

Introduction

The Free State Development Corporation (FDC) is the official economic development agency for the Free State.

The agency focuses on four key activities in order to achieve growth and development: investment promotion and facilitation, services to SMME's, export related assistance and property management.



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1. FDC SERVICES



The Free State Development Corporation seeks to drive enterprise development, investment and trade in South Africa's most central province.

ECONOMIC DEVELOPMENT SERVICES

(i) Investor Services

Services to investors include:

- Packaging, promoting, and facilitating investment projects.
- Assistance with incentives, EIA and Finance.
- Project facilitation services.
- Site identification and evaluation.
- After-care services.

- Backward and forward linkages
- Business retention and expansion

(ii) Export-Related Services

Services to exporters include:

- Product promotion through trade missions and exhibitions.
- Access to national government incentive programmes.
- Capacity building workshops.
- Trade leads dissemination.
- Intra-trade business to business facilitation.
- Market intelligence.

(iii) SMME Funding and Support

The FDC delivers the following products and services to SMMEs & Co-operatives:

- Financial (business loans, equity and investments)
- Business development (in partnership with stakeholders)
- Partner support services (including property-management through the FDC property portfolio)

2. FDC PROPERTY PORTFOLIO



FDC Property Portfolio

The corporation owns 253 commercial properties, 290 industrial properties and a large number of residential and vacant land for development.

The FDC uses the factory units to:

- Facilitate commercial and industrial activity
- Assist new investors who may be looking for suitable premises; and
- Facilitate SMME development, particularly in rural areas.

Industrial property rates

- Currently range from R9.08 to R 14.52 per square metre for factory space, depending on the features of the property.

Commercial Premises

- Currently range from R30 to R60 per square metre depending on various factors.

Incentives

FDC offers the following incentives

- Subsidized rental rates.
- Rental holiday of up to 3 months.
- Special incentives and discounts for BEE companies or individuals.

Industrial properties

- Industriqwa (Harrismith)
- Botshabelo
- Thaba – Nchu
- Qwa –Qwa

3. SMME DEVELOPMENT

SMME Development

The principal objectives in the FDC's SMME development strategy are:

- Development of sustainable SMME projects that create jobs.
- Growing a balanced and profitable SMME loan portfolio.
- Promoting black economic empowerment and increasing economic participation of previously disadvantaged individuals.

Funding of SMME's and Co-operatives are directed to the following key strategic sectors:

Manufacturing:

- Agro-Processing.
- Mineral Beneficiation.
- Chemical Beneficiation.

Services:

- Franchising.
- Retail.
- Tourism Development.
- Transport and logistics.
- Information and Communications Technology.
- Business Process services and offshoring (BPS&O)



3.1. FDC FINANCIAL PRODUCTS

3.1.1 CO-OPERATIVES DEVELOPMENT FUND OBJECTIVES

- To fund Co-operatives for expansion and sustainability.
- Acquiring and supplying of any product produced by the Co-operative.
- The loans will be considered only for income generating assets for the purpose of ensuring that the Co-operatives produce and supply goods and services.

FINANCING POLICY:

Loan size

Based on the capital required but not to exceed R500 000 per investment.

Exclusions

- Purchase of shares from existing businesses.
- Debt financing.
- Guarantees.
- Plant relocation.
- Non income generating assets.
- Financing of vehicles/automobiles for private use is explicitly excluded.
- Property Development.

Loan repayment terms

- 60 to 72 months maximum.

Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%.

Grace period

- The grace period for payment will depend on the nature of a project, which in the case of a new business shall not exceed three months from date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In the case of an existing business the grace period may not exceed one month from date of the first disbursement.

Own Contribution

- No equity contribution shall be required for this loan product.

Securities

- √ A 100% security cover is desirable; however, a minimum cover of 60% will be considered, depending on the product and capital required. The Viability and risk of the venture will also be considered for the purpose of determining the security cover.

Fees

The following fees and costs shall be payable by all applicants:

- √ Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000, is payable before implementation and disbursement of the loan. (this amount can be capitalised if requested by client)
- √ Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower must cede comprehensive short-term business insurance to the FDC.



▶ 3.1.2. INFORMAL SECTOR FUND

OBJECTIVES OF THE FUNDS:

- Alleviating unemployment through micro-enterprise initiatives.
- Financing of businesses, which are at formation stages.
- Targeting the informal sector and small start-up businesses.
- To assist the unemployed and preferably people with technical skills to start micro manufacturing businesses.

FINANCING POLICY

Loan Size

- Based on capital needs, a minimum of R5 000 and not exceeding R50 000 per investment.

Exclusions

- Purchase of shares from existing businesses.
- Debt financing.
- Guarantees.
- Non income generating assets.
- Property Development.
- Financing of Vehicles/Automobiles for private use is explicitly excluded.

Loan Repayment terms

- Loans for stock and equipment: 60 to 72 months maximum.

Interest Rate (Fixed)

- The interest rate charged will be based on the prevailing prime rate plus 1%.

Grace Period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed three months from date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In case of an existing business the grace period may not exceed one month from date of the first disbursement.

Own Contribution

- No equity contribution shall be required for this loan product

Securities

- A 100% security cover is desirable; however, a minimum cover of 60% will be considered depending on the product and capital required. Viability and risk of the venture will also be considered for the purpose of determining the security cover.

Fees

The following fees and costs shall be payable by all applicants:

- No initiation fees are required for this loan product.
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower is covered by the FDC group scheme. The premium will be included in the monthly instalment.
- The borrower has an option to cede their own life cover insurance policy
- The borrower must cede comprehensive short-term business insurance to the FDC.



▶ 3.1.3. FRANCHISE DEVELOPMENT FUND

OBJECTIVES OF THE FUND

- To actively promote franchise businesses in the Free State.
- Targeting entrepreneurs from previously disadvantaged groups, with the view of promoting Broad Based Black Economic Empowerment.

FINANCING POLICY:

Maximum Loan

- Based on the capital needs, but shall not exceed R5 000 000 per investment.

Exclusions

- Franchise fee
- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded
- Purchase/payment of non-income generating assets or expenditure
- Debt financing.

Loan Repayment terms

- 60 to 72 months maximum

Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%

Grace Period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed six months from date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In the case of an existing business the grace period may not exceed one month from date of first disbursement.

Own Contribution

- Not required

Securities

- A 100% security cover is desirable; however, a minimum cover of 60% may be considered depending on the product and capital required. Viability and risk of the venture shall also be considered for the purpose of determining the security cover.

Fees

The following fees and costs shall be payable by all applicants:

- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000, is payable before implementation and disbursement of the loan. (To be capitalised if requested by client).
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower must be covered by the FDC group credit insurance scheme for projects limited to a maximum capital exposure of R300 000 per loan (the premium to be included in the monthly instalment); or cession of own life cover policy on total exposure.
- Comprehensive insurance to be ceded to the FDC.

3.1.4. YOUTH FUND

OBJECTIVES OF THE FUND

- Alleviating unemployment amongst the youth through business initiatives.
- Financing of start-ups, expansions and buy-in/out operations.
- Companies, co-operatives and closed corporations owned, managed and operated by the youth.

FINANCING POLICY

Loan Size

- Based on capital needs, a minimum of R50 000 and not exceeding R500 000 per investment.

Exclusions

- Property financing
- Debt financing
- Purchasing of shares
- Non-income generating assets
- Guarantees
- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded

Loan Repayment terms

- 60 to 72 months maximum



Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%.

Grace Period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed three months from the date of first disbursement.
- The interest charged during the grace period shall be capitalized.
- In case of an existing business the grace period may not exceed one month from the date of first disbursement.

Own Contribution

- No equity contribution shall be required for this loan product.

Securities

- A 100% security cover is desirable; however, a minimum cover of 60% may be considered depending on the product and capital required. The viability and risk of the venture should also be considered for the purpose of determining the security cover.

Fees

The following fees and costs shall be payable by all applicants:

- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000 is payable before implementation and disbursement of the loan. Initiation fee may be capitalised by client if requested.
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower will be covered by the FDC group scheme insurance for projects limited to a maximum capital exposure of R300 000 per loan (the premium to be included in the monthly instalment); or cession of own life cover policy on total loan balance.
- Comprehensive insurance to be ceded to the FDC.



▶ 3.1.5. GENERAL ENTERPRISE DEVELOPMENT FUND

OBJECTIVES OF THE FUND

- Increase participation of previously disadvantaged individuals (PDI) in areas of the economy in which they are underrepresented.
- Establishment of a significant manufacturing sector in the Province.
- Development of agro-processing industry in the Province.
- Development of the ICT and BPS&O industries.
- Promote and encourage tourism development in the Province.
- Diversification and Technology upgrading of existing manufacturers.
- Financing of commercial vehicles (Light and medium trucks) including heavy duty trucks with semi-trailer configuration for transporting goods can be financed by the FDC.
- Financing of plant, machinery and equipment including industrial equipment.

FINANCING POLICY:

Loan size

- Based on the capital needs, above R50 000 and not exceeding R5 000 000 per investment.

Exclusions

- Purchase of shares from existing businesses
- Debt financing
- Guarantees
- Plant relocation
- Non income generating assets
- Financing of Vehicles/Automobiles for private use is explicitly excluded

Loan Repayment terms

- 60 to 72 months maximum
- Loans for property : Maximum 120 months

Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%

Grace Period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed six months from the date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In the case of an existing business the grace period shall not exceed three months.

Equity Contribution

- An equity contribution is not required

Securities

- A 100% security cover is desirable; however, a minimum cover of 80% may be considered depending on the product and capital required. Viability and risk of the venture should also be considered for the purpose of determining the security cover.

Fees

The following fees and costs shall be payable by all applicants:

- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000, is payable before implementation and disbursement of the loan. (To be capitalised if requested by client).
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower will be covered by the FDC group scheme insurance for projects limited to maximum capital exposure covered by the FDC group credit scheme (the premium to be included in the monthly instalment); or cession of own life cover policy on total exposure.
- Comprehensive insurance to be ceded to the FDC.

3.1.6. BRIDGING FINANCE (ONCE-OFF ORDER/ NON – CONSTRUCTION RELATED)

OBJECTIVES OF THE FUND

- To bridge the cash flow needs of SMME's who have to meet specific contracts or orders.
- Finance is targeted to SMME's in the service, manufacturing and retail industries.

FINANCING POLICY

Loan size

Based on the capital needs the loan shall be limited to 80% of the contract amount or R1 000 000; (whichever is lesser.)

Exclusions

- Property financing
- Franchise
- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded
- Debt financing

Loan Repayment term

- Linked to the project cycle

Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%.

Securities

- Registration of cession of payments in respect of contract
- The cedent must make payments directly into FDC's bank account

Fees

The following fees and costs shall be payable by all applicants:

- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50, 000, is payable before implementation and disbursement of the loan (to be capitalised if requested by client).

3.1.7. BRIDGING FINANCE – CONSTRUCTION RELATED



OBJECTIVES OF THE FUND

- To bridge the cash flow needs of SMME's who have to meet specific contracts or orders.
- Provide finance for contractors who have been awarded construction related tenders by the Government departments and Municipalities.

FINANCING POLICY

Loan size

Based on the capital needs, the revolving credit lines, may not exceed R5 000 000 per project, limited to a threshold of 50% of the contract amount.

Exclusions

- Property financing
- Franchise
- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded.
- Debt financing

Loan Repayment term

- Linked to the project cycle.

Interest Rate (Fluctuating)

- The interest rate charged will be based on the prevailing prime rate plus 1%.

Securities

- Registration of cession of payments in respect of contract.
- The cedent must make payments directly into FDC's bank account.
- In cases where cession of payment is not possible, the security as applicable for General Enterprise Fund shall be registered.

Fees

The following fees and costs shall be payable by all applicants:

- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000, is payable before implementation and disbursement of the loan. (To be capitalised if requested by client).

3.1.8. AGRICULTURE DEVELOPMENT



QUALIFICATION CRITERIA

1. Copies of identity documents of Member/s, Shareholders, Directors, Trustees.
2. Statement of Assets/Liabilities.
3. Statement of Personal and Business Income and Expenditure.
4. Registered Business Entity Founding statement and proof of registration.
5. Marriage Certificate (where applicable).
6. Cash flow projections based on standard crop/enterprise budget produced by the Department of Agriculture.
7. Proof of address and / or GPS Co-ordinate reading.
8. Proof of rights of access to land – Title deed, Lease agreement, PTO.
9. Market contract where available.
10. Stock card/branding certificate.
11. Proof of water rights where applicable.
12. Business plan
13. Any other applicable criteria as per loan requirements in this policy.

3.1.8.1. AGRICULTURE DEVELOPMENT FUND – PRODUCTION LOAN

OBJECTIVES OF THE FUND

To provide bridging finance to cover production, harvesting, storage, processing and marketing costs.

FINANCING POLICY

Loan Size

Based on the production costs but not to exceed R500 000 per transaction

Exclusions

- Forestry
- Debt financing
- Guarantees
- Purchasing of shares from existing business
- All products that take more than 60 months before harvesting.
- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded

Loan repayment term

- In line with the production season but not to exceed 12 months. Capital and interest to be redeemed within the agreed loan period, that is, at the end of the term.

Interest rate

- The interest rate charged will be fixed, based on the prevailing bank prime rate plus 2% and calculated at the beginning of the loan term.

Security

- For crops, a cession of silo and/or harvest number or any other acceptable collateral substitute. The collateral security value to be no less than 80% of the loan amount.

Fees

- The following fees and costs shall be payable by all applicants:
- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amount exceeding R50 000 is payable before implementation and disbursement of the loan.
- Security registration cost shall be borne by the client and may be capitalised.

Insurance

- The borrower must cede comprehensive short-term business insurance to FDC.



3.1.8.2 AGRICULTURE DEVELOPMENT FUND – LIVESTOCK LOAN

OBJECTIVES OF THE FUND

Finance for purchase of livestock, brood stock and fingerlings, marketing costs and production inputs such as feeds, medicines, etc.

FINANCING POLICY:

Loan size

- Based on the capital required but not to exceed R100 000 per investment

Exclusions

- Debt financing
- Guarantees
- Purchasing of shares from existing business
- Property financing

- Financing of Vehicles/Automobiles for private use and/or commuter services is explicitly excluded

Loan repayment term

- For feedlot, dairy livestock, broilers, layers and monthly loan repayments will be acceptable for a period of not more than 36 months.

Interest rate

- Compound interest to be charged based on the prevailing bank prime rate plus 1%

Security

- A 100% security cover is desirable; however, a minimum cover of 60% will be considered depending on the product and capital required. Market and financial viability including risk of the venture will also be considered for the purpose of determining the security cover.

Grace period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed three months from date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In the case of an existing business the grace period may not exceed one month from date of first disbursement.

Fees

- The following fees and costs shall be payable by all applicants:
- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000 is payable before implementation and disbursement of the loan.
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower must cede both life and comprehensive short-term business insurance to FDC. The livestock must be branded and tagged for traceability.



3.1.8.3. AGRICULTURAL RELATED NEED INDUSTRIAL EQUIPMENT LOAN

OBJECTIVES OF THE FUND

Finance for the purchase of tools, plant and machinery, irrigation and other farming equipment including specialized vehicles.

FINANCING POLICY:

Loan size

- Based on capital needs costs but not to exceed R500 000 per transaction.

Exclusions

- Debt financing
- Guarantees
- Purchasing of shares from existing business
- Property financing;
- Financing of Vehicles/Automobiles for private use is explicitly excluded;

Loan repayment term

- 60 to 72 months maximum

Interest rate

- Compound interest to be charged based on the prevailing bank prime rate plus 1%.

Security

- A 100% security cover is desirable; however, a minimum cover of 60% will be considered depending on the product and capital required. Market and financial viability including risk of the venture should also be considered for purposes of determining the security cover.

Grace period

- The grace period will depend on the nature of a project, which in the case of a new business shall not exceed three months from date of the first disbursement.
- The interest charged during the grace period shall be capitalized.
- In case of an existing business the grace period may not exceed one month from date of first disbursement.

Fees

- The following fees and costs shall be payable by all applicants:
- Initiation fees equal to 2% or R2 500 plus VAT (whichever is lesser) of the approved loan amounts exceeding R50 000 is payable before implementation and disbursement of the loan.
- Security registration costs shall be borne by the client and may be capitalised.

Insurance

- The borrower must cede both life and comprehensive short-term business insurance to FDC. The Certificate of ownership shall be in the name of the FDC until settlement of the loan.

3.2. LOAN APPLICATION REQUIREMENTS AND QUALIFICATION CRITERIA



Loan Application Requirements

- Certificate of incorporation and detailed business plan.
- Premises – Proof of ownership or proforma lease agreement.
- Recent valuation of assets – fixed and movable, not older than 12 months.
- Resolution from board of directors/ members appointing a member(s) to sign on behalf of the legal entity.
- Proof of residence (FICA).
- Quotations for the movable and immovable assets to be purchased.
- Personal statement of assets and liabilities of the members/ directors.
- Profile and names of board members and management committee.
- For existing businesses submit audited financial statements, for a period of 3 years and six months bank statements.
- Personal Particulars i.e. I.D. copies of both board & management members.
- Original copies of valid Tax Clearance Certificates and copy of business trading licence, where applicable.
- The following are acceptable types of security/collateral:
 - ✓ Mortgage Bond on fixed properties.
 - ✓ Instalment Sale Agreement.
 - ✓ General and Special Notarial Bond on movable assets.
 - ✓ Cession on Contracts, Insurance Policies with cash/ surrender value and Investment with a recognized financial institution.
 - ✓ Suretyship (The surety must have assets which can be ceded to the FDC).
 - ✓ Bank Guarantees.

- The following assets are not acceptable as security/ collateral:
 - √ Trading Stock, Personal Vehicles and Debtors Book.
 - √ Cession of shares.
 - √ Unit Trusts.
- In order to determine the security cover, the purchase price and/or market value of the asset is used and the following percentages are applicable in calculating the cover:
 - √ Plant, Machinery and Equipment -80%
 - √ Mortgage Bond - 100%
 - √ Investments and Bank Guarantees -100%

Qualification Criteria

- Applicants should meet all relevant and applicable statutory requirements;
- Funding shall be considered for acquisition of productive business assets, working capital and buildings;
- Financing of Vehicles/Automobiles for private use is explicitly excluded;
- Financing of debt is explicitly excluded;
- All applicants must be solvent and have the necessary contractual capacity as required by relevant laws and insurance requirements;
- Incorporated bodies must comply with all the relevant legislation;
- The SMME will have its principal place of business and operations within the Province and entities with branches operating within the Province will be considered for funding assistance only with respect to local operations;
- Equity contribution is NOT required on any FDC loans
- For the Franchise Development Fund only established franchisors with good track record will be considered;
- Signed pro-forma franchise agreement (disclosure documents) is a pre-requisite;
- Further funding will only be considered for loaners whose accounts are up to date.
- The business must be viable and have good prospects of profitability;
- The applications by FDC Board members and the FDC CEO must be accompanied by a consent from the MEC for DETEA in terms of the applicable legislation and HR policies.
- The applications by FDC employees and / or their immediate families must be accompanied by consent from the CEO of FDC in terms of the applicable HR policies.
- Applications for partnership funds will be evaluated according to the terms and conditions as set out in the partnership agreement.