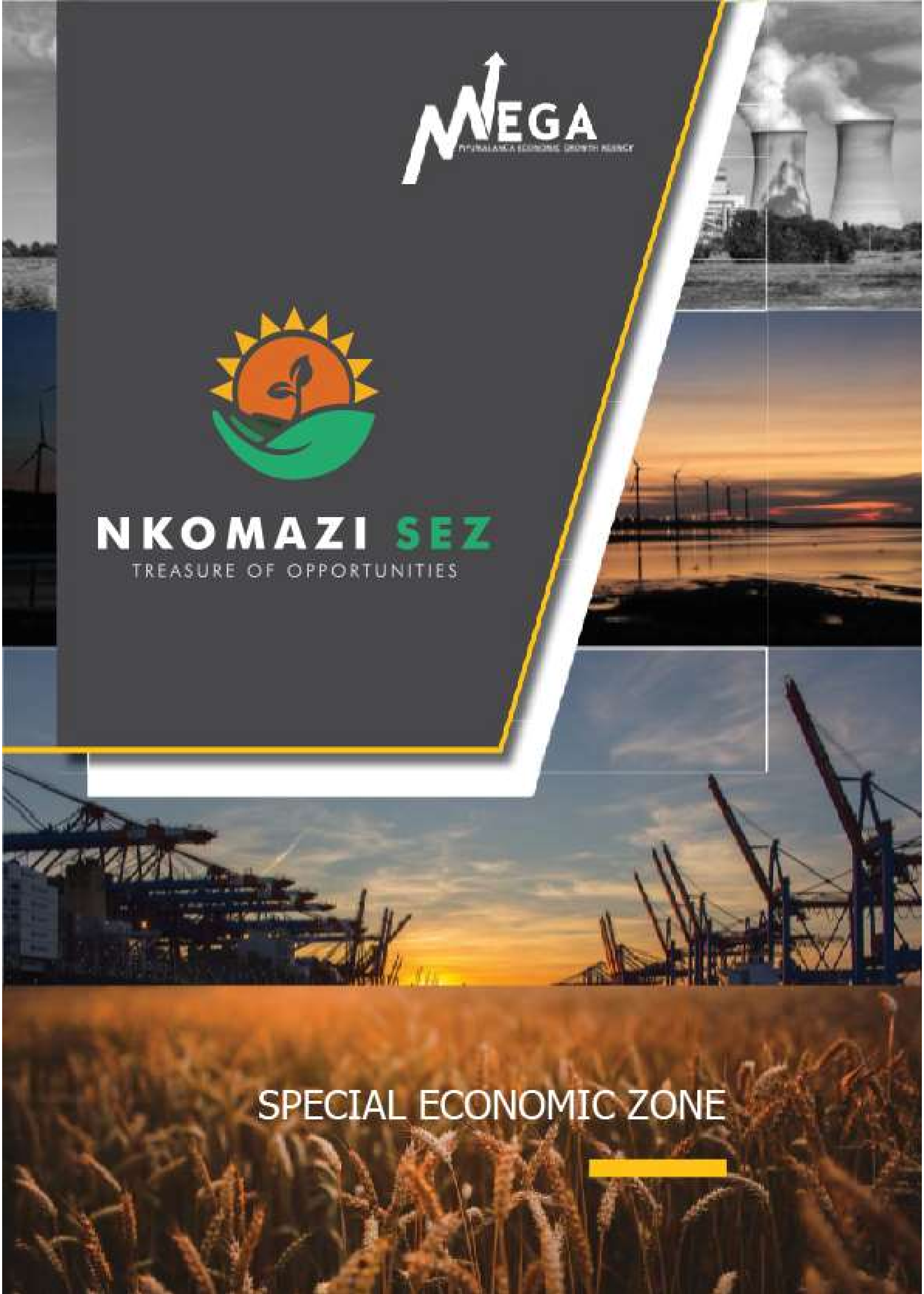


MEGA

MPUMALANGA ECONOMIC GROWTH AGENCY

NKOMAZI SEZ

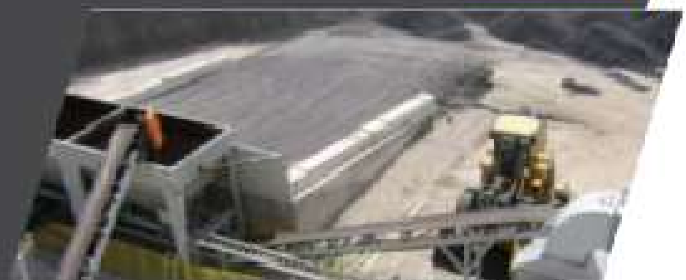
TREASURE OF OPPORTUNITIES

SPECIAL ECONOMIC ZONE

NKOMAZI SEZ

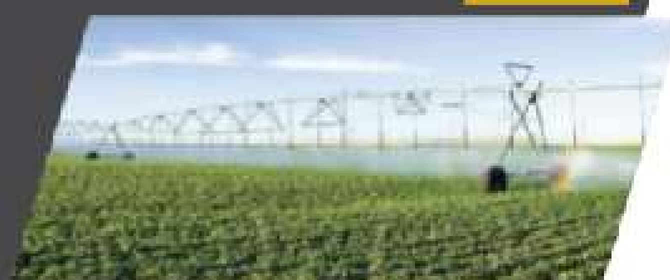
TREASURE OF OPPORTUNITIES

MINERALS & ENERGY



AUTOMOTIVE INDUSTRY

AGRICULTURE



LOGISTICS

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NKOMAZI SEZ
TREASURE OF OPPORTUNITIES

1.1 Introduction

The Nkomazi Special Economic Zone (SEZ) is ready for investors to come and establish their businesses, especially in the agri-industrial and logistics sectors. This SEZ offers a conducive 700-hectare (ha) industrial area that is supported by well-developed primary agricultural produce; connectivity to rail, main roads and the Port of Maputo; as well as electricity in Komatipoort in Mpumalanga, South Africa. The Nkomazi SEZ is expected to be designated within 2017 in line with the SEZ Act, 2014 (Act 16 of 2014). After designation, investors will also benefit from the array of incentives from SEZ policy and the province.

Geographically, the Nkomazi local municipality is characterised by a subtropical climate, which makes it an ideally suited region for the cultivation of subtropical, citrus and deciduous fruits such as mangoes, litchis, papayas, bananas, avocados, guavas, granadillas and tomatoes. Nuts, tobacco, wood and vegetables are other crops grown in the surrounding Ehlanzeni area. Agricultural activities compete with forestry in terms of the resource base. Beef is also produced abundantly in the province, thus investors for meat and leather production will be targeted for the establishment of an abattoir and meat processing, packaging, skinning as well as a distribution centre in the SEZ.

BEEF

BANANA

SUGERCANE

MACADEMIA NUTS

CITRUS

AVOCADO

Figure 1: Commodities targeted for the Nkomazi SEZ

Increased demand for import and export capacity is currently placing a heavy burden on infrastructure and capacity at the ports of Richards Bay and Durban, causing handling delays with both imports and exports. Accelerated development of the Port of Maputo is currently underway as investments in handling and scheduling capacity continue to improve and will be sustainable in the short to medium term. Furthermore, there is currently an increased demand for a dualisation of the railway line to Maputo, to complement the current single track railway link, for the shipment of mining products and agricultural produce to and from Limpopo, Gauteng and Mpumalanga. Increased demand for transportation along the Maputo Corridor presents the SEZ with opportunities to introduce, among others, a one-stop-shop facility for trucks, to take advantage of improved logistics infrastructure along the Maputo Corridor (Johannesburg to Port of Maputo) and support investments within the logistics and transport sectors.

The Maputo Corridor

ROAD DISTANCE
JHB - MAPUTO 581kms
MBABANE - MAPUTO 223kms

ROAD DISTANCE
JHB - MAPUTO 590kms
MBABANE - MAPUTO 198kms

Figure 2: The Maputo Corridor

> The Nkomazi Special Economic Zone (SEZ) is ready for investors to come and establish their businesses

1.1 Introduction conti...

The geographical location of the Nkomazi area is also its greatest competitive advantage. Located in the eastern part of Mpumalanga's Ehlanzeni district municipality, the Nkomazi local municipality enjoys close proximity to two international markets, Swaziland to the south and Mozambique in the east, which provides a gateway to East African markets of about 146 million people and to the world through the Port of Maputo.

With well-developed national road (N4), rail and airline infrastructure, the area also provides easy access to the Southern African Development Community (SADC) market of about 277 million people. The Nkomazi local municipality is linked to Swaziland by two provincial roads, the R570 and R571. Trade between the two countries and Mpumalanga has over time allowed development of a sizeable logistics and transportation sector, hence the designation and increased investment in agri-processing will improve opportunities for consolidation and new investments in the logistics, transport and related sectors in and around the Nkomazi local municipality.

The South African government seeks to transform the national economy into a globally competitive industrial economy, built on the full potential of all citizens and all regions. The National Development Plan (NDP) outlines the South African government's chosen long-term development path towards a prosperous and successful economy characterised by high levels of economic growth, employment generation and an equitable society.

The New Growth Path (NGP) and the complementary Industrial Policy Action Plan (IPAP) outline the government's industrialisation agenda and the identification of critical drivers for job creation, prioritised industrial sectors and a range of interventions required to accelerate economic growth, create jobs and fight poverty and underdevelopment. The Department of Trade and Industry (the dti) has developed an SEZ policy to support and accelerate both industrial and agricultural development in targeted regions where socio-economic growth is problematic.

The objectives of the SEZ policy are to be achieved by the provision of special measures needed to develop targeted industrial and agricultural capabilities and attract targeted foreign and domestic direct investment. The incentives from which the businesses located within the Nkomazi SEZ will be able to benefit include the following, among other things:

a) Preferential 15% corporate tax. Businesses located in an SEZ may be eligible for tax relief, including the reduced rate of corporate income taxation. In addition to satisfying the requirements of the SEZ Act, 2014, further criteria for some of the available tax incentives are stipulated in the Income Tax Act, 1962 (Act 58 of 1962).

b) Building allowance. Businesses and operators (prescribed in Section 1 of the SEZ Act, 2014) operating within an SEZ may be eligible for tax relief, including a building allowance, subject to requirements contained in the Income Tax Act, 1962.

c) Employment incentive. Businesses and operators operating within an SEZ may be eligible for tax relief, including the employment tax incentive subject to requirements contained in the Employment Tax Incentive Act, 2013 (Act 26 of 2013);

d) Customs-controlled area. Businesses and operators located within a customs-controlled area of an SEZ will be eligible for tax relief as per the Value-Added Tax Act, 1991 (Act 89 of 1991), the Customs and Excise Act, 1964 (Act 91 of 1964), the Customs Duty Act 2014 (Act 30 of 2014) and the Customs Control Act, 2014 (Act 31 of 2014).

e) Tax allowance. The 12I Tax Incentive is designed to support greenfield investments (i.e. new industrial projects that use only new and unused manufacturing assets), as well as brownfield investments (i.e. expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training.

The Nkomazi SEZ is intended to address the underdevelopment of industrial and agricultural beneficiation in the Ehlanzeni region to counter the unacceptably high unemployment levels, particularly among the youth, as well as to fight against poverty levels, particularly in the rural areas.

Figure 3. Map of the Maputo Corridor

> The South African government seeks to transform the national economy into a globally competitive industrial economy

1.2 Regional economic overview

Mpumalanga's contribution to the South African economy increased marginally from 6,9% to 7,1% between 1997 and 2012. The province's gross regional domestic product (GRDP) reached approximately R225 billion in 2012 with mining and quarrying (24,3%) being the largest contributing sector, followed by manufacturing with agriculture's contribution estimated at just below 6%. The Ehlanzeni district, which is the location of the SEZ, contributes about 32% to Mpumalanga's gross domestic product (GDP).

Unemployment is a particularly serious challenge in Mpumalanga. In 2011, the estimated unemployment in the province was 31,6%, higher than the national average. The Ehlanzeni district municipality had an unemployment rate of 34,4%. The share of the population in Mpumalanga was below the lower-bound poverty line at 1,998 million. This is also 36,2% of the Mpumalanga total population in 2013 that was measured at below R513 per capita per month level. Most of the challenges stem from the severe poverty faced by many in the province and the high inequality between the rural poor and well-serviced urban centres, as well as underserviced townships and informal settlements.

The Nkomazi local municipality is located in the eastern part of Mpumalanga's Ehlanzeni district municipality. The municipality is strategically placed, being located to the north of Swaziland and the west of Mozambique. It is linked to Swaziland by two provincial roads, the R570 and R571 and to Mozambique by a railway line and the main national road (N4), which forms the strategic Maputo Corridor.

The geographical location of the Nkomazi area is its greatest competitive advantage. The increased demand for export capacity is currently placing a heavy burden on the capacity and infrastructure of Durban Port, causing delays in both import and export handling. The Maputo Corridor is bound to develop as the harbour at Maputo improves its handling and scheduling capacity. In the event that a second rail line to Maputo is developed, to complement the current rail link, the shipment of mining products and agricultural produce to and from Limpopo and Mpumalanga will increase.

1.2.1 Agriculture overview in Mpumalanga

An abundance of citrus and many other subtropical fruits such as mangoes, avocados, litchis, bananas, papayas, granadillas and guavas as well as nuts and a variety of vegetables are produced in Mpumalanga. Mbombela is the second-largest citrus-producing area in South Africa and provides one-third of the country's export in oranges. Groblersdal is an important irrigation area, yielding crops such as citrus, cotton, tobacco, wheat and vegetables. Carolina-Bethal-Ermelo is mainly a sheep-farming area; in addition potatoes, sunflower, maize and peanuts are also produced in this region.

1.2.1 Agriculture overview in Mpumalanga

Mpumalanga is also home to the largest stock of beef cattle in South Africa and is responsible for 22% of South Africa's beef production. This livestock is processed in the province by 32 red meat abattoirs and 21 poultry abattoirs, including large commercial operators such as Karan Beef and Kanhym (red meat) as well as Daybreak, Early Bird and Alzu. Sappi's Ngodwana plant, close to Mbombela, is a fully integrated Kraft mill producing pulp for its own consumption as well as newsprint and container board. In August 2013, the mill started producing dissolving wood pulp (specialised cellulose) for global markets that can be exported through Maputo Port.

Agricultural activities in the Nkomazi area are dominated by banana growers and sugar cane farms, with companies such as the Crooks Brothers and TSB Sugar Holdings being the main farm operators. Other food-processing activities in the region comprise a large TSB Sugar Holdings sugar-processing factory and several fruit processors in Mbombela and Malelane. The dominance of sugar cane in the Lowveld region of the province limits opportunities for further agricultural and agri-processing development in the Ehlanzeni district.

However, feasibility studies in respect of agricultural production and processing by various institutions, including the National Agriculture Marketing Council and private investors, have indicated that there are excellent agricultural opportunities in the Bushbuckridge area. It is therefore proposed that this area is included in an assessment of SEZ viability in Mpumalanga.

The establishment of a fresh produce market in Mpumalanga and specifically within the implied boundaries is well advanced in its planning and will also support the establishment of the Bushbuckridge Agro-Industrial Park. The establishment of the Bushbuckridge Agro-Industrial Park is viable for supporting and supplying input and raw material for agri-processing hub. The ideal location of the Bushbuckridge area will also support the establishment of the fresh produce trade hub and market currently under development by the Mpumalanga Economic Growth Agency in Mbombela.

> "Unemployment is a particularly serious challenge in Mpumalanga. In 2011, the estimated unemployment in the province was 31,6%,"

1.2.1 Agriculture overview in Mpumalanga Conti...

COMMODITY	TOTAL RSA PRODUCTION ('000 TON)	TOTAL PRODUCTION MPUMALANGA PROVINCE ('000 TON)	PERCENTAGE SHARE MPUMALANGA	RANKING
Maize	12,050	2,870	24%	2nd
Sorghum	27,650	66,000	24%	2nd
Soya beans	516,600	262,500	51%	1st
Sunflower	801,000	37,500	5%	3rd
Dry beans	67,030	15,750	23%	2nd
Citrus	2,285,384	685,615	32%	2nd
Banana	405,000	145,800	36%	2nd
Macadamia	18621	8824	47%	1st
	TOTAL RSA PRODUCTION (NO. OF ANIMALS)	TOTAL PRODUCTION MPUMALANGA (NO. OF ANIMALS)	PERCENTAGE SHARE MPUMALANGA	RANKING
Cattle	14,850,000	1,485,000	10%	5th
Sheep	25,528,571	1,787,000	7%	5th
Goat	2,077,000	95,036	5%	5th
Poultry	3,185,000	573,300	18%	3rd

Table 1: Agricultural production capacity of the province

1.2.2 Mining overview

Mpumalanga and Limpopo are responsible for the bulk of South Africa's mineral production. Mpumalanga is the third-largest coal exporter in the world and Witbank is the biggest coal producer in Africa. Although South Africa has 19 official coal fields, 70% of recoverable reserves lie in the Highveld, Waterberg and Witbank fields. The province contributes 30% to South Africa's primary and processed minerals sector. Contribution to the South Africa's processed minerals export basket stands at 34%. Mpumalanga's extraordinary variety of mineral resources also includes abundant platinum, steel, chrome, copper and uranium reserves supporting the province's standing as arguably the most important hub of South Africa's mining industry. Mining contributes 22,5% to the provincial GRDP. Within the basket of minerals available in Mpumalanga, there are several specialty minerals, such as manganese, fluorspar and antimony that can be used in the production of products such as industrial chemicals, steel, agri-chemicals and refractory materials. The Nkomazi SEZ could capitalise on its proximity to an export/import port (Maputo) and the availability of alternative energy sources (liquefied natural gas) to promote the local manufacture of these products; the SEZ is also located on a main transnational development corridor known as the Maputo Corridor.

1.2.3 Automotive industry overview

The South African automotive industry includes seven original equipment manufacturers with vehicle assembly facilities in Gauteng, the Eastern Cape and KwaZulu-Natal. Export of locally assembled passenger and light commercial vehicles to other African countries has increased to over 90 000 units a year. The improved state of development of Richards Bay and Durban as export ports has contributed towards the export traffic of vehicles and minerals being diverted from Maputo to these ports over the last 20 years. However, the establishment of the Maputo Corridor Logistics Initiative (MCLI) and the stable political and economic environment of Mozambique led to the establishment of the Maputo Port Development Company (MPDC). The company has further developed the coal and vehicle terminal and is now experiencing increased demand for the export of raw and processed minerals originating from the northern provinces of South Africa and vehicles from Africa. Further development of the port's handling capacity will attract more export traffic from South African mines and industries. Komatipoort and the proposed Nkomazi SEZ should be aligned to support the MCLI, with the export/import of commodities becoming an important link in the transport of goods across the border.

1.2.4 Logistics industry overview

The state of the South African logistics industry was assessed in the 10th Annual State of Logistics Survey for South Africa 2013, compiled by the Council for Industrial and Scientific Research, Imperial Logistics and the University of Stellenbosch.

Key findings include:

The total cost of logistics in 2012 was R393 billion and was estimated to be R423 billion for 2013; the forecast for the total cost of logistics for 2014 was R456 billion.

The largest cost component of total logistics costs throughout the past decade has always been transport costs.

In 2012, transport costs accounted for 61,2% of logistics costs; in 2013 this percentage was estimated at 61,6%, while in 2003, the global average for transport costs' contribution to total logistics costs was 39%. The fact that South Africa is a spatially challenged economy is one of the primary reasons for the much higher percentage.

The primary cost drivers for transport costs are fuel and wages. Transport costs as a percentage of GDP equated to 7,6% in 2012.

The performance and growth of the South African logistics industry are both inputs to and outflows from the performance and growth of the South African economy – especially in the primary and secondary sectors. The exchange rate, inflation rate and interest rate directly impact the cost performance of the industry. Other macroeconomic issues such as the structure of the South African economy, balance of payments, budget deficits and the human resource problems affect the economy as a whole, influencing the demand for logistics services.

Simultaneously, the performance of the logistics industry, specifically the cost of logistics, affects the global competitiveness of South African industries. Logistics costs as a percentage of transportable GDP have grown significantly over the past four years. A deeper investigation of individual cost components and cost drivers shows that the increase in logistics costs is perhaps not so much the result of deteriorating efficiency in the industry but the disproportionate growth in cost drivers, especially fuel. To change the trends in underlying cost drivers or significantly mitigate their impact requires more than just operational efficiency enhancements; it requires bold steps in addressing the ingrained issues that stifle the economy as well as new directions in how supply chains operate.

"The total cost of logistics in 2012 was R393 billion and was estimated to be R423 billion for 2013;"

1.2.4 Logistics industry overview Conti...

On an operational level, in the 2014 supply chain foresight survey conducted by Barlow World Logistics, individual companies ranked the following as the top South African supply chain and logistics constraints:

- cost of transport
- ineffective processes and systems
- reactive versus proactive approach of the industry and infrastructure providers
- supply chain information and intelligence available to operators and users
- internal and external silo-based mentality
- lack of overall supply chain strategy and operations
- lack of availability and adequacy of supply chain skills
- efficiency of ports and harbours
- labour unrest
- reluctance and/or foresight to change/innovate.

The geographical position of Nkomazi in relation to the sub-Saharan countries of East Africa, the proximity to some of the major mining and agricultural production areas of the country's northern provinces as well as access to good transport infrastructure provides Nkomazi with an advantage as a logistics and distribution hub.

The South African logistics industry is currently the backbone of Nkomazi's economy. The demand for transportation of goods and commodities, through Komatipoort to Maputo and vice versa, is evident in the continued increase in traffic on road and rail.

The Nkomazi SEZ offers a unique opportunity to reduce the costs of freight by creating an inland port that can handle cargo containers and bulk materials transport through the trans-shipment of road cargo to rail (intermodal), thereby reducing the truck congestion on the roads between Gauteng and Maputo Port.

1.2.5 The Maputo Corridor Logistics Initiative (MCLI)

The Maputo Corridor integrates the regions of Swaziland, southern Mozambique and the industrialised regions of Mpumalanga, Gauteng and Limpopo. In the 1970s, 40% of South Africa's exports went out through Lourenço Marques, as the capital of Mozambique was then called. The situation has changed radically and South Africa has developed specialised hubs at Durban, Richards Bay, Port Elizabeth and Coega that handle much of its bulk exports, cars, container traffic and others. The proximity of Maputo Port to the above regions is evident and it should therefore present a very cost-effective alternative to South African ports, while assisting with the overall development and integration of SADC countries. This fact led to the establishment of the MPDC. The MPDC has invested in significant port development and has evolved as a multiterminal port that suits many freight carriers. These developments enhance its geographical advantage for the export of commodities and goods from mines and industries situated in the north of South Africa.

1.2.5 The Maputo Corridor Logistics Initiative (MCLI)

The challenges that the MCLI faces in promoting export growth is the age and operational effectiveness of the road and rail links between Komatipoort and Maputo Port. The MCLI have indicated that there is a plan to spend US$204 million on upgrading the rail track and rolling stock. The three operators in the rail corridor – MCLI partners Transnet Freight Rail, Swazi Rail and Portos e Caminhos de Ferro de Moçambique – have formed a joint operations centre that will offer a more robust approach to future needs. The MPDC, spearheaded by Grindrod Terminals, has also embarked on a continuous upgrade programme for the port and plans are underway to increase the port handling capacity from its current seven million tons to 50 million tons by 2020.

The Nkomazi SEZ plays a pivotal role in the export of citrus and other fruits/vegetables from the northern provinces of South Africa, as the cost of transport to Durban port is becoming prohibitive and there is ongoing congestion. The Citrus Growers Association has identified the significant benefits offered by the proximity of Maputo Port to their production areas in Limpopo, Mpumalanga and Swaziland. The use of rail transport in the Maputo Corridor is also considered a key benefit.

There is a need for an intermodal hub at Komatipoort/Malelane per area logistic surveys, and an intermodal facility in the proposed Nkomazi SEZ together with a pre-cooling facility will be a major benefit for the citrus growers in the areas identified.

The pivotal role that the Maputo Corridor plays in the South African and SADC economies is illustrated in Figure 1 below.

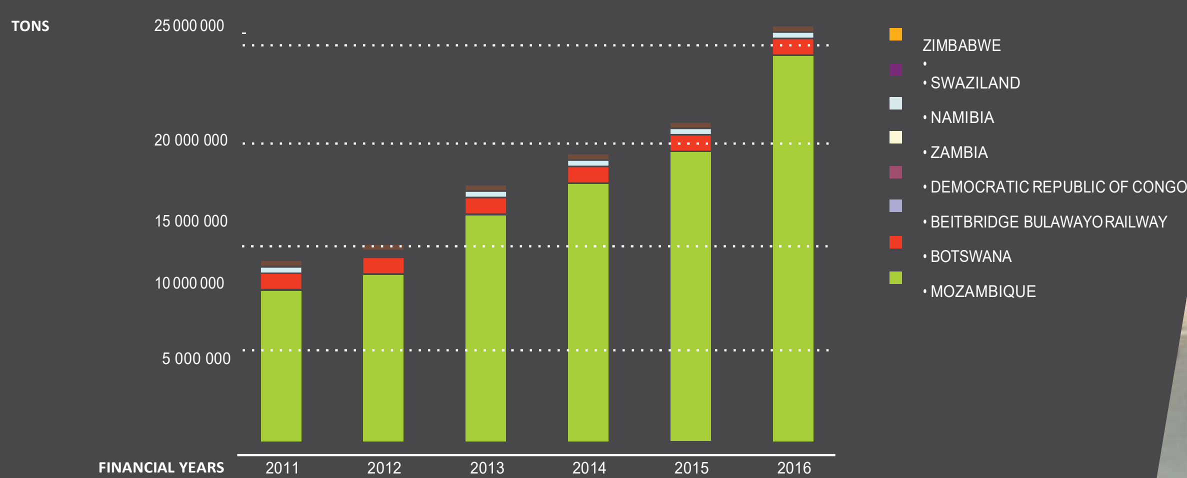


Figure 4: Projected future transport from South Africa to SADC

> “The Nkomazi SEZ offers a unique opportunity to reduce the costs of freight by creating an inland port that can handle cargo containers”

Geographic market

The geographic market served by the Maputo Corridor covers one of the most industrialised and productive regions of sub-Saharan Africa. This area includes:

South Africa

GAUTENG

Gauteng (Johannesburg and Pretoria). This region forms the western axis of the corridor. Comprising the largest part of the region known as the Witwatersrand, this area is the commercial, financial and services hub of South Africa. It also has a large concentration of manufacturing, processing, mining and smelting industries.

MPUMALANGA

Mpumalanga. Mpumalanga, with its capital Mbombela, has a diversified economy supported principally by manufacturing, mining, electricity generation, tourism, chemicals, agriculture and forestry. Landlocked and with a large commodity export base, Mpumalanga is seen as the primary beneficiary of the Maputo Corridor.

LIMPOPO

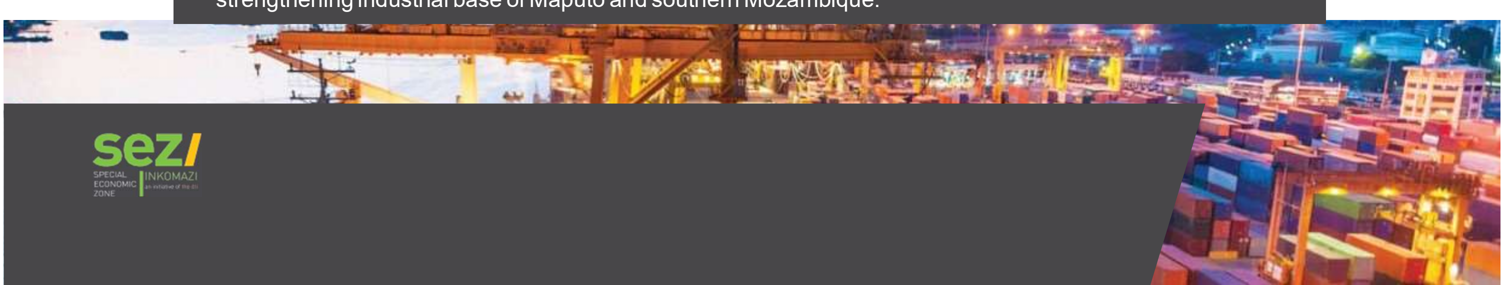
Limpopo. Bordering Mpumalanga in the north, Limpopo forms a sub-corridor connecting to the vast magnetite deposits of Phalaborwa to the South African/Mozambican border at Komatipoort by 280 km of rail.

SWAZILAND

Swaziland. To the south, Swaziland uses the Port of Maputo for significant exports of bulk and bagged sugar, citrus and forest products and for imports of cereals.

MOZAMBIQUE

Mozambique. At the eastern end of the corridor, the Mozambican deep-water Port of Maputo has traditionally provided the nearest facilities for the importers and exporters of the regions above. The port also serves the rapidly strengthening industrial base of Maputo and southern Mozambique.



MPUMALANGA

There are two main freight flows along the Maputo corridor:

- Road freight consists of bulk and other commodities from Mpumalanga for export and domestic consumption and goods from Gauteng for domestic consumption in Mozambique.
- Rail freight consists mainly of bulk exports from Mpumalanga and Limpopo destined for export through Maputo Port.

Corridor traffic tonnage is dominated by coal and magnetite (an iron ore), which are transported by rail. It is also important to note that the corridor presents an imbalance between import cargo from South Africa and export cargo from Mozambique. The distribution of traffic by type is given in Figure 21 below.

Road freight transit flow

The freight transported on the corridor from South Africa to Mozambique or to the Port of Maputo by road was approximately 2,25 million tons per year in 2007. The estimated annual number of vehicles crossing the border is 168 780, with an average of about 560 vehicles per day. Because of the constraints on the rail line, what is traditionally rail cargo is transported to the port by road.

Rail freight transit flow

The rail corridor carried approximately 1,7 million tons in 2007 in and out of the port, but has the capacity to carry 18 million tons a year. In 1980, MPDC records show that the railway line conveyed eight million gross tons (port inbound and outbound to South Africa). Express trains operated on the corridor, moving both containers and perishables. But because routine maintenance was discontinued in Mozambique and South Africa, the volume of rail cargo has declined dramatically.

Port of Maputo

Port potential is currently seen as 11 million tons to 16 million tons a year. The MPDC sees the optimal capacity of Maputo Port terminals as 11 million tons a year and that of the Matola bulk terminal as six million tons a year. Ultimate capacity through further investment in infrastructure is thought by MPDC to be in excess of 20 million tons. Of total port traffic, South African exports comprised about 59% of all exports and 77% of all transit trade in 2007. The bulk of this traffic was South African coal and magnetite exports all shipped by rail.

Summary of Nkomazi SEZ

The SEZ is a multi-sectorial zone that focuses on the agri-processing sector supported by logistics for automotive, mining and agricultural products. For this SEZ to be successful, commercial business will be attracted to invest in and establish within the zone. At least 16 facilities are designed to be accommodated in the SEZ for the sectors, value addition and operations of the zone. Please refer to Table 3 below.

No.	Facilities	No of Facilities	Hectares	Jobs Created			Investment Value (Rm)	
				Operational	Construction	Indirect Jobs	Public	Private
1	Distribution centre and Warehouse – ferrous and related mining (chrome)	1	3	35	350	30	60	90
2	Distribution centre and Warehouse – coal	1	3	30	350	32	60	100
3	Automotive warehouse – Consolidation - Mureza Auto Company	1	3	180	900	450	100	500
4	Vehicle Preparation Centre (Automotive)	1	3	30	300	18	7	90
5	Automotive Manufacturer - Granton Meriwell	1	200	150	2500	1000	400	2000
6	General Logistics warehouse – Truck staging	1	3	40	250	18	60	30
7	General Logistics warehouse – Refuelling Station	1	3	40	250	10	7	30
8	Logistics - Bulk Liquid transportation - Bakers Tankers	1	1	40	50	40	7	15
9	Cold storage for meat, vegetables and fruit - Eagle Crest Farming (Pty) Ltd	1	20	150	1000	2500	60	100
10	Citrus fruit processing & packaging facility	1	3	70	280	700	60	50
11	Macadamia nuts processing & packaging facility	1	3	90	400	1000	7	50
12	Sugarcane processing, storage & packaging facility	1	3	70	280	700	60	50
13	Mango fruit processing & packaging facility	1	3	90	400	1000	7	50
14	Avocado processing & packaging facility	1	3	50	200	500	7	70
15	Banana Powder and Chip facility	1	3	50	200	500	7	50
16	Quarantine and Cold (oxygen controlled) - Brand New Harvest	1	300	500	2500	1750	600	3000
	Storage Facility, Containers		18					
	Sub-total		**575**	**1615**	**10210**	**10248**	**1509**	**6275**
17	Multi-user shared administration facility	1	3	100	500	32	60	100
Land Area (hectares)			**578**	**1715**	**10710**	**10280**	**1569**	**6375**

Table 2: Indicates number of facilities and hectares for Nkomazi SEZ

1.3.1 Site location

Two sites have been identified that can serve as the basis for the establishment of the Nkomazi SEZ. Both are adjacent to the N4 Maputo Corridor.

a) The top site (Lebombo Dry Port) is a well-established site with facilities for truck stops and overnight facilities, and with various other support functions that operate from offices on the site, such as the South African Revenue Service, the Perishable Products Export Control Board, the South African Police Service and various logistics companies. However, the site needs further development and improvement. The site currently belongs to the Department of Public Works and was leased to the South African National Roads Agency Limited (Sanral) for a period of 30 years commencing in 2002. The land has subsequently been subleased by Sanral to a private company Micromatica (Pty) Ltd, which developed the site for logistics support services. The site has limited water, sewerage and electricity reticulation.

1.3.1 Site location Conti...

b) The site below the N4 is ideally suited for agri-processing, the expansion of logistics support services such as a vehicle distribution centre, as well as a container yard and inter-modal logistics support facility. The Nkomazi local municipality has taken a council resolution to make available 700 ha of Portion 58 of the farm Komatipoort Townlands, 182-JU, for the establishment of the Nkomazi SEZ. However, for the purpose of this submission, 300 ha will be used for the Phase 1 of the planned SEZ development.

The area is located between contours 145 m and 173 m above mean sea level and the average annual rainfall is 427 mm. The proposed land is located directly south of the N4, approximately 1 km from the N4/R571 crossing and 6 km from the Lebombo Border Post. An environmental impact assessment and traffic impact assessment for township establishment and rezoning of the land for a light industrial park has been prepared and submitted. The submission is currently being reviewed and awaiting approval by the relevant departments.

The site also lends itself to the further development of industrial businesses in the area. The land currently belongs to the municipality and is rented to TSB Sugar Holdings for sugar cane production. The land is zoned for agricultural use and is only serviced for irrigation purposes.

The site layout of both proposed sites is illustrated in Figure 5 below.

Figure 5: Nkomazi SEZ site plan

1.3.2 Infrastructure assessment

Currently, the proposed site is used as agricultural land (sugar cane fields) and is leased out to TSB Sugar Holdings by the Nkomazi local municipality. Bulk services infrastructure are planned for the second half of 2017; the site used for the Lebombo Dry Port does have some connections to power, water and sewage.

The proposed development of the infrastructure for the SEZ will therefore require the design and construction of water supply (the current irrigation system used by TSB Sugar Holdings could probably be used for this purpose), sewer and sanitation systems, storm-water drainage and bulk reservoirs as well as the upgrade of the electricity supply.

It is noted that the Komati River is located 3 km east of the proposed site towards Komatipoort and therefore it is proposed that a 1/100-year flood line analysis be undertaken due to its proximity the proposed SEZ site.

Sasol owns and operates a gas filter and pump station on a site adjacent to the proposed SEZ site and the design features of this site might be indicative of previous research and studies undertaken.

Observations during a site visit indicated that the site is generally level and will be reasonably easy to develop as there will be minimal cut/fill earthworks.

The development of the SEZ will require funds for the upgrading and installation of bulk infrastructure, i.e. civil, electrical and information and communications technology (ICT) as well as the funding of top structures on the designated site. Table 3 below summarises the estimated costs of the infrastructure required for the SEZ.

Item	Description	Unit	Cost (R mil)
1	Bulk civil infrastructure	Sum	276,4
2	Bulk electricity supply	Sum	163,5
3	ICT	Sum	52,1
4	Infrastructure connection	Sum	49,0
5	Top structures (no.)	9	920
Total			**1 461**

Table 3: Estimated SEZ infrastructure costs

1.3.2 Infrastructure assessment Conti...

The development of the Nkomazi SEZ will require funds for upgrading existing and providing new bulk infrastructure. The total cost for developing the SEZ is indicated in Table 3 above.

Period (years)	Number of investors	SEZ capital (R mil)	Tenant outlay (R mil)
1 – 5	4	736,3	191
5 – 10	5	210,5	478
10 – 15	7	105,2	1 243
Total	**16**	**1 052**	**1 912**

Table 4: SEZ investor roll-out plan inclusive of capital outlay

1.3.3 Top structures

It is envisaged that the 16 investors will be secured over a period of 15 years and Table 5 below illustrates the planned investor roll-out plan inclusive of the capital outlays.

The average cost of the top structures is estimated at R60 million per structure. Ideally, it is recommended that the tenants would fund their own top structures; however, to generate interest and momentum, it is planned that the SEZ will fund the initial 10 top structures and enter lease agreements with the tenants for the facilities. This will generate revenue and thus lead to sustainability of the SEZ and SEZ entity.

1.3.4 Nkomazi SEZ capital and operational costs

Table 5 below gives a cumulative estimation of capital and operational costs for a period of 15 years, covering 2018 – 2033.

Timelines (years	*2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating cost (R mil)		26,5	38,6	56,3	82,2	119.7	126,6	134,5	142,5	151,1	160,2	169,8	180	190,8	202,2	214,3
Capital cost R mil)**	0	248,7	261,2	-	-	93	97,7	102,6	-	-	133,6	140,2	140,2	-	-	-
Top structures (R mil)	0	-	63	66,2	532,5	-	459,5	4 82,4	84,4	147,7	-	-	102,6	-	-	-
Total (R mil)	0	275,2	362,8	122,5	614,6	212,7	684,1	719,5	226,9	298,8	293,8	310	282,6	190,8	202,2	214,3
No of investors	4						5						7			
No of jobs	5 077						6 843						10 154			

Table 5: Nkomazi SEZ capital and operational costs

** 2018 Opex should be covered by PMO budget*

*** Capex is investor related, not enabling bulk infrastructure*

1.3.4 Nkomazi SEZ capital and operational costs Conti...

The total capital cost for development of the Nkomazi SEZ is estimated at R2,6 billion (2016 costing). Please refer to Table 5 above. The SEZ Act, 2014 requires that an SEZ entity is created to operate the SEZ. In the case of the Nkomazi SEZ, it is intended that the provincial Department of Economic Development and Tourism, as the proposed licensee, will apply on behalf of the province with the department being the shareholder.

The Ehlanzeni district municipality and Nkomazi local municipality are not considered for ownership due to the complexities around the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999) and the Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003). The province will also be required to plan and provide for the Nkomazi SEZ's operating costs, which are budgeted at R26,5 million in the first year, increasing at 5% for a period of 15 years. The current SEZ funding model indicates that designated SEZs will be funded up to 90% of the total cost of the required bulk infrastructure, leaving the remaining cost without a funder.

The funding from the dti will be allocated for the first 10 years of development. The current model also requires that the province makes available funds for operating the SEZ. Furthermore, the 10% shortfall on the capital cost will also need to be sourced by the SEZ entity from the province and/or municipality, or any other permissible source such as a development finance institution.

The entire Nkomazi SEZ development will occupy about 700 ha of a mixed development precinct. The strength of the agricultural sector combined with the logistics and transportation potential makes the proposed 700-ha Nkomazi SEZ ideal as a multi-sectoral sector development zone. The 700-ha SEZ will comprise the following;

- Some 16 sector development projects mainly from the agri-processing sector (these will include an innovation platform to house small, medium and macro-enterprise agri-processors as well as research and development).
- A construction period of 16 years is envisioned for the period 2018 – 2033.
- It is estimated that the SEZ will create about 10 210 jobs during construction, 1 615 sustained operational jobs and 10 248 indirect jobs – this includes those people who will be working in the SEZ precinct. The total economy-wide, direct, indirect and induced jobs are estimated at 22073. This means that for every R1 million spent, more than five direct jobs are created.
- The Nkomazi LM has already resolved to make available 300 ha of Portion 58 of the farm Komatipoort Townlands, 182-JU, for the establishment of Phase 1 of the Nkomazi SEZ; however, interest from potential investors has necessitated that 400 ha of additional land be made available.

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- It is expected that the total economy-wide value-add for the province will increase by R616 million a year, resulting from the development of the 700-ha Nkomazi SEZ. In summary, the cumulative contribution of the proposed 700-ha Nkomazi SEZ to the Mpumalanga economy is expected to be R12,3 billion over a period of 15 years.

- It is anticipated that this designation application will be accepted by the dti, as it aligns to South Africa's economic devel opment policies such as the SEZ policy, IPAP and the Agriculture Development Programme.

- It is proposed that the provincial Department of Economic Development and Tourism is the owner (major shareholder) of the SEZ entity and that the municipality will be a 10% shareholder. This option is considered to be the most viable for to the following reasons:

  - o It avoids giving preference of a particular municipality.
  - o It avoids complexities with regards to the MFMA, 2003 and the PFMA,1999.
  - o It avoids long decision-making processes (i.e. standing committees, mayoral committees and council committees).

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