - Distribution Centre (DC) Development for the garment retail industry and the automotive industry
 - Development of a rail-based container terminal for general and automotive sector support
- Agro-processing Development
 - Chips / Crisps and Cereal Plant development
 - Fresh Produce Hub, Collection and Distribution development
 - Grits Plant Development
- New Opportunities being evaluated:
 - Yellow Goods Manufacturing Plant and Distribution;
 - Electronic Products Manufacturing; and
 - Pharmaceutical products Manufacture
- Future Tshiame development opportunities
 - SIP2 corridor development opportunities
 - Special Economic Zone opportunities

4.4 The Rail-based Container Development

The establishment of the Rail-based Container Development creates the opportunity for the establishment of various downstream and upstream transport, logistics, as well as sector establishment and growth initiatives. Interested potential industry partners have been engaged with in anticipation of the intended involvement of the stated opportunities. To date, the Tshiame Development Project Team and the Transnet Freight Rail (TFR) Team have identified opportunities for development during the next phases of the Terminal Development:

- High-speed Rail and other Corridor Developments;

- Bulk Handling Developments;
- Containerisation Developments;
- Passenger and Commuter Rail Developments;
- Development of Sectors of the Economy; and
- Integration with other local, provincial and national initiatives;

The Container Terminal Development at Tshiame will link with the Automotive and General Industry Developments (the VDC and the DC) and over the longer term the Food Processing and other Sector Developments:

- The Container Terminal development is jointly developed by the FDC, TFR and interested industry partners;
- The Terminal development is based on proven best practice; and
- The Terminal will be available to the entire MAP SEZ, including the Harrismith Gateway Development and other geographical areas in relative close proximity.

4.5 The Tshiame IDZ

The TIDZ will be a Multi-Sector processing, manufacturing, engineering, logistics services, transport and logistics complex, serving the needs of the upstream value-adding, beneficiation, processing and production service companies operating across sectors and geographical areas in Southern Africa.

- The TIDZ will include transport, logistics, repairs & maintenance, processing & fabrication activities
- The IDZ designation affords the TIDZ the ability to offer a contiguous customs-free area, i.e. a “freezone” as an internationally understood concept

4.6 Growth Drivers of the Multi-Sector and Cluster Market

The cluster sector in Southern Africa is characterized by a number of trends and drivers that are stimulating the growth thereof. Below is a summary of these growth drivers.

4.6.1 Increasing Industrial Park Development

Given the expected and real increase in local and global demand for products and services across all sectors of the economy new technology, improved processing methods, more effective warehousing, as well as improved transport and logistics’ services are causing industrial park and cluster development to become more sophisticated and yet more cost-effective.

4.6.2 Stringent Health and Safety Requirements

The sectors that are targeted by the TIDZ are increasingly safer places to work, despite it often involving harsh environments, heavy equipment, hazardous materials, high temperatures and high pressure equipment. This is reflected by a declining rate of illnesses and injuries – a rate estimated to be much lower than that for the private sector as a whole. In continuously striving for improved occupational health and safety standards employer and organized labour are driven by the need to develop, regulate and accredit only the most stringent of health and safety procedures amongst industry incumbents. This results in rigorous monitoring and maintenance of the equipment used in the sectors and at industrial park and cluster developments

4.6.3 High cost of downtime

The cost implication of road and rail transport and logistics not delivering when they should is extremely high. The opportunity costs include the penalties charged to operators for a delivery that has not taken place as well as the damage caused to goodwill in an industry where reputation is paramount. As a result, before each contract commences, the road and rail equipment go through a thorough overhaul to ensure that they will be operational for the full tenure of the contract with minimal disruptions. Further, should a road vehicle and a piece of processing equipment show signs of possible problems nothing is spared in the maintenance and repair work to ensure its undisrupted and efficient production.

4.6.4 Pressure from insurance companies

Insurance companies are particularly cognisant of the high-risk nature of the road transport and logistics industry. As such, they are not willing to insure an operator that has not been afforded proper hours of rest between loads, proving that health and safety standards have been met. In order to meet these requirements, substantial maintenance and repair work and proper resting facilities are required for the various road transport and logistics vehicles.

4.7 The Competitive Landscape

This section provides a brief overview of the major industrial park and IDZ developments that would be regarded as opposition to the development of the IDZ in Tshiame. However, in most instances, these developments are not appropriately positioned, do not have the requisite infrastructure as stated by the TIDZ interested parties and would struggle to attract the necessary parties to compete directly with the TIDZ.

4.7.1 The East London IDZ

The East London Industrial Development Zone (ELIDZ) was formed “to help manufacturers and service providers to become globally competitive by creating an environment conducive to manufacturing and exporting. This is achieved through its development and efficient management of a modern, purpose built industrial location which offers investing industries a streamlined business environment enhanced by a range of supporting services”.

The overall design that was accepted for the ELIDZ was based on a concept modelled on global best practice adapted for South African circumstances providing cluster synergies, outsourcing of logistic processes, shared services and infrastructure, supply chain benefits, as well as allowing tenants to focus on their core production and quality rather than on services and logistical processes.

The main logistics benefits of an IDZ is to have a common logistic facility close to suppliers that are shared between various customers operated by selected logistic service providers for inbound, outbound, containerization, production logistics, internal ‘milk runs’ and warehousing logistics processes.

The opportunity for the establishment of an Automotive Industry Original Equipment Manufacturer (an OEM) in the ELIDZ was built on the potential value proposition that exists for both the South African, regional (Eastern Cape) and local (East London area), the developer (the ELIDZ), the identified OEM (or even OEMs) and identified suppliers and service providers.

By setting up an Automotive Supplier Park as part of the IDZ, opportunities are continually explored to attract the manufacturers of automotive parts and components thereby creating a number of jobs and enterprise opportunities in downstream supply businesses that the construction and operation of the ASP will bring into the east London area. Opportunities exist in a diverse group of other sectors including the building and construction, aerospace, marine, general services and others.

The investment incentives for an interested party to be established in the ELIDZ as well as the short to medium term capital expenditure have to be addressed to ensure short,

medium and long term sustainability for the establishment of an interested party in the ELIDZ.

The IDZ properties include a number of IDZ-specific functional features, including specialized access control entrances to the facilities, security infrastructure and transport and administration buildings.

The results and benefits that the ELIDZ experienced can be summarised:

- Positioning of the ELIDZ to attract industry role players from across industries and across countries
- Value adding attraction of interested parties to locate in and / or relocate to the LIDZ and the area
- The set-up of a well-functioning and sustainable SMME and -BBEE support structure as well as skills development in the workforce of the IDZ tenants.

Increasingly world class environments are being developed in South Africa across multiple sectors by setting up the required infrastructure

- Grouping of different technologies, services & service providers for various customers to achieve synergies and optimization through economies of scale
- Selection of logistic service partners with international core competence and current infrastructure operating in the whole supply chain from national and international suppliers to the end customer
- Supplier development by relocating to new facilities
- Development of a world class consolidated logistic centre in the park with various logistic offerings to customers inside and outside of the park

A view of the entrance to the ELIDZ:

Figure 12: *Entrance to the ELIDZ*



4.7.2 *The Rosslyn Automotive Supplier Park (the ASP)*

The Blue IQ Initiative of the Gauteng Provincial Government realised the need to bring in 'world class' logistics concepts into the Province in order to make the local automotive sector more globally competitive as well as to attract foreign direct investment. The Rosslyn industrial area, located in northern Pretoria was identified as the prime location due to its close proximity to the OEMs (Original Equipment Manufacturers) which are based in Rosslyn.

The AIDC, another Blue IQ Initiative, was tasked with the complete Project Management of setting up the Industrial Park, which encompassed:

- Close interaction, collaboration and consultation with the Automotive Sector
- The Project Management scope of:
 - Undertaking the feasibility study and business planning
 - Global 'fact finding mission' for benchmarking the Park was conducted
 - Close liaising with local, provincial and national government
 - All development phases, including construction/implementation and commissioning
- The Technical Team management:
- Close interaction, collaboration and consultation withal role players involved with the operationalization of the ASP:
 - Management and control of the development, construction and commissioning process
 - Operations and other functional area Management
 - Logistics and Non-Logistical services Management

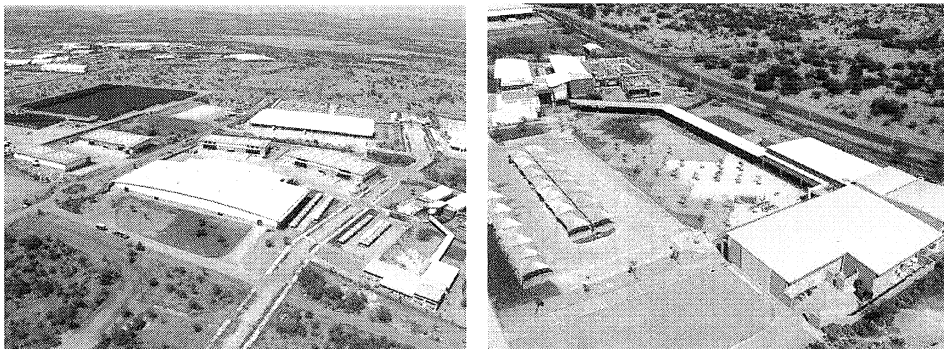
The Rosslyn Supplier Park improves the production environment and services, lowers costs and exploits the latest advances and logistics in the automotive manufacturing chain. The Automotive Supplier Park (ASP) concept is seen as a role model in South Africa, with further projects currently under development in the Eastern Cape and has already realised significant regional and national macro-economic benefits.

This Supplier Park offers:

- Customised production buildings and a full service package on a world class standard for component manufacturers and assemblers to the automotive industry
- Office space service providers related to the automotive industry
- A common logistics centre and optimised logistics infrastructure. Core to the development is an integrated logistics concept with world-class logistics service providers as development partners
- A Central Hub incorporating offices and facilities such as conferencing and video conferencing, a restaurant, retail centre and other facilities for use of tenants and external users

A helicopter view of the ASP Development:

Figure 13: *Helicopter View of the Rosslyn Supplier Park*



4.7.3 Summary of competitive landscape

While the various IDZs and Industrial Parks offer components of the infrastructure and services necessary for the TIDZ Development, there is limited structure and coordination from these facilities in providing a holistic and efficient offering to compete with the proposed TIDZ.









This is far from ideal for an industry where every non-operational hour lost is extremely expensive considering the opportunity costs and penalties alone across the sector value chain. Thus, a centralized provider of IDZ and industrial park developments along with the coordination of the supply chain requirements are vital for the TIDZ's targeted sectors going forward. Tshiame is ideally positioned to fulfill this role.

5. TIDZ SECTORS AND SERVICE OFFERING

5.1 Sectors Targeted by the TIDZ

The primary target audience for the TIDZ are role players within the following selected and targeted sectors of the economy:

Table 3: TIDZ: High-level Overview of Sectors targeted by the TIDZ

 Automotive <ul style="list-style-type: none"> - 1st-tier Suppliers - 2nd-tier Suppliers - Related industries - Warehousing - VDC and P&A Centre - Farming implements 	 Agro-Processing <ul style="list-style-type: none"> - Bio-fuels - Forestry & Wood - Dairy Products - Meats, Vegetables - Wool, hides - Hive developments - Animal Feeds, hay 	 Pharmaceuticals <ul style="list-style-type: none"> - Generics - Cosmetics - Natural Remedies - Medicinal plants (herbs) 	 ICT & BPO <ul style="list-style-type: none"> - Call Centers - Software engineering - Programming - Computer & cell phone - Data Centre - Broadband
 Food-Processing <ul style="list-style-type: none"> - Fruit Concentrates - Meat Processing - Packaging - Potatoes - Apples 	 Logistics <ul style="list-style-type: none"> - Logistic Service Providers - Warehousing facilities - Distribution Centers 	 Aqua-Culture <ul style="list-style-type: none"> - Fish Farming - Fish processing - Recreational (dam) - Staple food 	 General Processing <ul style="list-style-type: none"> - Light industries - Plastic Conversion - Assembly / fabrication - Electrical / electronics - Appliances - Garments, textiles

5.2 Interaction with Interested Parties

The development and design of the intended facilities at Tshiame before the IDZ approach was undertaken were based on the identification and approach of, and engagement with specific parties on an on-going basis.

The full record of interaction with each interested party that the FDC and the PMU have engaged with is available upon request but includes the following:

- Engagement with national food processing stakeholders, including Dowmont, Willards, Simba, etc.

- Engagement with Automotive Industry Original Equipment Manufacturers, the so called OEMs who are affiliated to NAAMSA (i.e. BMW, Nissan, Toyota, Volkswagen, General Motors, etc.)
- Engagement with a leading Automotive Industry OEM for Cross-docking opportunities and a leading garment retail distribution centre services company
- Discussions with a leading pharmaceuticals processing company
- Preparation for interaction with a leading household retail product company
- Engagement with Logistics and Transport Service Providers
- Interaction with Transnet Freight Rail (TFR) re their Front End Loading (FEL) Process for the intended multi-nodal rail-based container terminal (rail + road)
- Engagements with a Chinese Delegation, a Netherlands' delegation and other potential investors and participants in the IDZ development

5.3 Services Offered by the TIDZ

Services to be offered in / by the TIDZ will be influenced by the needs and expectations of tenants and users of facilities:

Table 4: TIDZ: High-level Overview of Activities: Year 1 to 5

<u>Maintenance & Repair Services</u> <ul style="list-style-type: none"> <input type="checkbox"/> Maintenance, repair, upgrade & conversion of transport & logistics' vehicles & processing equipment <input type="checkbox"/> Repairs of parts and structures 	<u>General Services</u> <ul style="list-style-type: none"> <input type="checkbox"/> Marketing and administrative functions <input type="checkbox"/> Broadband, BPO and other ICT services <input type="checkbox"/> Inspection and certification <input type="checkbox"/> Emerging business development
<u>Communal Services</u> <ul style="list-style-type: none"> <input type="checkbox"/> Property development <input type="checkbox"/> Customs clearance <input type="checkbox"/> Security, medical, food and retail <input type="checkbox"/> Health, hygiene, safety and environmental services <input type="checkbox"/> Utilities, waste management <input type="checkbox"/> Road and rail access 	<u>Supply Services</u> <ul style="list-style-type: none"> <input type="checkbox"/> Bonded warehousing and storage <input type="checkbox"/> Logistics and transport sourcing and forwarding (road and rail with access to sea and air) <input type="checkbox"/> Lifting, stacking and moving <input type="checkbox"/> Project and engineering services <input type="checkbox"/> Fuel Bunkering

5.4 TIDZ's CAPEX Investment

Of the six identified Tshiame CAPEX Sub-Projects the first "#1: Utility Services, perimeter fencing & gatehouse, roads" is regarded as being in immediate need of CAPEX for initial work that is to be undertaken in support for the other sub-projects. The immediate infrastructure and services' considerations that were used to determine the budgeting for sub-project #1 was discussed in a

document that was submitted to the DG of the dti in a report dated 1 November 2013. The implementation roll-out considerations for the Tshiame Development and the specific Infrastructure and Services' requirements were addressed in the mentioned report.

In the report it was stated that the need for appropriate infrastructure and bulk utility services was (and is) driven by the historic, present and future expected requirements. The national, provincial and local authorities need to conduct joint project planning investigations to determine the nature, extent, CAPEX cost, OPEX cost to operate the infrastructure and services. During the initial phased development of the business plans for the envisaged infrastructure and bulk service developments the FDC would take the lead role and involve the Project Management Unit and the Professional Team in proceedings.

Various opportunities were being addressed by the FDC and the Project Management Team as at the time of preparation of the submission to the DG:

- **Focused areas of development are being targeted:**
 - Infrastructure, services and property requirements were being identified
 - The development's value-adding process opportunities were being identified
 - Local/Regional service and product production, processing and supplier needs were being identified
 - The development was to be undertaken given the background of completed and in process strategic, socio-economic and other developmental investigations and studies, including Local Economic Development (LED) imperatives
- **Relevant issues for the development that were investigated:**
 - Availability of infrastructure, property and services were determined
 - The need for value-added warehousing and movement of commodities was identified
 - Identification and engagement of potential interested parties as operator tenants and users of facilities and services are being concluded

The identified CAPEX costing for sub-project #1 (for Infrastructure and Services) was stated as being **R600m** of which **R168m** was required initially to ensure that preparation was made timeously for the development of the other sub-projects:

- Initially at least R44m was required for the perimeter fence and another R24m for the gatehouse developments totalling R68m
- Initially at least R100m was required for the bulk utility supply and roads

The other sub-projects that were identified as part of the Tshiame IDZ development each have a project charter and a project budget to include the following:

• General Distribution Centre (DC) - bonded warehouse	R149.2 million
• Vehicle Distribution Centre	R153.7 million
• Food Processing plants & Fresh Produce Hub	R167.3 million
• <u>Other projects (Pharma, Yellow goods, electronics)</u>	<u>R 85.0 million</u>
TOTAL	R555.2 million

It is envisaged that the Front End Loading (FEL) Process of Transnet Freight Rail will confirm the actual extent of the required CAPEX investment for the first phase of the rail-based container terminal development currently estimated to be ca R1.6bn. The CAPEX requirements for any other future sub-projects will be determined based on the requirements of interested parties.

The business planning for the Tshiame IDZ operator, detailing capital expenditure, operational costs (for the first year under the FDC) and income was developed to include the institutional arrangements underpinning the intended operator activities.

5.5 The TIDZ Financial Model

A financial model as developed to include the initial expected capital projects that are required to establish the Tshiame IDZ. The model is available for discussion purposes. The model was used to prepare the following financial statements:

- Key assumptions that were used in the financial model are the following:
 - An inflation rate of 6% on costs
 - An interest rate of 9% (and 4% for interest received)
 - An annual increase in rental fees of 10%.
 - Building finance long term loan repayment terms of 20 years
 - Building Investment of R660m (Start-up CAPEX of R440m + expansion CAPEX of R180m)
 - TIDZ equity finance of R3m and a Tshiame IDZ contribution of R160m
- Tshiame Financial Statements:
 - Income and cash flow statements indicating working capital and loans
 - Statements of assets and liabilities, as well as rental income

6. BROAD ECONOMIC ANALYSIS

6.1 Current Local Economic Outlook

Tshiame is a critical resource for the sustainable growth and development of the Eastern Free State. The existing surrounding infrastructure and utility services have already encouraged the development of light industries that contribute positively to local employment and regional and national GDP

6.2 Financial Projections

The peak funding requirement of TIDZ is based on a phased investment profile of the infrastructure and buildings for the various tenants.

Table 5: Cash Flow Investment

	Year 0	Year 1	Year 2
Cash flow investment	R 131 521 935	R 558 676 000	R 623 200 000

Income is derived from tenant rentals and is projected to grow as space is taken up in the buildings. The projected income over the project lifetime of 20 years is R2.64 billion. This will make a direct contribution to the regional GDP of the district. Expenses of R319 million will be incurred locally and contribute to support direct employment and service providers from the immediate vicinity. Key assumptions used in the financial model are an inflation rate of 6% on costs and an annual increase in rental fees of 10%.

The TIDZ initial funding requirement is projected at R738 million and shareholders' contribution is projected at 20%. The funding is to be injected as follows:

- Shareholders' funds:
 - R3 million as equity; and
 - R160 million as a shareholders' loan with no fixed repayment terms and non-interest bearing
- Loan finance:
 - R440 million as a long term loan with 20 year repayment schedule at an interest rate of 10% in the first year fully drawn; and
 - R135 million as a long term loan with 20 year repayment schedule at an interest rate of 10% per annum fully drawn in the second year.

Peak funding requirement is reached in the 7th year of operations when net cash flow becomes positive. The above funds are sufficient to carry the TIDZ through the initial years until the project breaks even.

The project is deemed financially viable and provides the shareholders with a return on investment (IRR) of 17% over the project period with no terminal value.

The Revenue Potential for the TIDZ is expected to be much bigger than the revenue from tenants leasing facilities provided that the first tenants have a positive experience in doing business at the IDZ:

- The first of the six Tshiame sub-projects, the development of infrastructure and utility services, is not expected to generate direct revenue as it is aimed at setting up the development potential for the other identified sub projects and other future facility developments for interested parties
- Any potential revenue generated by the sixth sub-project, the rail-based container terminal, will be determined during the TFR FEL process
- Potential revenue from future specific sub-project will be used to inform the socio-economic viability of such projects

6.3 Macro-Economic Impact

The project will have major macroeconomic benefits for the province that will be determined once the first agreements with interested parties are signed and once a full-blown socio-economic impact study is conducted and concluded. It will generate income, create jobs, grow the tax base and be a net generator of foreign exchange.

- The impact on the following criteria will be confirmed:
 - **Taxes:** Total tax generation, which is the sum of the direct and indirect taxes
 - **Indirect Household Income:** The project would also contribute to indirect household income.
 - **Foreign Exchange:** Foreign direct investment is expected from interested international companies. The nature of some business at the IDZ is import intensive and as a result funds would also flow out of the country. In addition, international companies would repatriate some of their profits. On balance, inflows are expected to exceed outflows and the project should therefore be a net generator of foreign exchange

- **Direct & indirect jobs created:** The proposed IDZ would create two types of jobs. The first are the direct jobs that would be created in the IDZ. These are jobs in infrastructure development and the new businesses. The second are the so called indirect jobs resulting from multiplier effects of capital costs, operating spending and increased business activity. Some of the indirect jobs would occur in the province and the balance would occur elsewhere in the country:
 - Total direct and indirect jobs in Tshiame are expected to be sustained to the level of 10 planning jobs, 1 300 jobs during the construction phase, and 1 422 permanent jobs from ongoing operations are envisaged in the initial phase as a result of the IDZ.
 - The estimated employment is given per sub-project and summarised in the Close-Out Report Executive Summary from which the following table is extracted:

Table 6: Estimated Employment

Project Name	Stage	Job Type			Gender		Youth	Persons With Disabilities
		Skilled	Semi-Skilled	Unskilled	Male	Female		
Tshiame food processing park, collection and distribution network Total Jobs: 9 276 = 300 construction jobs + 1 122 perm and seasonal jobs + 7 854 indirect jobs	Planning: 10	10	0	0	9	1	0	0
	Construction: 300	60	120	120	180	120	75	10
	Operations: 1122	224	448	448	672	448	281	34
Tshiame vehicle manufacturing and distribution centre (VDC) and Distribution Centre (DC): Total Jobs: 3400 = 1000 construction jobs + 300 perm and seasonal jobs + 2100 indirect jobs	Planning	10	0	0	9	1	0	0
	Construction	200	400	400	600	400	250	30
	Operations	60	120	120	180	120	75	10
Tshiame first and subsequent phase Container Terminal Development: Total Jobs: Tba	Planning	To be confirmed						
	Construction							
	Operations							
Tshiame upgrading of External Roads & Intersection linking to the N5 Total Jobs: Tba	Planning	To be confirmed						
	Construction							
	Operations							

7. RISK MANAGEMENT AND CHALLENGES

7.1 Overall Conclusions

In the development of the Business Plan for Designation of the TIDZ, the FDC (on behalf of the TIDZ LiCo) is cognisant that there are risks involved as part of the official process of establishing the TIDZ. These risks are both inherent within the establishment of such a Cluster (e.g. environmental, lease agreements, funding, etc.) and external (e.g. current policy framework, incentives etc.)

A risk framework has been developed in consultation with key stakeholders and is cognisant of both pre-designation and post-designation risks. External risks have also been discussed separately from the project risks that the TIDZ LiCo has direct influence over. In all cases the probability of the risk occurring, as well as its impact on the project has been discussed. Lastly, control measures and/or response to the risk have been discussed.

The risk management framework has been developed to measure the impact, probability and control measures or response to the risks associated with establishing a successful Tshiame IDZ

7.2 Challenges

- The availability of properly skilled persons to service the industry
 - TIDZ is engaging with interested parties at a local, provincial and national level to develop short- to long-term solutions to suit the demands of the local communities and meet international best practises.
- Developing local SMMEs to maximise the local benefits of the project
 - The TIDZ as well as public and private institutions will work towards developing SMMEs and B-BBEE institutions and attracting such to Tshiame and the surrounding areas.

8. STRATEGIC MARKETING

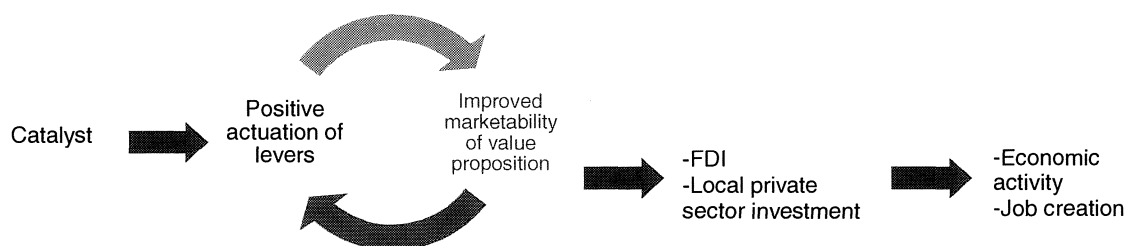
8.1 Key Leverage Points and Recommendations

The Public Sector has a direct influence on a number of marketing variables affecting the success of the TIDZ. Of these variables, the following four have been defined as key leverage points or success factors:

- Ease of doing business
- Infrastructure and Utility Services
- Input costs
- Operational excellence

There is a vital positive feedback loop that needs to be managed to ensure the success of the TIDZ through these levers.

Figure 14: Actuation of Levers to Catalyze the IDZ



The cycle needs a focused catalytic contribution from multiple public sector entities to create the necessary facilitating conditions and initiate the process. The facilitating conditions need to be created by positively actuating the appropriate levers.

A number of concrete recommendations for marketing the TIDZ are made based upon the key direct leverage points available to the public sector as listed above. Lastly, the importance of stakeholder collaboration in the strategic marketing of the TIDZ is an overriding mechanism to accentuate these levers.

8.2 Ease of Doing Business

From a strategic marketing point of view, ease of doing business is considered one of the most important components of the marketable value proposition. The IDZ will offer a One-

Stop Shop (OSS) approach to potential investors, aimed at streamlining the processes associated with investing in South Africa. This is expected to have a direct, positive impact in reducing the cost, time taken and ease of setting up operations within the TIDZ and operating within the IDZ going forwards.

Both in the short term (leading up to designation of the IDZ) and in the long term, it is critical that the IDZ system and process should enhance the investor experience and not stall investment already under progress. Apart from the more general aspects discussed under stakeholder collaboration, public sector can enhance the investor experience by supporting an OSS approach in the following practical ways:

8.3 Input Costs

The TIDZ will offer investors substantial fiscal and other financial benefits which will stimulate gains that exceed the cost of establishing and maintaining the IDZ.

- As per current benchmarked IDZ offerings, companies operating within an IDZ are relieved from import duties on manufacturing assets, any goods for storage, and raw materials used in the manufacturing process; as well as export duties on goods exported from the Customs Control Area (CCA) to a foreign country; and any services rendered to the IDZ or within the IDZ.
- As per the current benchmarked IDZ offerings, no VAT is payable when goods are imported for use in the construction and maintenance of the infrastructure of a CCA; on land acquired or rented; on electricity and water supplied to the IDZ operator or CCA enterprise located in the CCA
- Reduced corporate and income tax rates could be charged to companies operating within the IDZ (as a Cluster). Income tax reductions can reduce the cost of labour and stimulate job creation
- Double taxation agreements to avoid companies and individuals being double-charged in different jurisdictions are of particular importance to international investors and foreign workers
- The national 'Headquarter Tax Regime', which encourages firms to operate from a headquarter base in South Africa is an added incentive, but not only relevant to IDZ's
- Favourable lease/rental agreements for public sector-funded infrastructure could increase the potential profitability of operations, thereby generating investor interest. Examples include port fees, lease of land, and cost of utilities

8.4 Infrastructure and Utility Services

Targeted public sector investment in infrastructure acts as a catalyst for private sector investment and supports the operational excellence of the IDZ. Marketing material will present both current and planned infrastructure, and communicate construction progress.

Infrastructure will be funded by both public and private sector, and the IDZ can support private sector property developers through aspects discussed under Ease of Doing Business (e.g. assistance with construction permits).

The following infrastructure is needed to support operations:

- Water supply
- Wastewater systems
- Waste disposal facilities
- Electricity
- Fencing
- Road access
- Bus stops, taxi ranks, petrol stations
- Access and egress control
- Quay equipment such as cranes, tugs, forklifts
- Warehousing, fabrication yards, hard laydown areas
- Offices
- Retail, food, medical, training centres, accommodation

8.5 Operational Excellence

Operational excellence of an IDZ is a function of infrastructure availability, industrial capabilities, and streamlined systems and processes that support logistical and administrative efficiency. Increased industrial capability increases *operational excellence*, which in turn attracts *FDI*, stimulates *private sector investment by local companies*, and therefore stimulates *economic activity* and *job creation*.

Through streamlined processes, the customs clearance office can support quick turnaround time at port and rapid release of cargo. Sufficient investment in human resources, supported by continuous training and development opportunities for the civil servants working with and within the IDZ, will support operational excellence of the IDZ

9. IMPLEMENTATION OF THE TSHIAME IDZ

9.1 Establishment of Initial Management Functions of the TIDZ LiCo

Initially the day-to-day management activities of the TIDZ LiCo will be governed by the Chief Executive Officer (CEO) of the FDC. The CEO is responsible for overseeing the various core functions of the TIDZ LiCo including legal matters, stakeholder relations, business development and infrastructure & planning.

The FDC's Chief Financial Officer (CFO) will also act in that capacity on behalf of the TIDZ LiCo. The CFO will be responsible for administering and controlling the finances of the TIDZ LiCo. The CFO will report directly to the CEO of the FDC. In accordance with the requirements for the functions of the TIDZ LiCo, additional employees will be contracted to various work streams to fulfil the TIDZ LiCo's mandate as per the MOI

9.2 Establishment of Future Management Functions of the TIDZ LiCo

The future day-to-day management activities of the TIDZ LiCo will be governed by its Chief Executive Officer (CEO) upon his/her appointment by the TIDZ LiCo Board of Directors. The CEO will be responsible for overseeing the various core functions of the TIDZ LiCo including legal matters, stakeholder relations, business development and infrastructure & planning.

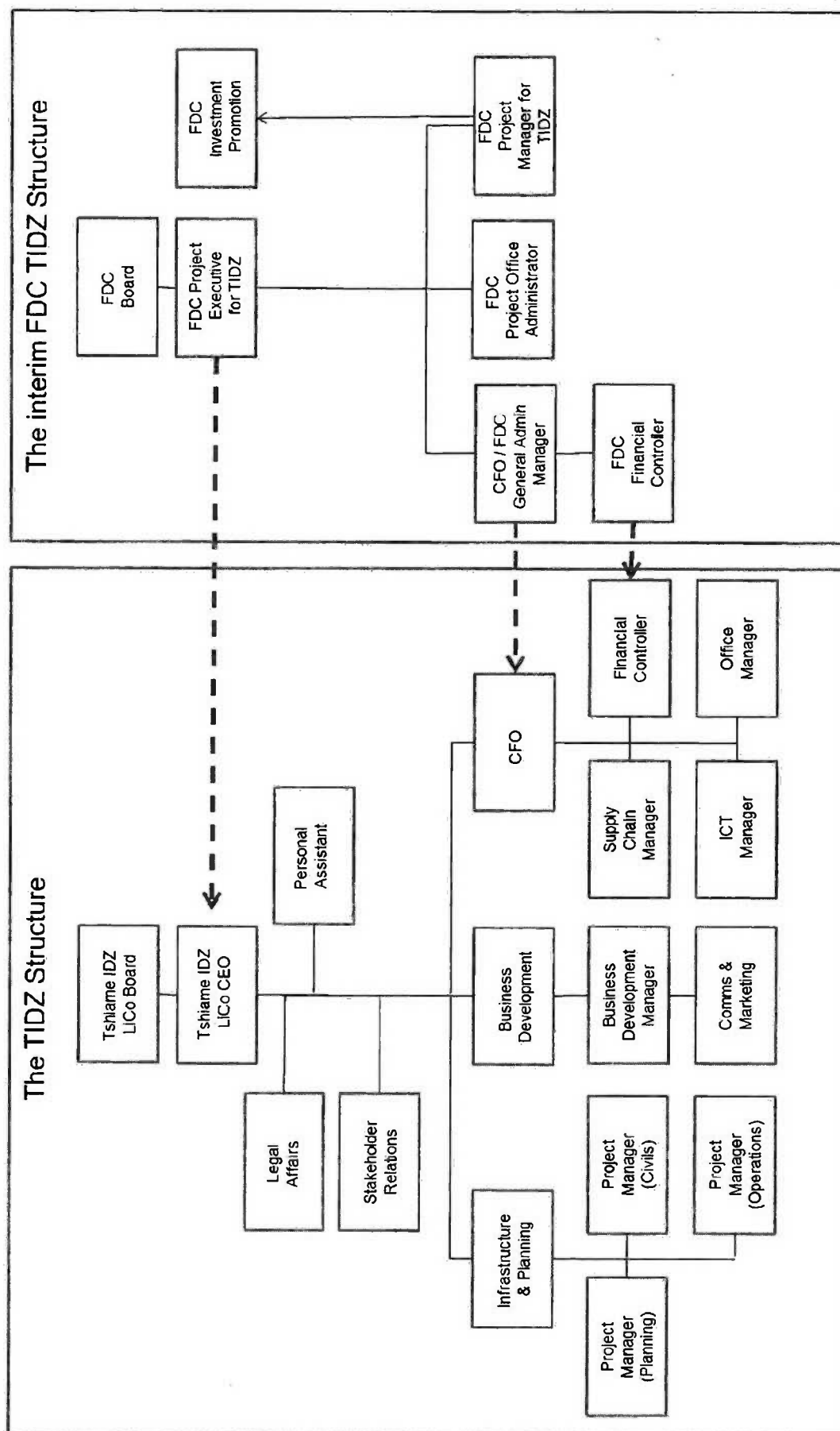
Ultimately the TIDZ LiCo will also have its own Chief Financial Officer (CFO) who will be responsible for administering and controlling the finances of the TIDZ LiCo. The CFO will report directly to the CEO of the TIDZ LiCo in accordance with the requirements for the functions of the TIDZ LiCo. Additional employees will be contracted to various work streams to fulfil the TIDZ LiCo's mandate as per the MOI

9.3 Overview of the TIDZ LiCo management Functions

The future TIDZ Li Co is displayed next to illustrate the nature and the extent of the LiCo migration of the levels of management and the respective functional areas.

The Tshiame IDZ structure will migrate from the interim FDC TIDZ structure to the ultimate TIDZ structure as shown above

Figure 15: Overview of the TIDZ LiCo Management Functions



9.4 B-BBEE, SMME and Supplier Contributions

The development of the TIDZ within the MAP Region will have an important and lasting effect on the economic development objectives of the Free State Government and the National Government. This includes the impacts of the B-BBEE policies as well as the incorporation of SMMEs into local and international value chains through a supplier development framework.

B-BBEE is viewed by government as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa. The TIDZ LiCo's B-BBEE strategic interventions seek to align measurable outcomes, competitive advantage and socio-economic objectives in a manner that is both value-adding to the Tshiame IDZ and integrated into its overall strategic plan. To this end, the TIDZ LiCo is in the process of developing a B-BBEE charter as an expression of intent to explore the possibilities and implication for B-BBEE policies on the sectors targeted by the TIDZ.

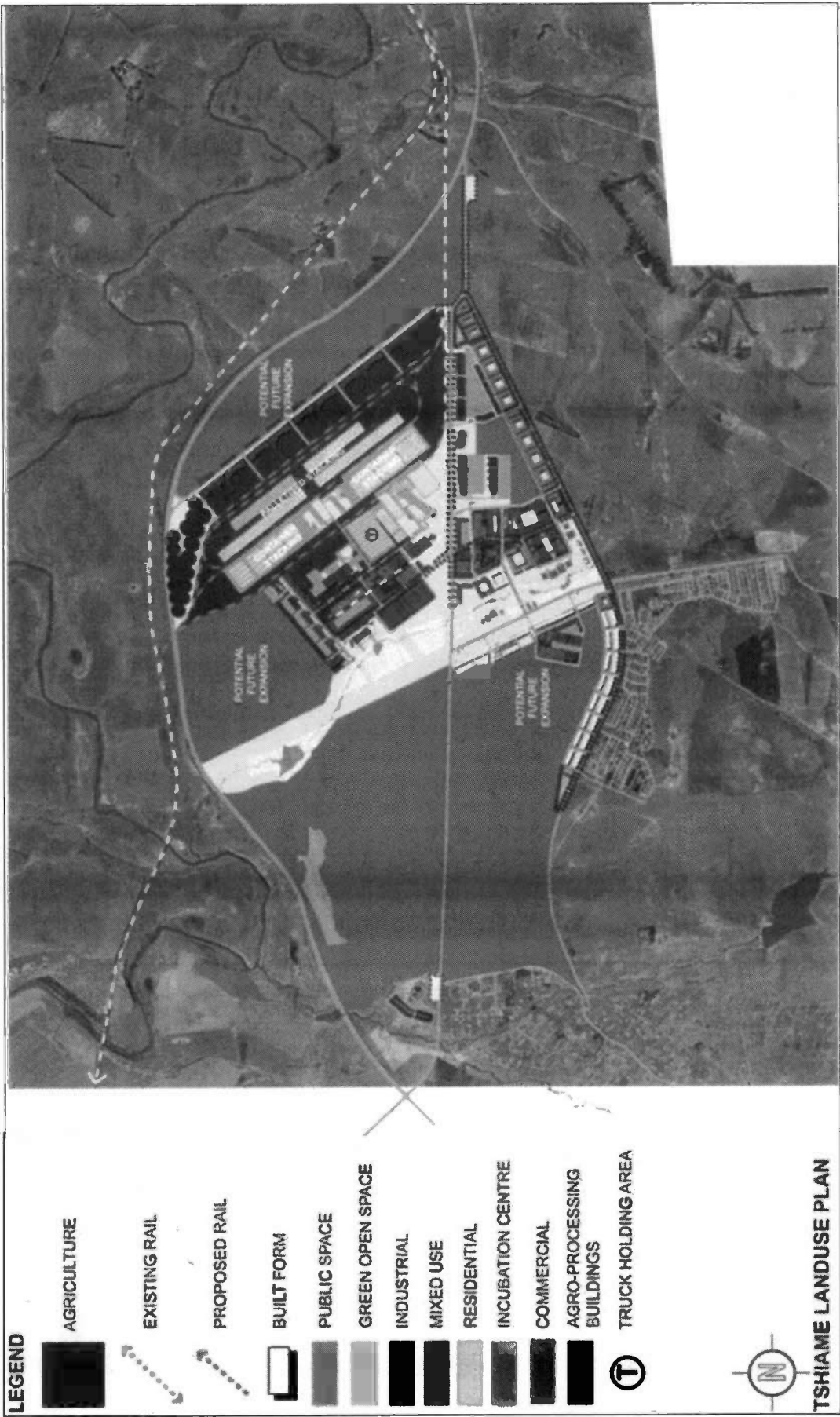
The Charter, which is not a legally binding document, will also evaluate the level of existing B-BBEE and identify SMEs that can contribute to local content requirements and ensure the uptake of disadvantaged people within the Tshiame IDZ.

The TIDZ LiCo will develop and deploy a supplier development framework to ensure that as many SMMEs and local companies benefit from the Tshiame IDZ as possible. This will entail evaluating the existing SMMEs and local companies that provide services/ goods to the IDZ. However, the TIDZ LiCo is also cognisant that the targeted sectors have international accreditation standards and existing contracts with suppliers in their value chain that may limit the initial number of local companies and suppliers in the value chain. This issue will be acknowledged in addressing the supplier development framework, and efforts will be coordinated to ensure support is given to SMMEs and local companies to meet these international requirements.

9.5 Physical Master Plan

The envisaged footprint of the area intended for development of the TIDZ at Tshiame, is shown next. Segments of the envisaged footprint of the area intended for utilisation of the development of the IDZ are being targeted for industrial purposes and already have had some existing industrial investors.

Figure 16: Conceptual Plan of the TIDZ



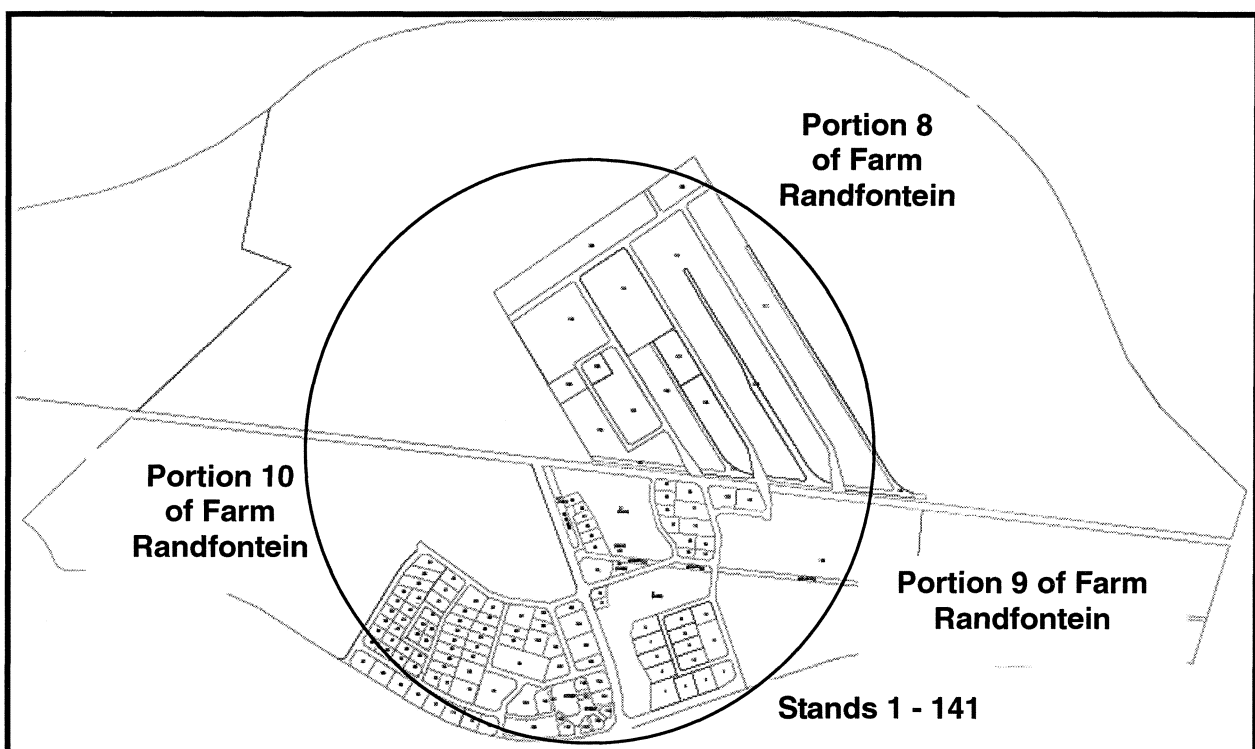
9.6 Land Provision

The land areas that were identified for the Tshiame IDZ development has a combined area of 1000Ha for this application for the TIDZ, including the following portions of the farm Randfontein and specific stands of the “Hoogland Ontwikkeling, Industriqwa 1A, District Harrismith (per plan T7/1993)”:

- Portions 8, 9 and 10 of the Farm Randfontein
- Stands 1 to 141

The FDC is the landowner of this earmarked land. The land will continue to be owned and operated by the FDC. The Memorandum of Understanding/Agreement that will be drafted between the FDC and the LiCo will capture areas of co-operation, which include joint marketing, joint planning and operational efficiencies between the FDC and the TIDZ LiCo.

Figure 17: FDC Property for IDZ Development



9.7 Environmental Considerations

The elements that would require detailed study and consideration for Environmental Impact Assessments (EIAs) would be considered should the application of the development of the IDZ be positively received. An EIA would apply to activities that are listed under section 24

of the National Environmental Management Act (Act 107 of 1998) – NEMA. Any activity that is listed in the Regulations is subject to environmental authorisation and depending on the Listing Notice in which a given activity is listed, a Basic Assessment or Scoping and/or full EIA process would be required. It is acknowledged that it is illegal to commence a “Listed Activity” without environmental authorisation. Future potential development of the IDZ must however be assessed cumulatively, i.e. including all significant air pollution sources potentially included in the development of the TIDZ.

Tshiame is acknowledged as an area having important environmental value and all investigations and planning into an IDZ at Tshiame have taken this into consideration. In the Feasibility Study, the existence of the Environmental Impact Assessment was confirmed by the FDC. The existing Record of Decision will be reviewed prior to the construction of any facilities

The environmental considerations regarding the IDZ development have been closely aligned to the work that is envisaged to be undertaken in the development of the Environmental Management Framework (EMF). At the time of submission of the IDZ application the EMF had not been concluded, however any interim conclusions had be taken into consideration. The EIA Record of Decision documentation, that was reported lost during the political transition after 1994, was the topic of an FDC request to DETEA for condonation (exemption) of EIA requirements for the TIDZ development. The Tshiame area is an existing proclaimed township

9.8 Geo-Technical Considerations

Geotechnical investigations were performed for the purpose of the TIDZ Development. The general geology of the area around the proposed IDZ site consists of clay conditions.

9.9 Provision of Utilities

9.9.1 General

In the Feasibility Study, an extensive analysis of existing and required infrastructure was done by the FDC. This work was covered in reports on water and sanitation, electricity, roads and storm water requirements. The first report analysed status quo of utility provision. The second report analysed the requirements for the expansion of existing infrastructure and provision of new infrastructure to accommodate the proposed sectoral development needs.

The main conclusion from the analyses were that is that although existing service utilities in the area were in a relatively good condition the service levels that the

utilities could provide are expected to be under pressure from a capacity point of view. Industrial development in the service area should therefore be approached with this in mind as such development might require large expansion and upgrading of existing infrastructure.

9.6.2 *Health, Education and Housing*

Requirements and provision of requirements relating to health, education and housing concerns as an indirect impact of the development of the TIDZ were not fully investigated

9.6.3 *External infrastructure required (and responsibilities)*

9.6.3.1 Transport Infrastructure

Existing transport infrastructure in the greater Tshiame area consists of poorly maintained provincial and national roads with insufficient capacity to support the development of a multi-sectoral industry. The development will however cause a substantial increase in traffic to and from the Tshiame area. This will mainly be due to transport and logistics pressure that will require an expansion of the local provincial and municipal roads' infrastructure around Tshiame to service morning and afternoon peaks.

9.6.3.2 Bulk Electricity Supply

The current electricity supply capacity to the Tshiame area is sufficient to accommodate the initial development of the TIDZ. Initial infrastructure required will be limited to a designated distribution line and substation at the area. This infrastructure will typically be provided by Eskom.

An increase of the bulk electricity supply capacity to the region will be required in the medium term (+5 years), irrespective of the development of the IDZ. This will require substantial capital investment by Eskom to extend the regional transmission system to Tshiame. This had not been factored into the financial requirements.

9.6.3.3 Bulk Water Supply

As mentioned above, current water demand in Tshiame already exceeds the supply capacity. In order to relief the pressure on the current water supply system, it is recommended that the local water authority implement a Water Demand Management Program to optimise use of the existing water resources and supply infrastructure.

The current water demand from the TIDZ industries is relatively low. The impact of these industries is not expected to impact on the regional water supply infrastructure.

It is however recommended that a dedicated bulk supply pipeline be provided to serve the TIDZ area.

9.6.3.4 Bulk Waste Water Discharge

Due to the low water use at the IDZ, a relative low impact is expected on the sewerage and waste water treatment systems. The existing WWTW is however not designed to treat industrial waste. It will therefore be necessary to upgrade the WWTW to accommodate the waste water produced in the IDZ. As an alternative, on-site pre-treatment of industrial effluent may be considered.

It is important to note that planning for waste water discharge and treatment for the IDZ should be integrated with other current planning initiatives of the Tshiame Municipal Authorities that includes the reuse of treated effluent. Such a water balance system could solve the problem of caused by the limitations in the water supply system. This possibility had not been factored into the financial requirements for the establishment of the TIDZ.

9.6.3.5 Solid Waste Disposal

Currently none of the local registered landfill sites are suitable for industrial or hazardous waste.

A Waste Transfer Station and Waste Sorting Facility are recommended for the IDZ. Such facilities will be situated within the IDZ from where waste will be discharged to suitable remote land fill sites.

10. WORK FORCE ANALYSIS FOR THE TSHIAME IDZ

Currently the numbers of trained people in the Tshiame area are insufficient to supply the expected TIDZ requirements for skilled personnel able to produce work of an internationally acceptable standard.

However there are short-, medium- and long term solutions which can alleviate the situation and provide future requirements so that the targeted industries of the IDZ in Tshiame will be able to operate competitively. It is essential that the short-term solutions be implemented to ensure that the local workforce benefits from the skills demand of the IDZ.

The FDC, on behalf of the TIDZ LiCo needs to engage, and continue to engage, in discussions with the training authorities and (public and private) FETs to ensure that the skills and training requirements of the local workforce are met in a sufficient and timeous manner

11. A FINAL WORD

The Tshiame IDZ has a targeted and focussed industrial development rationale.

- The rationale is rooted in the outcomes of the TIDZ Feasibility Study and Business Planning for the targeted sectors of the economy that confirmed the following:
 - High market demand & investor interest.
 - Short lead times for operations.
 - An existing geographically centred economic base from which to grow.
 - Low incremental demand for water and electricity.
 - Manageable impacts on the environment.
 - An identifiable and limited complexity of spatial demand.
 - Identified capital investment requirements with an 17% IRR.
 - High job creation potential
 - The IDZ development is capital cost and incentive driven over the medium to longer term, but is driven by ease of doing business on a short term / pilot basis.
 - High growth potential for interested potential business partners due to sector pressure and increased need for value-adding and processing activities.
- The business planning for each of the six initially identified sub-projects was a series of comprehensive, long-term analyses of the opportunities present in the region and in the targeted sectors, taking into consideration all relevant environmental, physical, infrastructural, financial, social and economic criteria.
- Future development of the IDZ into other clusters/industries, including the envisaged Maluti-A-Phofung (MAP) SEZ, will be dependent on the rationale/case for such endeavours at such time, and the support given by the private and public sector.

The TIDZ will capitalise on the Eastern Free State's and the SIP2 Corridor's inherent value added proposition

- It has equal geographical proximity to each of Durban (KZN), Johannesburg (Gauteng) and Bloemfontein (Free State) as well as to most provinces of the RSA
- TIDZ can develop into a "mother" hub, i.e. a centralized provider & co-ordinator of agricultural products, parts and services for the targeted sectors with bespoke hubs in other regions of Southern Africa
 - TIDZ has excellent proximity to major international road and rail transport and logistics routes and a high number of passing road and rail vehicles

- TIDZ has the space to develop and grow, yet has functional infrastructure and networks.
- It is envisaged that the SIP2 corridor will provide 1st class Information and Communication Technology infrastructure in years to come and is a prime candidate for the location of a pilot ICT and broadband project