

MATJHABENG LOCAL MUNICIPALITY



BUSINESS PLAN

THABONG INDUSTRIAL DEVELOPMENT PROJECT

Partner



COMPILED BY:



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1. EXECUTIVE SUMMERY

It should be noted that all giants and corporates began as infants and Matjhabeng municipality has taken a step to support and create an enabling environment for small businesses. This business plan has been compiled to raise funds in the form of grant from the Department of Trade and Industry (DTI). These funds will be utilised for phase 2 to 5 of Thabong Industrial Development project to build industrial units for SMME's operating at Constantia Street in Thabong.

The Matjhabeng Municipality had approved a site that will change the outlook of Thabong as local communities will now have the opportunity and platform to participate in the main street on the local economy. Welkom and surrounding areas has been characterised as a mining communities. The municipality and local economic development begins a process of transforming and changing the focus to support small businesses in line with IDP.

It should also be noted that the site has been allocated and other issues such as water, electricity and roads will be finalised with relevant authorities.(Annexture Attached) The structure will consist of 19 units. The estimated cost of Thabong industrial development is **R69 706 152.03**

This project will be beneficial to the targeted small and medium enterprises, municipality and local economic development. Municipality will increase its revenue and assets portfolio will generate income from property tax.

The SMME's will increase productivity as required electricity that is needed to run their businesses and most of their challenges will be met.

This project will be sustainable and there is no doubt about the need for this evidenced by the findings in the research done. In view of the above we propose that the Department of Trade and Industry consider and view our proposal favourably.

1.1. INTRODUCTION

Matjhabeng Local Municipality (MLM) is a category B Municipality established in terms of section 12 of the Municipal Structures Act (117 of 1998) the municipality encapsulates an area of 514.4 km² consisting of Welkom, Odendaalsrus, Allanridge, Hennenman, Virginia and Ventersburg. It should be noted that the municipality has partnered with Harmony mine to promote local economic development. This is the real Public Private Partnership at its best to develop an industrial site in Thabong, Welkom.

1.2. BACKGROUND ABOUT THE MUNICIPALITY

Matjhabeng Local Municipality is an administrative area in the Lejweleputswa District of the Free State in South Africa that includes the city of Welkom. Matjhabeng Local Municipality came into existence on 05 December 2000 after the amalgamation and emergence of the former six (6) Transitional Local Council into one (1) financially viable and economically sustainable municipality.

This municipality incorporates the city of Welkom and the towns of Odendaalsrus, Virginia, Hennenman, Allanridge and Ventersburg with a combined population of more than 500 000 people. The economy of the Matjhabeng Municipality area centered on mining activities located in and around Allanridge, Odendaalsrus, Welkom and Virginia.

The name is a Sesotho word meaning "where nations meet". It is derived from the migrant labour system where people from various places to meet and to work in the mines.

The municipality covers an area of 5,155 square kilometres (1,990 sq mi) in the goldfields of the central Free State, north of Bloemfontein and

south of Kroonstad. According to the 2011 census it has a population of 406,461 people in 123,195 households. Of this population, 88% describe themselves as "Black African", 10% as "White", and 2% as "Coloured". The first language of 64% of the population is Sotho, while 12% speak Xhosa, 12% speak Afrikaans and 4% speak English.

In the western part of the municipality there is a string of mining towns that runs from northwest to southeast: Allan ridge (pop. 19,337), Odendaalsrus (pop. 63,743), Welkom (pop. 211,011) and Virginia (pop. 66,208). Further to the east are the agricultural towns of Hennenman (pop. 24,355) and Ventersburg (pop. 11,260).

2. PROJECT INFORMATION

PROJECT NAME	THABONG LIGHT INDUSTRIAL DEVELOPMENT
LEAD INSTITUTION	MATJHABENG LOCAL MUNICIPALITY
PRIVATE PARTNER	HARMONY MINE
POSTAL ADDRESS	P.O. BOX 708 WELKOM 9460
PHYSICAL ADDRESS	Matjhabeng Local Municipality 319 Stateway Welkom
CONTACT PERSONNEL	XOLELA W MSWELI
POSITION	ED: LED AND PLANNING
CONTACT NUMBERS	Tel: 057 916 4071 Cel: 071 672 2287 Fax: 086 214 6831 Email: xolela.msweli@matjhabeng.co.za

2.1. PROJECT OBJECTIVES

- To provide space for SMME's operating at Constantia road, West.
- To create enabling environment for SMME's to do business.
- To formalise the businesses operating informally thereby minimising risk.
- To provide opportunity for aspiring business owners.
- To promote local and township economic development
- To address the shortage of industrial sites.
- To transform the local economy

2.2. PROJECT DESCRIPTION

The municipality has allocated an industrial development site to construct industrial units to rent out to the local SMMEs. Once completed it will accommodate 19 small and medium size businesses. They are operating on containers and unsafe conditions along the Constantia Street at Thabong. Harmony Mine has already fund the 1st phase of the project and phase 2 to 5 need funding for the development to commence.

These SMME's are operating informally and the plan is to house them rentals.

Needs analysis has been conducted and four types of super structures will be designed to accommodate these needs

2.3. PROJECT SUMMERY

TITLE OF THE PROJECT:	THABONG INDUSTRIAL DEVELOPMENT
PROJECT DESCRIPTION	Developing industrial site for SMME's currently operating at Constantia Street. The site will accommodate 19 units.
PROJECT DURATION:	3 years
PROJECT STARTING DATE:	March 2015
PROJECT END DATE:	February 2018
PROJECT COST:	R69 706 152.03
FUNDING/GRANT REQUESTING:	R69 706 152.03

3. OPPORTUNITY/PROBLEM

Matjhabeng municipality has identified SMME's operating in locations that causes hazards to the SMME's themselves, community, motorists and the municipality. These businesses have many challenges and research has revealed that all of the uses electricity, only 4 beneficiaries (20%) indicated that they can suffice with just single phase supply whilst the rest will at least need a supply of Three-

phase/ 80 Ampere connections. In at least two-three cases this demand will be even higher and the supply of mini-sub's are a strong option.

The economic classification of these SMME's is depicted in the table below:

Economic Sector	Total	Car repairs/P anel Beaters	General Constru ction	Glaz ing	Sewing /Cateri ng	Steelwork s/Welding
Total Responses	19	4	8	1	2	4
Industrial	12		8			4
Service	7	4		1	2	

4. SPECIFIC TARGET GROUP

The project will benefit the SMME's operating at Constantia Street West, at Thabong in Welkom. These businesses have been identified on the research that has been conducted. These beneficiaries agreed to lease and pay rates and taxes to the municipality. This is a pilot project targeted the existing small businesses and the plan is to implement and ensure that these businesses are sustainable through its local economic development initiatives.

5. PROJECT PARTNERS

The partners to this project will be:

- Municipality to initiate and facilitate the process, coordinate activities and oversee the implementation.
- Harmony Mine
- DTI the potential funder
- Specialist consultants (Ithembaethu Consulting Engineers) to provide technical support during design and tendering phase
- Local SMME's and individuals to provide labour during implementation

6. APPROACH AND METHODOLOGY

Initial budget has been finalised and the concept design will be the first phase which has already been quoted.

When funds are allocated, the following steps will be undertaken:

- Completion of the detail design and drawings of the development
- Develop a project plan to implement the project in three phases.
- The tender procedure to appoint the necessary contractor per phase of the project.

7. RISK AND ASSUMPTIONS

Major risk will be associated with the process of developing the site and once it is completed we foresee minimal risk. Community accidents, worker strike and community riots, material delays and weather challenges

It should be noted that the demand for the products and services of these beneficiaries will increase. The Local Economic Development plan to increase smme participation by 5% year on year.

8. IMPACT FORESEEN

This project will contribute to the economic development of this municipality in many ways. The 19 SMME's will now be formalised and will have access to warehouse, electricity, water and sanitation that was not available when doing their business on the street. This will boost productivity as products will be manufactured in time saving money and boost turnover of their businesses.

These identified beneficiaries will operate their business in a secure area, have storage facility and office, will increase employment and awareness from other SMME's about running a decent business. The units will enable businesses to expand and purchase bigger equipment to produce more products or services cheaper and faster.

Municipality will benefit from rates and taxes and will also be an implementing agent for training and support. During the developmental phase the local contractors will benefit and new employment will be created, skills transfer for emerging contractors and welders will benefit as they will supply window frames etc to the contractor.

This project will make a great impact and we have no doubt about the potential to attract other small businesses.

EXPECTED EMPLOYMENT DURING PROJECT DEVELOPMENT

Year	No of employment
2015	150
2016	200
2017	150
total	500

9. FEASIBILITY & SUSTAINABILITY

The goal of financial sustainability specifies that the municipality should be able to finance affordable and equitable delivery and development. It should continue to maintain financial stability and sustainability through cautious expenditure, sound financial systems and a range of revenue and funding sources. Research has been conducted by LSB Group that has experience and expertise in strategic and development planning. The study has revealed the need for an industrial development and this is evident by the applications that the municipality received for business sites

SMME Development

Entrepreneurship has been acknowledged over and over again in the world as **the engine** of economic growth. Without small business development, the economy stagnates, employment declines and ultimately the general standard of living deteriorates. SMME development has been recognized as an economic opportunity but also realised that it comes with key support and implementation challenges

It should be noted that the project will be beneficial to the targeted groups (PPP) considering:-

a). Location of the SMME's

The SMME's are operating their businesses at the identified area where the industrial building will be constructed. The side does not have sewer,

water, electricity and with this development, it will really change the way business is done in the area. This will help their businesses to grow and employ more people. Value is created and municipality will also benefit by getting rates and taxes

b). Customers

Research indicated that their major customers are local communities. When these SMME's are housed in the industrial site they will have address and will be identified easily. They will get more business from other communities as people will now trust that they are dealing with legitimate businesses.

c). Products and services of the SMME's

It should be noted that majority of the SMME's have Manufacturing and service components in their businesses. Look at the table below:

Business Groupings	Total
Total Responses	19
Car repairs/Panel beaters	
Steelworks and Panel Beating	1
Panel beaters	1
Compression and painting vehicles	1
Auto electrical and welders	1
Sub-total	4
General Construction	
Concrete slabs and steel works	1
Construction work with steel and fiber glass	1
Manufacturing of bricks and welding	1
Concrete slab manufacturing and welding	1
Manufacture of steel products and house building	1
Building and fencing	1
Construction	1
General construction	1
Sub-total	8
Glazing/Glass cutting	
Glazing, glass cutting and fixing at customers premises	1

Sub-total	1
Sewing/Catering	
Sewing and school catering	1
Florist and catering	1
Sub-total	2
Steelworks/Welding	
Manufacturing big truck trailers	1
Welding	2
Welding and general construction	1
Sub-total	4

d). Management of the SMME's

Research shows that most new businesses fail within one to two years. These SMME's has been operating for more than 5 years, others have 20 employees upwards. These businesses succumbed to all challenges that are faced by SMME's and are managed by experienced owners with formal and no formal education. The municipality will do its best in ensuring that support is given in the form of training once these SMME's are formalised.

e). Profitability of the SMME's

It should be noted that most of these businesses never had a formal loans from the banks. They are doing their best and had been operating for many years and it is the view of the Municipality and its stake holders to focus on improving SMME's and ensure that they are sustainable for the growth of local economy. Training will also be given on business and financial skills. The business will still make profit even after they have started paying rates, taxes and rent.

f). Economic Factors

SA economy is stable; interest rate has remained unchanged and factors such as declining oil will impact the food prices, although they are still high and the inflation positively. The CPI currently sitting at 5.9 %,

inflation has been within the target of 3% to 6%. Rand gained value to R10.92 lately. Electricity is about to increase by 15%. Petrol prices decreased significantly in the past two months October and during November 2014

g). Technological Factors

The SMME's are facing challenges in this regard, investing on the modern technology becomes a challenge as they are operating outside. This project will impact them positively as their equipment will be secured. This will increase the efficiency of doing business. Stakeholders are willing to support these SMME's once they are housed in a well-managed site.

h). Legal and regulatory factors

It should be noted that municipality bylaws are there to protect their stakeholders. In the current situation the risk is very high for these SMME's and communities. Industrialisation will reduce the risk and the municipality will give these SMME's proper permits for their establishments. They will also register their businesses for compensation, uif, and with the register of companies

10. ALIGNMENT WITH IDP FRAMEWORK

- Community involvement will be adhered to throughout the project
- Involve other intergovernmental players
- Enable the implementation of municipal workplace skills and employment equity plans
- Key performance indicators will be established for the project.
- Municipal IDP and LED will be accelerated to achieve other goals in the project.
- Consultation with relevant communities in terms of the prescribed IDP process.

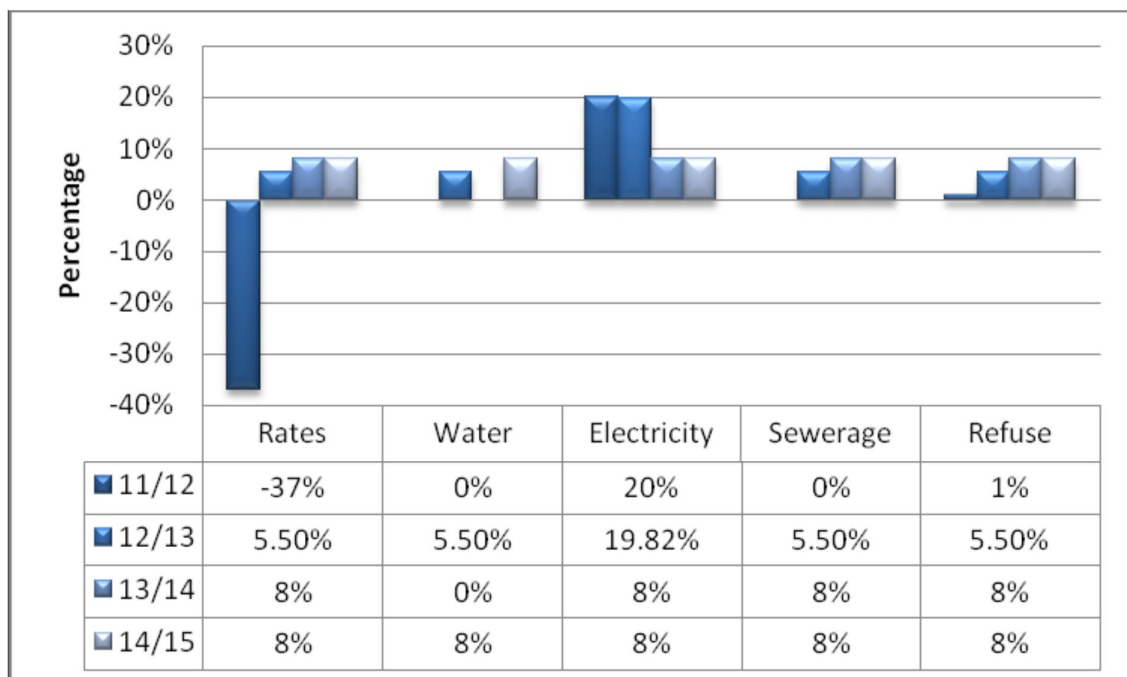
11. PROCUREMENT OF PRODUCTS/SERVICES

Team of experts has been appointed and will be responsible for assigning and managing the project. Tender will be issued to assign a contractor, material will be sourced from local supplies including the identified beneficiaries. Local labour will also be utilised in the project.

12. FINANCE

12.1. REVENUE GENERATION

The sources of revenue for the municipality are property rates, service charges (electricity, water, refuse and sanitation), grants and subsidies, interest and investment income and other revenue such as rental income of halls and hostels. The total operating revenue increased with 5.5%. 2012/2013 fy. The following graph depicts the revenue tariff increases applied for the 2012/13 MTREF period extracted from the IDP



12.2. FUNDING NEEDED

Name of funder: The DTI
Type of facility: Grant
Purpose : Development of Thabong Light Industrial Site
Amount : R69 706 152.03

12.3. INFRASTRUCTURE

The post-1994 democratic dispensation ushered in developmental local government tasked with the extension of quality, affordable and sustainable basic services to all. As illustrated in the above section, the demographics of Matjhabeng has undergone significant change over the years. Like in all growing SA municipalities, this brings forth the dual developmental challenge of addressing past apartheid development inequities (backlogs) and expansion of services to new areas.

A strategic delicate balance need to be maintained in order that all residents can experience appropriate fair and just service delivery. This industrial site is one of the few earmarked for local economic development and will add to the current property portfolio of the municipality.

Detailed list of assets will be furnished on request.

12.4. PROJECT COST SUMMARY

Thabong Industrial Development

		Phase 2 Cost Estimates (detailed Designs)	Phase 3 Cost Estimates Construction of Civil Service	Phase 4 Cost Estimates Construction of top structures	Phase 5 Cost Estimates Implementation of management
Subtotal		R 3 119 735.27	R 20 044 964.90	R 3 7981 047.23	
VAT 14%		R 436 762.94	R 2 806 295.09	R 5 317 346.61	
Total Phase 2		R 3 556 498.21			to be determined in PHASE 3
Total Phase 3			R 22 851 259.99		
Total Phase 4				R 43 298 393.84	
Total Phase 5 (Estimate)					
Total physical development costs				R69 706 152.03	

12.5. FINANCIAL PERFORMANCE

Extract from Matjhabeng Local Municipality annual financial statements:-

Description	2013	2012
Total Revenue	R1 711 492 511	R1 585 595 610
Total Expenditures	R2 051 931 962	R1 952 204 835
Operating Deficit	R340 439 451	R366 609 225

Financial Statements attached

12.6. FINANCIAL MANAGEMENT

Municipality has the responsibility of managing the funds and they have managed similar projects successfully in the past. The project managers will be responsible for assigning contractors and monitoring the project, implementation of sound controls and report progress to the municipality.

Financial progress will be measured monthly in order to produce project cost reports with reference to plant, labour, materials and other costs associated with the project.

12.7. FINANCIAL PROJECTIONS

The financial projections of the municipality are its budget tabled by the executive mayor. Will be provided on request.

13. CONCLUSION

- The proposed industrial development has potential to increase the estimated market share of different SMME's they will be formal.
- Matjhabeng municipality and local economic development are creating enabling environment for small business and a platform to participate in the main stream of economy.
- Training interventions, funding assistance and entrepreneurship awareness programs will be implemented easily.
- SMME's value chain will now be cheaper and faster.
- SMME's will now have access to secured site, buy heavy duty equipment for expansion
- The project will be sustainable because these are not start-up businesses
- Municipality will benefit from rentals, rates and taxes and this will improve service delivery.
- The rental proposals are minimum and affordable.
- Local economic conditions will improve and value will be created in that piece of land.
- This project will create more support for SMME's as other services like training will now be added by the municipality, mining houses and other partners.
- Already the project has impacted students who participated in conducting the survey.
- Small businesses will now remain in the area as there will not be a need to move to other areas for space, thereby increasing employment.

In view of the above, we request the financial Institution to consider the application/proposal.

Figure 1: Preliminary layout of the 19 stands and different designs according to stand size

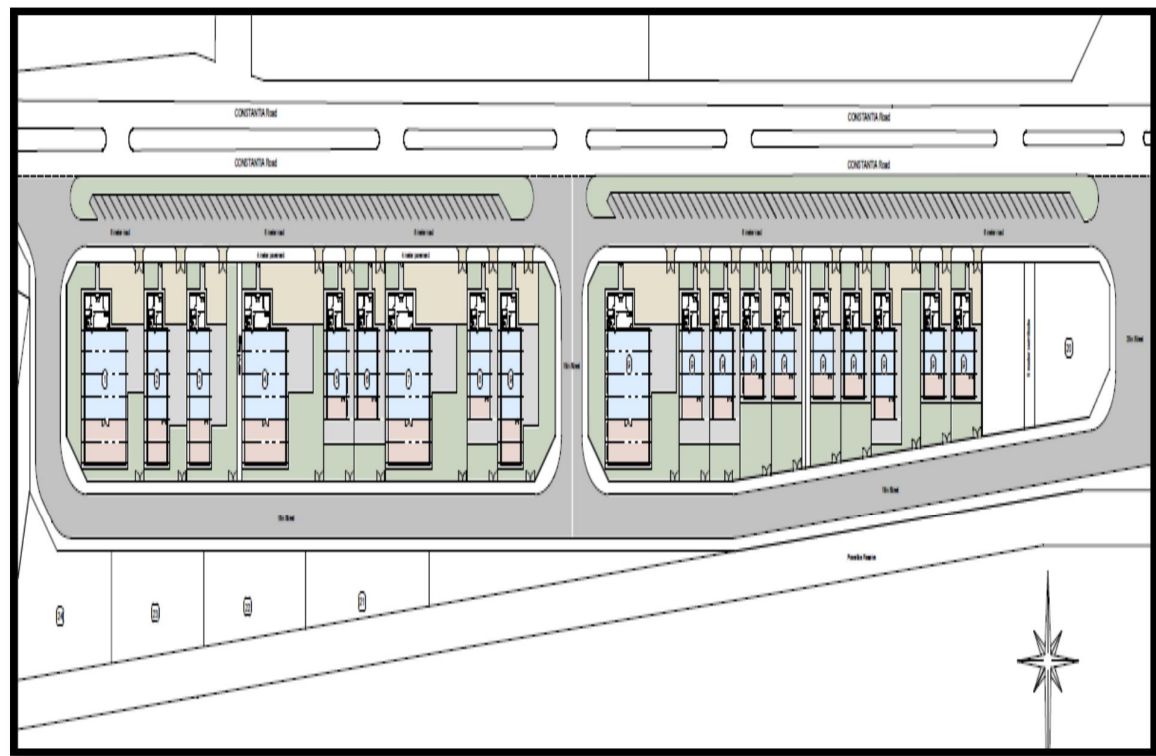


Figure 2: Typical and proposed layout of the four standard designs.



