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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CITIES SUPPORT PROGRAMME

Guidelines

FOR DEVELOPING A CITY INCENTIVE POLICY

GUIDELINES FOR DEVELOPING A CITY INCENTIVE POLICY

Developed by the Cities Support Programme (National Treasury) with the support of the [Swiss State Secretariat for Economic Affairs (SECO)/the World Bank/Development Bank of South Africa].

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REPUBLIC OF SOUTH AFRICA

cities SUPPORT PROGRAMME

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PUBLISHED BY

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ACKNOWLEDGEMENTS

This publication is a summary of a report compiled by PricewaterhouseCoopers Incorporated (PwC). CSP knowledge products represent the combined effort of people from all over South Africa, either as authors, editors, reviewers or organisations sharing information. Sincere gratitude is due to everyone involved for their contributions and insights.

Project managers: Karen Harrison and Geoff Bickford
Photo credits: Dube Trade Port
Edit, design and layout: Ink Design Publishing Solutions, Cape Town, www.inkdesign.co.za

The Cities Support Programme (CSP) is located within the intergovernmental relations (IGR) division of the National Treasury. Acting as a change agent and a vehicle for collaboration and integration, the CSP aims to improve the capacity of cities and create an enabling intergovernmental fiscal system and policy environment to support city-led transformation.

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01

BACKGROUND

ABOUT THIS GUIDE

This guide is aimed at enabling city practitioners to think holistically and possibly differently about investment incentives. It is intended to assist cities in reviewing and/or (re)drafting their investment incentive policies in order to attract investment and catalyse economic growth.

> **The guide is designed both to inform and to assist practitioners in designing incentives appropriate for their city, through an enabling process.**

Investment incentives are measurable advantages that governments provide in order to steer investments to certain sectors or regions.

FIGURE 1: Some types of incentives

FISCAL (TAX)

e.g. tax holidays, reduced tax rates, tax credits and tax deferrals

FINANCIAL (DIRECT/INDIRECT)

e.g. matching grants, reduced interest rate loans and reduced land prices

REGULATORY (NON-FINANCIAL)

e.g. streamlined processes for firms

TECHNICAL (BUSINESS SUPPORT)

e.g. preferential treatment, relocation support

SPATIAL TRANSFORMATION

Refers to reversing economic and social inequities and spatial disparities, through addressing the separation between opportunities and where people live.

INCLUSIVE ECONOMIC GROWTH

Refers to economic growth, whereby large parts of the labour force have the opportunity to participate in that growth.

SOUTH AFRICAN CONTEXT

South African cities remain highly divided both racially and in terms of access to economic opportunities, as a result of apartheid policies that relocated large parts of the population to the urban periphery, away from economic centres.[1]

> **Cities can use incentives to encourage spatial transformation and inclusive economic growth, aimed at undoing the divisions created by apartheid planning and broadening access to opportunities for the wider population.**

Incentives that support spatial transformation

- Bring low-income people closer to where jobs are located, e.g. incentives for low-income or inclusionary housing in economic centres.
- Bring jobs closer to where low-income people are located, e.g. incentives for urban regeneration and township development.
- Close the distance between jobs and low-income people, e.g. incentives for improved public transportation.

Incentives that support inclusive economic growth

- Address the unequal distribution of opportunities and wealth (including spatially), e.g. regulatory incentives to employ previously disadvantaged individuals (PDIs) and include PDIs in firm ownership.
- Reduce the divide between established large businesses and emerging new entrants, e.g. entrepreneur and SMME development support and incentives to include PDIs and SMMEs as suppliers.
- Grow the economy and available job opportunities in the formal economy, e.g. incentives to catalyse private sector development in underdeveloped areas and promote investment in high job-creating economic activities.

1 Todes, A., Weakley, D., and Harrison, P. (2018). Densifying Johannesburg: context, policy and diversity. *Journal of Housing and the Built Environment*, 33(2), 281–299. http://www.jstor.org/stable/44983748

PART

02

INCENTIVES AVAILABLE TO CITIES

CITIES CAN USE INCENTIVES TO FURTHER THEIR VISION AND POLICY GOALS, AS SET OUT IN THEIR ECONOMIC GROWTH STRATEGIES, INTEGRATED DEVELOPMENT PLANS (IDPs) AND MUNICIPAL SPATIAL DEVELOPMENT FRAMEWORKS (SDFs).

This section describes different incentives and their most suitable uses.

Its purpose is to inform.

Cities can use incentives to further their vision and policy goals, as set out in their economic growth strategies, integrated development plans (IDPs) and municipal spatial development frameworks (SDFs). For example, supporting economic recovery, setting the city on an inclusive economic growth trajectory and achieving spatial transformation. Cities can also use investment incentives as a tool to correct market failures and steer household and business decisions to more socially optimal outcomes than market forces alone.

APPLYING INCENTIVES SPATIALLY

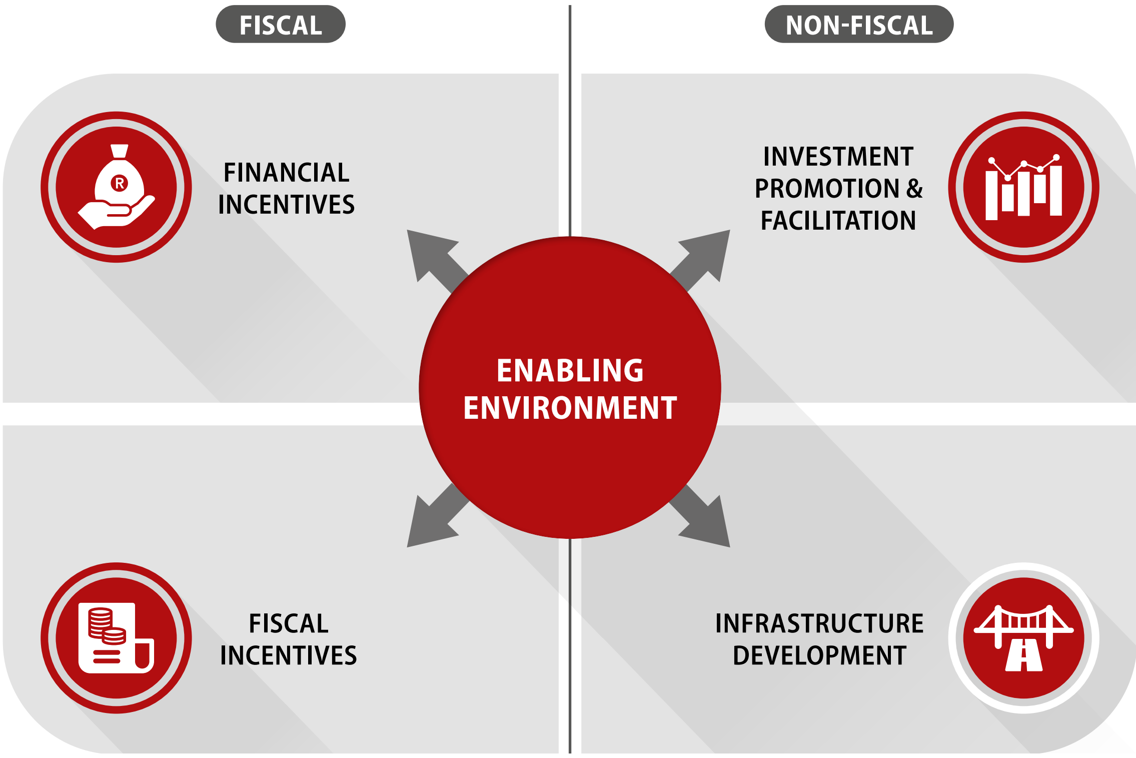
Cities are encouraged to develop a land use scheme that "includes land use and development incentives to promote the effective implementation of the spatial development framework and other development policies".[2] Cities can apply their city-level incentives in a spatially targeted way by including a spatial element in the eligibility criteria. For example, the fiscal, financial, regulatory and technical/business support incentives may be designed to apply only if the investment is located in a designated spatial area. Alternatively, the incentive may be scaled or differentiated, with a higher incentive value being provided to firms in a specific area.

Investors expect certain baselines, i.e. a city environment that enables business. For investors to feel confident, cities need to have reliable service delivery (energy, water, transport), solid finances and availability of skills. **Incentives are not a substitute for an enabling investment environment**.

Cities that are able to offer a diverse range of incentives are able to attract a broader range of investors. Cities can make use of city-level instruments as incentives (own-revenue, financial/in-kind and business/technical support), as well as facilitate access to other government incentives in coordination with the national or provincial government or a multi-sphere investment promotion agency.

2 South Africa. (2013) Spatial Planning and Land Use Management Act (No. 16 of 2013). Pretoria: Republic of South Africa. Chapter 5, Section 24.

FIGURE 2: Investment-enabling provisions and instruments



AN ENABLING ENVIRONMENT FOR INVESTMENT

Investors are attracted to cities that provide them with opportunities to make a return and that meet certain baselines in terms of city governance and administration, economic fundamentals and business practicalities.[3] Investors value certainty and trust above all else in their decision-making process.[4]

- City governance and administration: vision, consistent leadership, quality city management.
- Economic fundamentals: growth potential, infrastructure development and skilled workforce.
- Business practicalities: technical support services, regulatory incentives, provision of information.

Cities can then use incentives to attract investments that will further their economic growth strategies and spatial transformation plans. In designing incentives that address economic and spatial goals, transversal coordination among municipal directorates is necessary. For example, the transport, planning, and economic development directorates should collectively design transit-oriented development (TOD) related incentives, so that shared objectives are prioritised and supported.

3 https://www.centreforcities.org/reader/investors-want-guide-cities/makes-city-attractive-investors/
4 Based on the experience of a World Bank expert who has worked across multiple countries and contexts.

FISCAL AND FINANCIAL INCENTIVES

These include city own-revenue tools and city financial/in-kind incentives.

City own-revenue incentives

Cities can use their own-revenue tools to steer economic development and spatial transformation. Examples include:

- Discounted property rates, to provide ongoing relief to firms with continued ownership.
- Discounted service charges on electricity, to provide ongoing relief to firms with high power consumption.
- Discounted or waived land use/building fees, as an upfront, once-off relief to property developers who require land-use rights/building and to small-scale developers.
- Discounted or waived development contributions, as an upfront, once-off relief both to property developers building new developments and contributing to the infrastructure, and to small-scale developers.

City own revenue enables the city to fulfil its expenditure obligations. Therefore, it is important that a city compares the gains of an incentive with the foregone own revenue (i.e. the opportunity cost of local government expenditure).

City financial/in-kind incentives

Although financial incentives tend to follow bespoke arrangements, transparent parameters can (and should) be set out in advance, such as the maximum magnitude and criteria of the incentive. These incentives include:

- Grants towards or co-financing of infrastructure investment, to any firm that would benefit from improved infrastructure.
- Provision of free broadband through a third-party broadband provider, to any firm that would benefit from free Wi-Fi.
- Support to small, medium and micro enterprises (e.g. to purchase machinery or equipment), to any firm that would benefit from such support.
- Load curtailments, i.e. offering guaranteed uninterrupted access to electricity (including during power cuts) and other services, to firms that require ongoing power for activities and are located within certain areas (e.g. in spatial priority areas).

Cities need to balance the opportunity cost of spending on incentives with other expenditure items, looking at short- and long-term gains in meeting targets, such as inclusive economic growth, job creation and spatial transformation.

NON-FISCAL INCENTIVES

Companies do not make location decisions based on tax breaks alone. Although tax breaks may pay some role in their decisions, non-financial factors are more important, such as skills availability, infrastructure investments and streamlined application processes.

Investment Promotion and Facilitation

City regulatory incentives

Cities may find regulatory incentives are more useful, especially during times of financial constraint, when fiscal and financial incentives are less viable. Regulatory incentives do not require expenditure allocations and may be packaged with financial and fiscal incentives. At city level, regulatory incentives are mostly aimed at real estate developers and investors, including small-scale developers, and include the following:

- Streamlined development applications, for developers seeking to reduce financial risk and save time/money – this incentive could be automatic for key sectors, significant employers and/or in spatial priority or TOD areas.
- Reduced parking requirements, for developers seeking to cut down on construction costs – this incentive could be automatic for TOD and/or inclusionary (gap) housing.
- Density bonuses, for developers seeking to increase the maximum allowable development on a site in exchange for funding or providing in-kind support for specific city goals – this incentive could be automatic for TOD and/or inclusionary (gap) housing.
- Transferrable development rights, for developers, as a once-off, upfront relief in order to encourage more intensive land development and incentivise urban regeneration.

City technical and business support incentives

While not associated with a large financial outlay, technical and business support incentives are important in attracting investment. Such incentives provide comfort to investors, by helping them to navigate administrative processes, facilitating contacts and creating a positive experience through dedicated, customer-friendly staff. These types of incentives may be offered city-wide or for investments in specific spatial locations, and all aim to reduce delays, uncertainty and frustration and to increase chances of investor retention and expansion. They include the following:

- Fast-tracking processes and approvals, for investments into a spatial priority investment area.
- Appointing key account holders/a single point of contact for priority investors, to help the investor navigate the government processes and approvals required across different departments.
- Single-ticket tracking/coordinated inter-agency processes, for investments that require approvals from different departments and spheres of government.
- Investor aftercare, for existing investors, to assist with obtaining permits and/or premises to expand operations, identifying local suppliers and service providers, assisting with training and export promotion, and developing cluster organisations, etc.
- Visa, relocation support and orientation, for foreign investors, to assist with visas, schools for children, housing and useful contacts.

Provision of information incentives

Cities that are proactive in reaching out to investors are more likely to succeed in attracting investments. Information is key, and investors expect a certain baseline, i.e. that spatial, economic and investment information is updated and available in a user-friendly format. Incentives include the following:

- Access to specialised economic and investment information, such as market research for investors from specific sectors or aimed at specific locations.
- High-profile meetings with prospective and existing investors who require information, assurances and assistance from the city, to resolve obstacles to doing business and fears about potential policy changes.
- City database or platform, to enable local suppliers to advertise, supply the city (e.g. with uniforms from local textile firms) and to connect with other businesses.
- Packages of national-level and complementary city incentives, with the aim of overcoming investor obstacles or uncertainties.

Infrastructure Development

Cities should communicate their infrastructure vision and public investment plans with clear timetables to increase investment among property developers. They can also coordinate the information and administration of different incentives across the various spheres of government, although cities should avoid raising expectations about national-level incentives that cannot be fulfilled. In practical terms, cities can work with provincial and national investment promotion agencies to:

- Proactively engage potential international or local investors, to understand what they require to locate or expand their investment in the city.
- Engage with a targeted sector, to understand its specific infrastructure requirements and then develop appropriate plans for infrastructure investment (e.g. improved transportation or electricity provision). Such an action would influence not only the investment decisions of a targeted sector but also provide broader and longer term economic benefits.
- Identify a suite of incentives and other initiatives that would secure the investment within the city or a targeted spatial area (or economic sector) within the city.
- Walk the journey with investors to access relevant national incentives.
- Ensure that complementary local services, such as bulk energy, water and sanitation capacity, transport networks and broadband/fibre are in place.

It is important that cities implement their infrastructure plans effectively in order (i) to build trust with investors and businesses (whose commitments to invest are in part based on the city's infrastructure development plans), and (ii) to signal credibility to future potential investors.

Annexure 01 contains a list of national-level incentives that cities can leverage in order to attract investors. Of these incentives, three have spatial eligibility criteria.

INCENTIVE	DESCRIPTION	AIMS
The Urban Development Zone (UDZ) incentive *Responsible department: National Treasury/SARS*	Introduced by the National Treasury in 2003 in partnership with 16 municipalities, this spatially targeted tax incentive allows property owners/ developers to write off building costs against the income of businesses in the promulgated UDZ areas.	▪ To attract developments or redevelopments to declining urban areas that have good infrastructure and economic potential. ▪ To address urban decay in South Africa's inner cities by promoting private sector-led investment in commercial and residential developments.
Special Economic Zone (SEZ) incentive *Responsible department: dtic*	Businesses located in SEZs benefit from reduced costs, as a result of preferential taxes, including corporate income tax (15% instead of 28%); reduced Pay-As-You-Earn amounts (through the employment tax incentive, to reduce the cost of hiring young people); and relief from value added tax (in custom controlled areas) and accelerated depreciation allowance on capital structures (buildings).	▪ To promote high value-adding, high job-creating sectors, attract foreign direct investment and promote exports. ▪ To promote trade, economic growth and industrialisation.
Critical Infrastructure Programme (CIP) *Responsible department: dtic*	The CIP supports infrastructure that is deemed to be critical in that it enables the establishment or continued operation of industrial projects. It is offered as a cost-sharing grant of 10–30% of the total qualifying infrastructural development costs, based on the score achieved in the Economic Benefit Criteria. In effect, the CIP is a cost-sharing incentive that is available for infrastructure projects deemed "critical" to the investment (i.e. the investment would not take place or not operate optimally without the said infrastructure).	▪ To leverage investment by supporting: infrastructure, agro-processing projects, state-owned testing facilities, South African film and television studios and cinemas, state-owned industrial parks, strategic feasibility studies and projects that alleviate dependency on the national grid, water and sanitation networks deemed critical or of a strategic nature, thereby lowering the cost of doing business.

PART

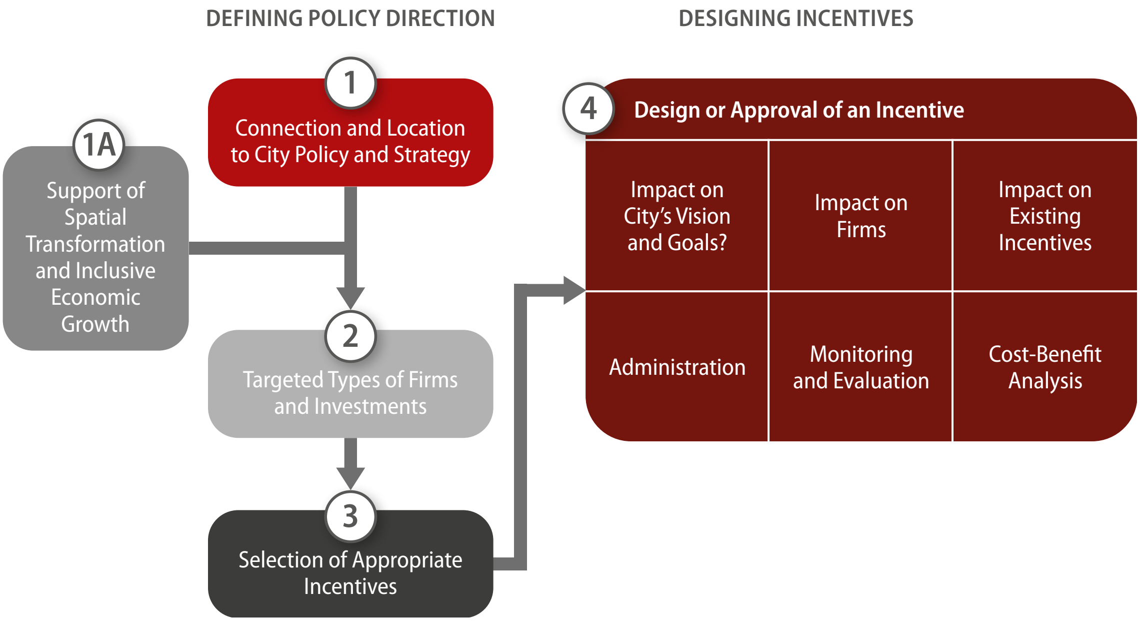
03

STEP GUIDE TO DEVELOPING CITY'S INCENTIVE POLICY

This section is intended to encourage reflection on where the incentives policy sits within the city's broader vision, goals and strategies; the sectors and firms to be targeted; and the types of incentives to be included. It combines questions to aid reflection with suggestions and recommendations.

Its purpose is to assist city officials in brainstorming the design of their incentive policy.

FIGURE 3: Aspects to consider



This framework emphasises a more holistic vision for the policy, instead of focusing on incentives, which are the "icing on the cake" for investors. It is important to consider the broader experience of the investor and the enabling environment across the investment lifecycle.

Step 1

CONNECTION AND LOCATION TO CITY POLICY AND STRATEGY

The starting point is to understand where the incentives policy sits within the city's broader plans. It may be part of an investment or economic growth strategy, which lays out the city's path to achieving its vision, based on its specific endowments (people, skills, resources) and comparative advantages, and how these can be used to achieve the desired development. Such a strategy considers how the attracted businesses will link into the existing endowments and which industries are most likely to contribute to inclusive growth and spatial restructuring objectives. Therefore, before designing an incentives policy, it is important to be clear on the relevant strategy and how it relates to the city's vision, goals and objectives.

1. What is the city's vision and goals?
2. What is the purpose of the investment strategy/economic growth strategy in relation to the city's vision and goals?
3. What are the city's endowments/comparative advantages in terms of people, skills and resources?

Step 1A

SUPPORT OF SPATIAL TRANSFORMATION AND INCLUSIVE ECONOMIC GROWTH

South Africa's national urban policy clearly articulates the need to drive spatial transformation and inclusive economic growth. Therefore, it is important that the city clarifies how the economic incentives policy or strategy will support these policy imperatives.

1. Which spatial areas are identified in the city's SDF and IDP, and are they aligned to the investment strategy/economic growth strategy?
2. How has the city defined economic inclusion or inclusive growth within its broader economic policy or growth strategy? If not defined, how can this policy support the national policy objective of inclusive economic growth?

Step 2

TARGETED TYPES OF FIRMS AND INVESTMENTS

Identifying the city's comparative advantages and growth objectives assists in understanding the type of firm that the city is seeking to attract and retain, which is crucial to ensuring that the incentives offered are attractive to the targeted firms. This means engaging proactively with the private sector and other stakeholders, to understand the obstacles and requirements for firms to invest within the city or spatially targeted areas, and what would help them invest and grow.

1. Which firms does the city want to attract and retain?
   a. Which industry, sector or cluster?
   b. What are their business models?
   c. Which size and type of firms are to be targeted: multinational, SMMEs, informal businesses?

   The appropriateness of incentives is a function of the firms/sectors that the city wants to attract. *If incentives are peripheral to investment decisions, then the city should focus on other priorities.*

2. Which types of investment does the city want to attract and retain (e.g. low-income housing, semi-skilled jobs)?
   a. Which type of developers (e.g. low-income housing, small scale/large companies)?
   b. Which type of business (e.g. with high capital or high operational costs)?
   c. What type of investments (e.g. low-income housing, businesses seeking semi-skilled jobs)?

   The incentives selected or redesigned will be based on the business model, size and other characteristics of these firms. For example, developers who build and sell would prefer upfront incentives to depreciation allowances.

Step 3

SELECTION OF APPROPRIATE INCENTIVES

After clarifying which firms and types of investments the city is seeking to attract and retain, the next step is to look at which incentives/interventions are most appropriate. For this, the city will need to define what it considers acceptable, and examine whether the value of the incentives granted is proportional to the investment value and expected social benefits. It is important not to confuse the baseline (enabling environment that investors expect) with incentives.

Fiscal and financial incentives

In designing **city own-revenue incentives**, questions to be considered are:

1. What are the potential own-revenue losses and/or gains?
   For this, a financial model needs to be put in place in order to determine:
   - the maximum foregone revenue (upper limit in terms of percentage of total own revenue)
   - the minimum benefit to own revenue (direct, e.g. higher property rates; and indirect, e.g. contribution to national taxes)
   - the impact on confidence to other potential investors.

2. What are the potential gains to the city economy?
   For this, a financial model needs to be put in place in order to determine:
   - the contribution to employment creation (direct, indirect and induced jobs)
   - the contribution to economic growth (increased gross value added)
   - the impact on the city's strategy (to become a hub for a specific industry, to signal the city is open to business, or to place the city on the map for international investors).

3. What is the timeframe?
   In general, for incentives that are not once-off, the incentive offering should be time-bound and focus on assisting firms in the start-up phase or during difficult economic times. For example, discounted property rates or service charges are limited to 1–3 years following the establishment of the business.

4. What monitoring and evaluation is in place?
   The incentive needs to be regularly monitored, to ensure the foregone revenue does not exceed certain limits and to evaluate the revenue loss relative to benefits and goals achieved. This will require collecting data:
   - monthly: foregone revenue (incentive value), property rates and service charges of the benefitting firms (has an expansion or new investment resulted in increased property rates collected?)
   - annually: economic impact assessment covering indirect and induced impact of investments on jobs, GDP, tax revenue and household incomes, through reporting by firms and investment and type of economic activity.

5. Which incentives are automatic (e.g. discounted or waived building and land-use application fees) or bespoke (e.g. service charge reductions on electricity charges)?

DESIGNING THE CITY'S INCENTIVES

Step 1
Connection and Location to City Policy and Strategy

Step 1A
Support of Spatial Transformation and Inclusive Economic Growth

Step 2
Targeted Types of Firms and Investments

Step 3
Selection of Appropriate Incentives

Step 4
Designing or Approving an Incentive: Questions to Ask

In designing **financial/in-kind incentives**, it is important to look at the costs and benefits compared to alternatives. This means agreeing to a maximum limit to be allocated to the incentives and establishing assessment criteria.

1. How does the incentive contribute to achieving the investment strategy's objectives?
2. What is the return on revenue from the incentive (e.g. increased property rates revenue)?
3. What is the indirect return from the incentive (e.g. increased national tax revenue that comes back to local government through intergovernmental transfers)?
4. What will be the direct and indirect impact on jobs and the economy?

Investment promotion and facilitation

This category includes regulatory incentives, technical and business support incentives, and information provision incentives. They may be packaged with financial and fiscal incentives. Questions to be considered include:

1. Which incentives will be automatic for which sectors, firms or locations?
2. Which incentives will be once-off, upfront relief to encourage investment in certain locations?
3. What measures can the city take to fast-track processes for priority investments and locations, especially those that require approvals from multiple departments?
4. What can the city do in order to assist existing investors (e.g. after-care support, database of local suppliers)?
5. Does the city have a strategy for assisting foreign investors?
6. What market information is required by the investors and sectors being targeted, and how easy is it to access?

Infrastructure development

Questions to be considered include:

1. How is the city communicating its infrastructure vision and public investment plans to investors (e.g. information portal, high-profile meetings)?
2. Has the city developed packages of national-level and complementary local-level incentives for investors?
3. Which provincial and national investment promotion agencies could assist the city?

Step 4

DESIGNING OR APPROVING AN INCENTIVE: QUESTIONS TO ASK

Once the city has decided which incentives are most appropriate, it needs to design the incentives. Here are some guiding questions when designing or approving incentives.

In relation to the city's vision, goals and strategies

1. Will the incentive bring benefits to the spatial priority investment locations in the SDF and/or investment strategy?
2. How does the incentive align to the city's priorities and goals in terms of its investment strategy, spatial development and inclusive economic growth goals?
3. How does the incentive align implicitly/explicitly with the spatial transformation agenda and other urban economic development policy frameworks?
   - social inclusion
   - efficient land development
   - minimal impact on public health, the environment and national resources.

In relation to the firms

1. Is the benefit offered sufficient to sway the investment decision?
2. Is the investment likely to happen anyway (without an incentive)?
3. Do the incentives differentiate between small and large businesses? Incentives should be automatic up to specific values, but larger incentive values should be scrutinised more closely for alignment with objectives, as the potential revenue loss is high.

In relation to existing incentives

1. How does the incentive relate to other incentives?
2. What other interventions will complement the incentive?
3. What other interventions will the incentive complement?

TIME MEANS MONEY FOR INVESTORS, ESPECIALLY DEVELOPERS. UNEXPECTED DELAYS AND UNCERTAINTY CAN BE HIGHLY COSTLY AND REVERSE THE BENEFITS OF ANY TAX OR FINANCIAL INCENTIVE.

In relation to administration

1. Is the process for applying for incentives simple to access, transparent, predictable and straightforward?
2. What city communication strategy is in place to inform investors about the incentives, the eligibility criteria and application procedures?
3. How customer-friendly is the service culture in the city, especially among managers and staff who deal with investors?
4. What further actions can the city take in order to improve support and reduce delays for investors?

REDUCING DELAYS FOR INVESTORS

Time means money for investors, especially developers. Unexpected delays and uncertainty can be highly costly and reverse the benefits of any tax or financial incentive. Cities can speed up processes and make timings more predictable by:

- automating repetitive, process-oriented tasks
- introducing single-ticket tracking or concierge systems throughout the entire multi-agency system, to make navigating the application and claim process easier for investors
- rotating staff across departments, to help understand the expectations and workings of other departments and build interdepartmental cooperation
- reducing paperwork through improved data management, e.g. digitising documents and making documents and information accessible across the city and to the public, while maintaining data protection and privacy
- introducing performance measures for staff who deal with incentives, development applications, and other processes required by investors
- running a course for all city officials about the importance of investment and how each department contributes to attracting and retaining investors.

In relation to monitoring and evaluation (M&E)

1. Does the city have a framework in place to monitor and evaluate its various incentives?
2. Has the city secured commitment and buy-in from relevant stakeholders on the monitoring system (outcomes indicators)?
3. What data collection procedures are in place to track and measure progress, starting from an agreed baseline?
4. What data will be collected from firms in order to estimate benefits and costs, i.e. incentive value (foregone/lost revenue) and economic impact (jobs created/retained, nature of investment and economic activity per spatial location)?
5. What are the analytical reporting channels and formats?
6. What is the frequency of the different M&E activities (e.g. uptake and impact of incentives on the city's finances and economy)?
7. Does the M&E system feed relevant data and information back into the decision-making process, to inform decisions on continuing with or amending the various incentives?

In relation to cost-benefit analysis

1. What are the direct/indirect benefits of the incentive?
    - How much revenue did the city receive as the result of the incentive?
    - Was the incentive taken up by the targeted firms and in the spatial priority areas?
    - What was the impact on spatial transformation and/or inclusive economic growth?

2. What are the direct/indirect costs of the incentives?
    - Did the incentive result in the city suffering a fiscal loss?
    - What were the administrative costs associated with the incentive?
    - Did the incentive result in any negative side effects (market distortions, environmental)?

REVIEWING INCENTIVES

Cities should review their incentives, to ensure that they are achieving the intended results. As part of a regular review, the following key questions should be considered:

- Would the investment have happened anyway (without an incentive)?
- Is the incentive taken up by targeted firms in the spatial priority area(s)?
- How many firms have applied for and received the incentive?
- Does the incentive put existing businesses at a disadvantage (e.g. distort competition)?
- Does the incentivised investment provide positive externalities, such as direct and indirect jobs, new technology, skills, infrastructure, long-term economic activity?
- Does the incentive create opportunities for evasion or corruption?
- Does the incentivised investment cause negative externalities, such as pollution or high resource use?
- How does the incentive affect equity and the distribution of benefits?
- Does the incentive align to the city's investment strategy and economic development/spatial transformation objectives?

ANNEXURE

01

NATIONAL GOVERNMENT INCENTIVES

INCENTIVE	DESCRIPTION	AIMS
The Urban Development Zone (UDZ) incentive *Responsible department: National Treasury/SARS*	Introduced by the National Treasury in 2003 in partnership with 16 municipalities, this spatially targeted tax incentive allows property owners/ developers to write off building costs against the income of businesses in the promulgated UDZ areas.	▪ To attract re/development to declining urban areas with good infrastructure and economic potential. ▪ To address urban decay in South Africa's inner cities by promoting private sector-led investment in commercial and residential developments.
Special Economic Zone (SEZ) incentive *Responsible department: dtic*	Businesses located in SEZs benefit from reduced costs, as a result of preferential taxes, including corporate income tax (15% instead of 28%); reduced Pay-As-You-Earn amounts (through the employment tax incentive, to reduce the cost of hiring young people; and relief from value added tax (in custom controlled areas) and accelerated depreciation allowance on capital structures (buildings).	▪ To promote high value-adding, high job-creating sectors, attract FDI and promote exports. ▪ To promote trade, economic growth and industrialisation.
Critical Infrastructure Programme (CIP) *Responsible department: dtic*	The CIP supports infrastructure that is deemed to be critical in that it enables the establishment or continued operation of industrial projects. It is offered as a cost-sharing grant of 10–30% of the total qualifying infrastructural development costs, based on the score achieved in the Economic Benefit Criteria. In effect, the CIP is a cost-sharing incentive that is available for infrastructure projects deemed "critical" to the investment (i.e. the investment would not take place or not operate optimally without the said infrastructure).	▪ To leverage investment by supporting: infrastructure, agro-processing projects, state-owned testing facilities, South African film and television studios and cinemas, state-owned industrial parks, strategic feasibility studies and projects that alleviate dependency on the national grid, water and sanitation networks deemed critical or of a strategic nature, thereby lowering the cost of doing business.
Automotive Incentive Scheme (AIS) *Responsible department: dtic*	The AIS is an incentive established to promote the growth and development of the automotive sector. It is offered within South Africa's Automotive Production and Development Programme (APDP).	▪ To strengthen and diversify the sector through investment in new and/ or replacement models and components. ▪ To increase plant production volumes. ▪ To sustain employment and/ or strengthen the automotive value chain.

INCENTIVE	DESCRIPTION	AIMS
Black Industrialist Scheme (BIS) *Responsible department: dtic*	The BIS seeks to leverage the State's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions.	▪ To accelerate the participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment. ▪ To create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains.
Global Business Services (GBS) incentive *Responsible department: dtic*	The GBS incentive aims to assist firms in global business support services. It evolved from its launch as the Business Process Offshoring (BPO) incentive to include further industries such as legal, finance and accounting, and IT services.	▪ To create employment through servicing offshore. ▪ To create employment opportunities for the youth. ▪ To contribute to the country's export revenue from offshoring services.
Technology and Human Resources for Industry Programme (THRIP) *Responsible department: dtic*	THRIP aims to boost South African industry by supporting research and technology development and enhancing the numbers of appropriately-skilled people. THRIP brings together the best of South Africa's researchers, academics and industry players.	▪ To increase investment by industry and government in research and technology development. ▪ To facilitate collaborative knowledge exchange and technology transfer and product/process improvement through increased interaction and mobility among small/large enterprises, higher education institutions and science researchers, engineering and technology institutions. ▪ To increase the number of personnel with appropriate skills in the development and management of research-based technology for industry.

INCENTIVE	DESCRIPTION	AIMS
Export Marketing and Investment Assistance (EMIA) *Responsible department: dtic*	The incentive scheme develops export markets for South African products and services and recruits new foreign direct investment into the country.	▪ To provide marketing assistance to develop new export markets and grow existing export markets. ▪ To assist with the identification of new export markets through market research. ▪ To assist companies to increase their competitiveness by supporting patent registrations, quality marks and product marks. ▪ To assist with facilitation to grow FDI through missions and FDI research. ▪ To increase the contribution of black-owned businesses and SMMEs to South Africa's economy.
Agro-Processing Support Scheme (APSS) *Responsible department: dtic*	The incentive scheme is designed to stimulate investment to eligible South African agro-processing / beneficiation (agri-business) enterprises. The incentive scheme offers a 20% to 30% cost-sharing grant to small/medium/ large projects.	▪ To increase employment, capacity, boost productivity and competitiveness. ▪ To broaden participation in the targeted agro-processing/beneficiation sub-sectors.
Aquaculture Development and Enhancement Programme (ADEP) *Responsible department: dtic*	The incentive programme targets South African entities engaged in the primary aquaculture operations, secondary aquaculture operations (of local produce) and ancillary aquaculture operations in marine and freshwater.	▪ To stimulate investment by commercially viable enterprises in the aquaculture sector.
Black Business Supplier Development Programme (BBSDP) *Responsible department: DBSA*	The Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant offered to black-owned small enterprises to assist them to improve their competitiveness and sustainability to become part of the mainstream economy and create employment.	▪ To improve sustainability and competitiveness of majority black-owned enterprises and thereby integrate them into the mainstream economy. ▪ To grow black-owned enterprises by fostering linkages between black SMMEs and corporate and public sector enterprises. ▪ To complement current affirmative procurement and outsourcing initiatives of corporate and public sector enterprises.

INCENTIVE	DESCRIPTION	AIMS
Cooperative Incentives Scheme *Responsible department:* *DBSA*	The Cooperative Incentive Scheme (CIS) is a 100% grant for registered primary cooperatives (a primary cooperative consists of five or more members). The objective of the CIS is to improve the viability and competitiveness of cooperative enterprises by lowering their cost of doing business through an incentive that supports Broad-Based Black Economic Empowerment.	▪ To promote cooperatives through the provision of a matching grant. ▪ To improve the viability and competitiveness of cooperative enterprises by lowering the cost of doing business. ▪ To assist cooperatives to acquire their start-up requirements. ▪ To build an initial asset base for emerging cooperatives to enable them to leverage other support. ▪ To provide an incentive that supports Broad-Based Black Economic Empowerment.
GRO-E Youth Scheme *Responsible department:* *IDC*	The GRO-E Youth Scheme provides financial and non-financial support to youth enterprises.	▪ To encourage youth entrepreneurship and employment creation.
Manufacturing Competitiveness Enhancement Programme (MCEP) *Responsible department:* *IDC*	The Manufacturing Competitiveness Enhancement Programme (MCEP) includes two facilities: the Working Capital Facility and the Plant and Equipment Facility.	▪ To assist manufacturing companies with working capital. ▪ To provide financial support to black industrialists for the acquisition of plants and equipment.

Sources: http://www.dsbd.gov.za/; http://www.thedtic.gov.za/financial-and-non-financial-support/incentives/; https://www.idc.co.za/what-we-offer-2/##products

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