City economic incentives review and reform recommendations project

Final Consolidated Report

February 2022

REPORT ON CITY ECONOMIC INCENTIVES

February 28, 2022

Dear World Bank Task Team,

We are pleased to present you with our Consolidated Report of the City Economic Incentives Review and Reform Recommendations Project. The report is a comprehensive document, consisting of our first and second reports. This report in tandem with the ‘Model’ City Economic Incentives Draft Policy serve as the culmination of this project.

This report has been prepared solely for the use of the World Bank and the National Treasury City Support Programme. PwC accepts no liability or responsibility to any other party who may gain access to this report. It should be noted that municipal data and statistics were received directly from the municipalities through stakeholder interviews or through publicly published documents.

Yours sincerely,

Jon Williams

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Table of Contents

List of abbreviations

ADEP	Aquaculture Development Programme
APSS	Agro-Processing Support Scheme
B-BBEE	Broad-Based Black Economic Empowerment
BBSDP	Black Business Supplier Development Programme
BIS	Black Industrialists Scheme
BPeSA	Business Process Enabling South Africa
BPO	Business Process Offshoring
CapEx	Capital Expenditure
CBD	Central Business District
CCA	Customs Controlled Area
CCT	City of Cape Town
CEDMF	City Economic Development Managers' Forum
CIP	Critical Infrastructure Programme
CSP	Cities Support Program
DSBD	Department of Small Business Development
DTIC	The Department of Trade, Industry and Competition
EIA	Economic Impact Assessment
EIP	Enterprise Investment Programme
EMIA	Export Marketing and Investment Assistance
ESD	Enterprise and Supplier Development
ETI	Employment Tax Incentive
eTH	eThekwini Metropolitan Municipality
FDI	Foreigni Direct Investment
FY	Financial Year
GBS	Global Business Services
GDP	Gross Domestic Product
GVA	Gross Value Added
ICT	Information Communication Technology
IDC	The Industrial Development Corporation
IDP	Integrated Development Plan
IT	Information Technology
ITAC	International Trade Administration Commission
M&E	Monitoring and Evaluation

MCEP	Manufacturing Competitiveness Enhancement Programme
MSDF	The Metropolitan Spatial Development Framework
NT	National Treasury
OECD	The Organisation for Economic Co-operation and Development
OSS	One Stop Shop
PAYE	Pay-As-You-Earn
QLFS	Quarterly Labour Force Survey
QSAPE	Qualifying South African Production Expenditure
SAM	Social Accounting Matrix
SARS	South African Revenue Service
SDF	Spatial Development Framework
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SMME	Small, Medium and Micro Enterprise
SPII	Support Programme for Industrial Innovation
SPLUMA	Spatial Planning and Land Use Management Act
SPP	Strategic Partnership Programme
SPV	Special Purpose Vehicle
THRIP	Technology and Human Resources for Industry Programme
TIKZN	Trade and Investment KwaZulu-Natal
TOD	Transit-Oriented Development
UDZ	Urban Development Zone
UIF	Unemployment Insurance Fund
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-Added Tax

Executive Summary

Introduction

This report has been prepared as part of the National Treasury Cities Support Programme (CSP) "City Economic Incentives Review and Reform Recommendations Project", implemented in partnership with the World Bank and the Swiss State Secretariat for Economic Affairs (SECO). The explicit aim of this project is to deliver a technical review and assessment of national, provincial and local government economic incentives in terms of:

- how they are currently used and can be further leveraged by cities to support public sector urban spatial transformation and inclusive economic development agenda
- how effective they are as metro spatial and economic transformation instruments, focusing on their alignment with, and contribution to, urban and local development objectives
- what reform of the instruments is required and whether there are other more effective incentive instruments that could alternatively be used.

The underlying aim of the project is to develop recommendations that frame a model City Economic Incentives Policy and to influence national policy towards a spatially targeted approach to the application of national economic incentives.

This final report combines the key findings from two more detailed draft reports prepared for this project. Report 1 laid out the South African context in which incentives policy exists in South Africa and reviewed international literature and lessons learnt around the application of investment incentives. It also mapped the South African cities in terms of their incorporation of spatial development criteria in their investment incentives policy and laid out the criteria for the selection of two case study metros for further analysis. Report 2 on the Review of Public Sector Incentives examined investment incentives in the two case study cities: City of Cape Town and eThekwini Metropolitan Municipality. It analysed both the cities' investment incentives as well as major national and provincial level incentives that are applied in these cities, each with a focus on how they are applied as tools for spatial transformation and inclusive economic development.

The findings of this report are based on stakeholder interviews and focus group discussions with city officials, academics, and private sector representatives in the metros with a focus on eThekwini and Cape Town, desktop research, and data analysis. This report summarises the findings from Report 1 on the Context of City Economic Incentives and Report 2 on the Review of Public Sector Incentives conducted within this project. It also feeds into a document setting out guidelines for a model incentive policy for cities. The total project was to be completed over a 5-month period with 73 person days.

This study focuses on investment incentives defined as measurable economic advantages that governments provide to specific enterprises, with the goal of steering investments into favoured sectors, regions, or of influencing the character of such investments (James, 2009). Investment incentives can be further categorised into four types (The World Bank Group, 2015a):

1. **Tax (fiscal) incentives** are exemptions to government revenue contributions that are otherwise due by the general population.
2. **Financial incentives** are direct or indirect (contingent or explicit) transfers of funds/liabilities to benefit a particular business/activity/sector; or advantageous provisions of goods and services, or specific payments-in-kind which benefit only the investor in question.

3. **Regulatory incentives** are non-financial derogations of rules and regulations offered by governments to private firms (OECD, 2003: 17).
4. **Technical or business support incentives** are other non-financial incentives provided to investors to assist them in setting up and running their operations.

The urban policy agenda: spatial transformation and inclusive economic growth

As one of the most economically diverse and urbanised countries on the continent, South Africa has a relatively robust regulatory system in which urban growth is managed. Yet South Africa also has a legacy of spatial segregation, which has permeated to most aspects of society. The post-apartheid government has gone through an iterative policy formulation process to create an integrative system, which reinforces the importance of urban development in national economic growth. Despite efforts to reduce poverty, spatial segregation and inequality, however, inequality has in fact increased since the end of apartheid in 1994 (World Bank 2019; Palmer, Parnell and Moodley, 2017).

This inequality is manifested in the spatial configuration of South Africa's cities. South African metropolitan municipalities (metros) continue to have very high income inequality as measured by the Gini coefficient and this has been rising over time in most metros. South African cities remain highly divided both racially and in terms of access to opportunities, following apartheid policies that relocated large parts of the population to the urban periphery based away from economic centres (Todes, Weakley, Harrison, 2018).

South Africa's urban policy vision presents a vision for South Africa's urban centres that spatially manifests ideals of equity, prosperity and sustainability, to be achieved through spatial transformation and inclusive growth (DoH, 1997; NPC, 2011; IUDF -COGTA, 2016). Spatial transformation aims to undo spatial divides remaining from the country's *apartheid* history and bring jobs and opportunities in South African cities closer to where low-income populations reside. This may include easing and reducing costs of physical access as well as enabling better information flows, exchange of ideas, trust-building, networking and engagement.

The term 'inclusive economic growth 'generally refers to economic growth that is inclusive of the large part of the country's labour force and encompasses the idea of equality of opportunity in terms of access to market, resources and regulatory environment for businesses and individuals (World Bank 2009).

In Table 1 below, we outline the incentive-based interventions highlighted in engagements in this assignment, and the "theory of change" for spatial transformation and inclusive economic growth of each. We also identify co-requirements, recognising that incentives alone are rarely sufficient as policy instruments to address the constraints to investment and/or growth of businesses in South Africa.

With regard to spatial transformation, we find that fiscal, financial, and regulatory incentives currently in place tend to focus on bringing jobs closer to people; that is, on investing in underperforming parts of the city in or near low-income residential areas.

With regard to achieving inclusive economic growth, the solutions that existing incentives aim to reach are more numerous than the spatial re-alignment focused incentives. They include (1) strategies to directly overcome existing divides, such as the unequal distribution of opportunities and wealth (including spatially) and the divide between established large businesses and small businesses, and (2) strategies to more generally grow the economy and the available job opportunities to thereby widen the currently limited number of participants in the formal economy. Incentives used for the first category include promoting growth and job creation by regulatory incentives to employ previously disadvantaged individuals (PDIs), incentivising companies to include PDIs and SMMEs as suppliers, catalysing private sector development in underdeveloped areas, and promoting investment into high job-creating economic activities.

Table 1. Identified incentive-based interventions and their mechanisms for change and policy alignment

Incentive-based interventions	Mechanism for change	Examples of Co-requirements	Desired Outcomes	Spatial/Economic Policy and Planning alignment
Inclusionary housing through **regulatory incentives** (CoJ, WCG Policy, in development in CCT)	Brings people close to jobs	Private sector housing development; non-cumbersome application processes Available bulk infrastructure	Distance of home to work opportunities is reduced, total cost of living (combined cost of housing and transport) potentially reduced, equity, diversity, and spatial justice benefits. If at scale (combined with other mechanisms such as SHI) reduce spatial costs of servicing low-income sprawl	Spatial alignment, Spatial justice, spatial efficiency (SPLUMA, Housing Strategies)
Spatial targeting of investments through **fiscal incentives** (e.g. property rate incentive for spatial area and UDZ) and **financial incentive** for infrastructure specific spatial areas (e.g. CIP) and towards township economic development	Bring jobs to where people live Catalyse investment in areas with low development activity or need to regenerate	Infrastructure improvements, precinct management, end-user demand in the economy	Distance of work opportunities to home is reduced, investment in low-performing and under-developed areas improved; savings on transport costs for workers; potential productivity gains for businesses if less late-comers/ absenteeism due to transport issues; rates uplift achieved for municipality	Spatial restructuring, spatial justice (SPLUMA, SDFs, Local/District plans, Integration Plans, Infrastructure Plans, various TED initiatives) Economic growth, inclusive economic development, industrial development, job creation (NDP, IPAP, provincial and metro economic growth strategies, potentially various TED initiatives)
Transport-linked interventions (BRT & and targeting **regulatory**	Bring people and jobs closer together by making public	Safety and security for people and infrastructure	Workers save time and/or money - cost of accessing work opportunities is	Spatial restructuring, spatial alignment, integrated transport (SPLUMA, SDFs,

incentives around TOD such as proactive upzoning, spatial alignment of **fiscal incentives**, financial incentives to support minibus taxi infrastructure, PRASA modernisation and development around PRASA stations)	transport, primarily used by low-income residents, more efficient (cheaper, faster, safer)	Integrated development policy, planning and approvals processes	reduced; potential productivity gains for businesses if less late-comers/absenteeism due to transport issues; over time city becomes more efficient, green and generates rates with densification along transport services	Integrated Plans, Infrastructure Plans, District Plans, NTP, Integrated Transport Plans, PRASA Corp Strategy)
Fiscal incentives to promote sectors, exports (e.g., DTIC, incentives), and fiscal incentives linked to job-creation targets (e.g. city rates incentives)	Opportunities for either job intensive and/or high value adding investment advanced	Stable infrastructure (water, energy), reliable ports operations Access to raw materials, skilled labour and business know-how	Private sector investment is encouraged in sectors understood to have specific gains relating to productivity, balance of trade and/or job creation	Economic growth, inclusive economic development, industrial development, job creation (NDP, IPAP, provincial and metro economic growth strategies)
Black Industrialists Scheme; B-BEE - linked criteria within **fiscal and financial incentives**	Opportunities are enhanced for previously disadvantaged groups through affirmative action mechanisms	All of the above - same constraints as other businesses	Inequality within and between firms is addressed - greater degrees of ownership and direct participation in the productivity gains achieved in the economy (i.e., direct distributional impact, rather than redistributional policy)	Economic growth, inclusive economic development, social and economic development (NDP, IPAP, B-BEE Act, Inclusive economic growth strategies)
Financial incentives that target SMMEs and entrepreneurs (e.g., DSBD, IDC)	Address access to finance barrier to entry for SMMEs	Design frameworks for Cities - e.g. ensure active street frontage and fine grain floor space for lettable spaces that are accessible to SMMEs Sector-based market information for opportunities of market-entry (Important to also consider the extent to which other mechanisms disproportionately exclude SMMEs)	SMME growth contributes to diversified ownership in the economy, increased productive and job creation	Economic growth, inclusive economic development, social and economic development (NDP, SMME Strategy, Inclusive economic growth strategies)

The broader national policy context in South Africa

South Africa continues to face challenges of structural inequality, poverty and unemployment. The COVID-19 crisis and associated shocks have reinvigorated government priorities towards economic recovery and employment creation. There is also a pressing need to bring down the fiscal deficit and avert a debt crisis.

This means that any changes to the incentives regime needs to be aligned with these priorities and do not contradict goals of economic recovery and employment creation/retention. In particular, they should not lead to a race to the bottom when it comes to fiscal incentives, whereby municipalities apply increasingly generous fiscal incentives as they compete for business in their jurisdiction, leading to increasing lost revenue for each of them. This also means the timing of any policy levers needs to be taken into account as some policies may negatively affect tax revenue in the short run, even if they may lead to growth or higher tax revenue in the longer term.

The Government is taking a more critical stance towards incentives, eliminating reduced rates, rebates and other exemptions while instead giving preference to a reduction of the headline corporate tax rate. At a national level, tax incentive opportunities have thus been declining with several incentives reaching the sunset date without being renewed.

The President of South Africa has made repeated calls for increased foreign and domestic investment, with sufficient investment being a key factor driving the priorities of job creation and economic growth. Investment promotion agencies in South Africa have largely been modelled on international examples of agencies aiming to draw foreign investment. However, given the current context, South Africa's investment strategies, and the incentives to support them, may merit a greater focus on retaining existing investors compared to drawing new investors to locate in South Africa.

Role of incentives vis-a-vis other government initiatives

Stakeholders repeatedly emphasised that incentives play a secondary role in investment decisions compared to more fundamental aspects of the business environment, which are also largely in the realm of cities' mandates. The more fundamental aspects include reliable access to electricity and water and functioning transportation infrastructure, safety and security. Local governments with limited capacity may be advised to focus on getting such basics right rather than focusing on incentives, especially those incentives associated with foregone revenue.

Overview of investment incentives applied in South African metros

Various investment incentives are applied at the metropolitan level. These include incentives provided by departments at the national level which metros can promote to investors and facilitate, as well as metros' own incentives.

Among city level incentives, different metros have made use of different selections of fiscal, financial, regulatory, and business support incentives to further goals of inclusive economic growth and spatial transformation, as shown in Table 2 below.

Table 2 Fiscal, financial and regulatory incentives in place across South African metros

Fiscal/Financial City incentive	CCT	eTH	CoJ	CoE	NMB	MAN	CoT	BFC
Property rate reduction, rebate, or exemption		✔	✔	✔		✔	✔	✔
Service charge reduction (water, electricity, refuse removal)	✔	✔		✔	✔	✔	✔	✔
Building plan/land use application fee waiver/	✔	✔			✔	✔	✔	✔
Development contribution waiver/discount	✔	✔			✔	✔		
Land and rental subsidisation		✔				✔		
Development incentives				✔				
Community enterprise development fund				✔				
Capital infrastructure fund							✔	
Inclusionary housing incentive	(draft policy)		✔					
Support to agriculture sector and SMMEs								✔
Technical and business support incentives	✔	✔	✔	✔	✔	✔	✔	✔

Sources: City incentive policies, investor brochures, and stakeholder interviews.
Note: The accuracy and completeness of the information in the table is not guaranteed and has not been confirmed with the municipalities in all cases. Several discrepancies were found between the incentives municipalities list in their investment incentive policies, what they advertise on websites and investor brochures, and what is applied in practice. Some incentives, such as eTH's Development Contribution waiver, are offered as a temporary relief measure during the COVID-19 crisis

Some municipalities discount or waive taxes and fees owed to them by businesses in their jurisdiction, such as property taxes or service charges, or they provide waivers or discounts on fees owed by developers in the process of property development, such as building or land use application fees and development contributions. Few metros currently make use of regulatory incentives to spur spatial transformation and inclusive economic growth. Only one metro (City of Joburg) has an inclusionary housing policy in place that offers regulatory incentives, and it was implemented only recently (February 2019). Unlike past attempts at inclusionary housing incentives and despite COVID-19, this new policy has had a lot of uptake according to City of Joburg officials. It is still soon to examine its impacts on rental prices and on the mix of residents in the medium to long term.

Questions have arisen around the legality of cities reducing rates on the property rates and service charges as incentives. Based on National Treasury informal feedback, “reducing property rates, granting special rates on the tariff for basic services, or waiving development contributions does not go against any legislation. Municipalities have the discretion to decide whether or not to grant exemptions, reductions and/or rebates on the revenue sources to be collected but they must have in place policies (adopted by Municipal Council) which clearly outline the criteria that must be complied with when exemptions, reductions and or/rebates are granted.”

Metros also make use of technical and business support incentives and other investor services which their incentive policies group under the headings such as “other incentives”, “non-monetary incentives”, or “soft incentives”. This includes investor relationship management, making market studies or economic information available to investors, fast-tracking applications through a single point of contact, and investor aftercare services.

Table 3. Non-financial incentives across metros

	Investment promotion	Investor facilitation and aftercare
CCT	• Provision of regularly updated economic information	• One stop investment shop • Fast tracking of development applications • Investment facilitation officers • Facilitation with DTIC, through Wesgro, to obtain relevant incentives • Expedited City owned land disposals agreements • Load curtailments (guaranteed access to power during power load shedding)
eTH	• General economic information • Research on specific sectors • Introduction to key suppliers, financiers, customers • Opportunity identification and development • Local market reports • Site evaluation and selection • Business establishment assistance	• Immigration and visa support • Orientation tours • Relationship maintenance • Company registration • DTIC application support • Business administration support
CoJ	• Linkage services • Trade Council services • Investment information services including market intelligence • Updated spatial economic information available to investors • Access training opportunities.	• Investment tracking and prioritisation • Single point of entry for business

CoT	• While not mentioned in its investment incentive policy, CoT has an Investor Portal on the e-Tshwane platform that allows potential investors to interact directly with the Economic Development Department for information requests, guidance, and assistance. Exact services are not listed.	• Fast tracking applications through a dedicated process manager as a single point of contact to facilitate the flow of information and decision making; expedited processing through a Joint Operation Committee (JOC) experts through a defined meeting or a series of such meetings;
CoE	Profiled businesses will be categorised according to the sector they fall in (e.g. tourism, industrial, manufacturing etc.) and placed in the municipal website as part of marketing and communication	• Expedited time frame for the approval of building plans, where development is taking place within the Priority Development Area and has met all criterion set • Expedited land application processes and decision making • Fast-tracking decisions making on land release
MLM	• Information on economic trends • Options of land available • Information on infrastructure availability for new ventures • Rules and regulations of acquiring land • Rules on business and work permits • Contact details of service providers	N/A
BFC	N/A - Investment policy not available	N/A - Investment policy not available
NMB	• Marketing and promotion of NMB as an investment destination • Support and facilitate skills development and training to employees of new investments • Facilitate and support cluster development initiatives • Updated, market and industry information • Integrated Marketing and Promotion of Nelson Mandela Bay	• Investment One stop shop • Facilitating the expedient processing of applications submitted by investors (building plans, clearance certificate, municipal comment on environmental impact assessment (EIA), rezoning water and electricity connections • Streamline Municipal processes and procedures (EIA applications to DEDEA, Applications for incentives offered by the DTI, Applications for investment finance by development finance institutions, Identifying local joint venture partners for foreign investors where required, Negotiations with other spheres of government) • Investment aftercare services • Identify constraints and solutions to increase investment in NMB

Source: Metropolitan municipalities' investment incentive policy documents and investment brochures/websites.
Note: There may be discrepancies between what is listed/proposed in investment incentive policies and what is being implemented in practice.

The investment promotion ecosystem

Most cities have an investment promotion ecosystem with role players spanning across local, provincial, national government and private sectors. For instance, in eThekwini, the metro's Economic Development Unit (EDU) is mandated to promote economic development, job creation, economic transformation and economic intelligence within the municipal region. Meanwhile Invest Durban is eThekwini's unit responsible for driving all investment promotion into the metro. It was previously part of the same unit as EDU but a strategic decision was taken to elevate investment promotion by creating a standalone unit to focus on this. According to stakeholders, the two units still work together closely, and Invest SA also meets regularly with Trade and Investment KwaZulu-Natal (TIKZN), the provincial entity responsible for promoting the province as an investment destination and to facilitate trade, as well as with the private sector, represented by business associations, industry clusters, PPPs and joint ventures, among others.

Feedback on the effectiveness of coordination was mixed. On the one hand, both eThekwini (via the city level Invest Durban team in coordination with TIKZN) and Cape Town (via its Enterprise and Investment team in coordination with Wesgro) were seen by DTIC staff and several private sector stakeholders as particularly effective compared to investment promotion agencies in other metros. Both were seen to take a proactive approach in engaging potential investors, cooperating with the private sector to overcome obstacles to doing business and securing investments.

On the other hand, there are ample opportunities to streamline coordination across departments and facilitate the investor experience. For example, TIKZN's One-Stop-Shop currently facilitates connections with other institutions (such as the city's planning department for building approvals or the DTIC for access to its incentives) but it is far from being a single service point for investors' interaction with the government. According to stakeholder interviews with the private sector, investors experience a complex process involving numerous government agencies and long delays in approvals during the investment process from the institutions across all spheres of government.

Another example cited where coordination could be improved was in the context of administration of the urban development zone (UDZ) incentive, which is a national level incentive administered between the relevant city administrations and SARS. Paper-based processes are currently used that are not linked across departments/spheres of government. Stakeholders suggested speeding up processes though digitisation, automation and integrating systems amongst government departments.

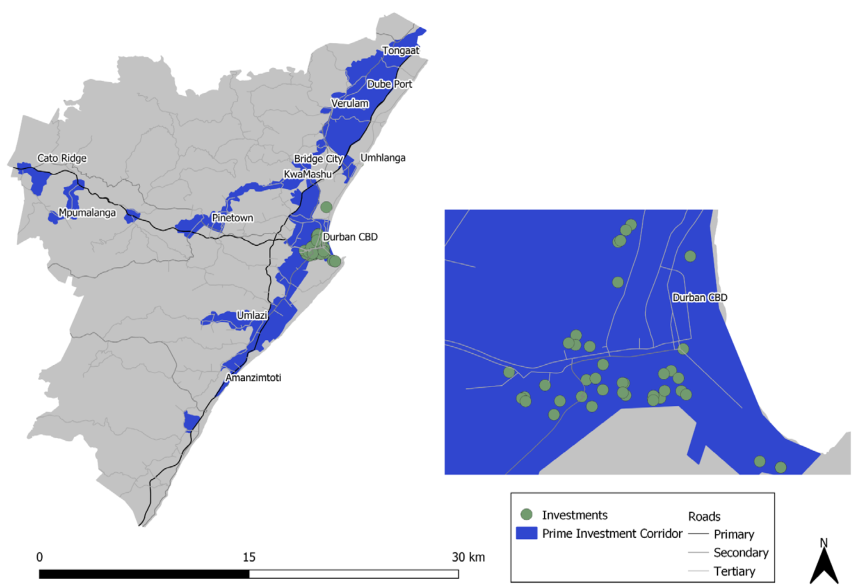
Investors also reported being frustrated by unclear and/or changing plans or commitments, specifically citing the lack of follow-through on precinct management in the inner-city and port area, the lack of follow-through on critical bulk infrastructure projects such as at Bridge City, and the lack of implementation of transport services (e.g., BRT). Different investors ranked such investment levers differently, depending on the area and industry they focused on, with some interviewees naming, for example, crime as the key issue to be tackled first, and others listing the need to follow-through on infrastructure projects. The precise obstacles could be further investigated through more detailed business surveys or focus groups, ideally using an area-by-area approach. This demonstrates the need for enhanced cooperation not only around incentives but tackling the business environment more broadly, especially as incentives alone are insufficient if the other levers of government are not introduced in concert.

Assessment of city level incentives

Some metros apply their incentives in a spatially targeted way by including a spatial element to spur development into priority investment areas as identified in their MSDFs. We examined this in greater detail in the two case study cities. While CCT makes this an eligibility criterion to be able to access the incentive (with the exception of specific tertiary sectors, which can be set up in any part of the city and obtain the incentive), eThekwini increases the value of the incentive for investments located in the designated spatial area without making it an eligibility criterion.

Our analysis of the case studies has shown that these have been used to draw investors into specific spatial areas in line with the metros' IDPs and MSDFs. For example, as the map below shows, investments benefiting from local property rate incentives have been used for development in Durban's CBD, which is a key priority investment area. From FY2015/16 to FY2020/21, 16 firms have benefited from eThekwini's property tax incentive, totalling an investment value of R1.84 billion. While foregone revenue totalled 36.3 million (calculated as the difference between full tax to be paid without the discount and the tax paid with the discount), property rates received through the investments considerably exceeded this, totalling R65 million. However, it is difficult to determine the extent to which the investment decisions were attributable to the incentive. The Cities currently do not have a framework in place to assess the level of redundancy of the incentives beyond monitoring their uptake.

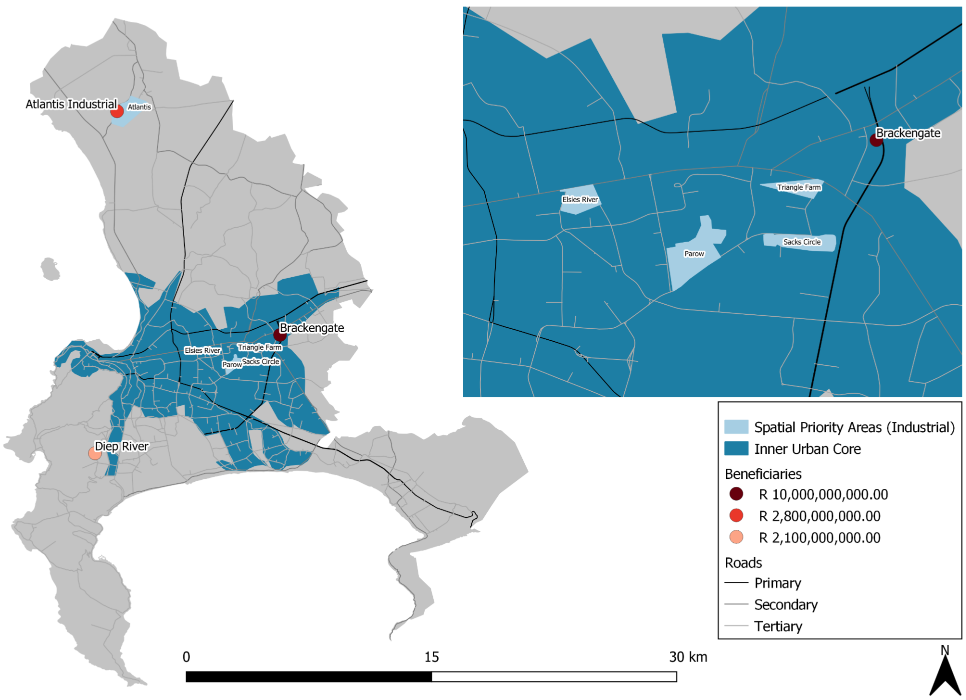
Figure 1. Location of investments benefiting from eThekwini's property rate incentives within the prime investment corridor, 2015/16 - 2020/21



Source: PwC, based on data from eThekwini

In CCT, the spatially targeted fiscal incentives aimed to draw manufacturing firms into six different areas zoned for industrial use. However, all firms that benefited from the incentives set up in the Atlantis Industrial SEZ area. (Two further firms in the specific tertiary sectors, for which the spatial criterion is not required, set up in Brackengate and Diep River). No manufacturing investment was attracted into any of the other five industrial areas through the incentives beyond Atlantis. This indicates that the incentive alone is insufficient to sway investor decisions in most areas. The package of incentives and other initiatives and services (e.g., new infrastructure, land equity contribution) provided in the Atlantis SEZ through funding by all spheres of government is likely to have contributed to drawing investors. Based on stakeholder consultations, the combination of city level incentives with other (provincial and national level) incentives, and support and facilitation by all levels worked successfully to motivate investment into the Atlantis Industrial SEZ.

Figure 2. Location of incentives making use of city incentives within industrial areas and inner urban core



Source: PwC based on CCT data

With data provided by CCT, we were able to estimate the economic impact of the investments associated with the city's own fiscal investment incentives. We estimated added/sustained economic activity resulting from the investment of R14.9 billion (investments that claimed the city level incentives) between 2015/16 and 2020/21 using economic impact assessment based on the Social Accounting Matrix (SAM) method, further explained in section 5.5 below. On average per year, these investments resulted in:

- R1.6 billion to GDP, whereby the direct impact accounted for 51% of the total GDP multiplier effect, while the indirect and induced impacts made up the remaining 49%.
- 7,800 direct jobs, 1,800 indirect and 2,500 induced jobs (Total: 12,100 jobs)
- R375 million to total government revenue through taxes

We also modelled the potential long-term impact through the operational activities resulting from the investment once the investment activity is complete. We estimated that this impact from additional economic activity after the investment phase between 2015/16 and 2020/21 on average per year using industry wide data as follows:

- R2.7 billion to GDP
- 10,000 direct and indirect jobs
- R643 million to total government revenue through taxes

On average, annual foregone revenue was R15 million Cape Town's fiscal incentives, less than 1% of the R2.5 billion annual average value invested by the firms over the period 2015/16-2020/21. The R15 million of foregone revenue of the City on average per year is far less than the R375 million tax revenue to the national fiscus on average per year through knock-on effects of the investments in the economy.

Technical and business support incentives and other investor services are deemed to be highly welcomed by investors as they give investors the required orientation to navigate processes in setting up or expanding their business as well as the required comfort in an uncertain business environment. These include prioritising accounts, meetings with high level officials, connecting investors with relevant contacts, as well as relocation services. Fast-tracking processes with guaranteed turnover times were also considered particularly important. For some investors, such business support services are more important than financial incentives. For example, developers considered that the costs saved from credible guarantees around the turnaround time of approvals and fast-tracked processing are likely far higher than any benefits from a fiscal incentive.

Another business support incentive offered by CCT is load curtailments. This offers 24 hour guaranteed uninterrupted access to electricity during power cuts. This incentive was a decisive factor for a large manufacturing investor to locate in CCT rather than in Midvaal or Gaborone. Yet for others, the financial incentive is critical. For example, for business process offshoring services, reduced electricity rates were a decisive factor.

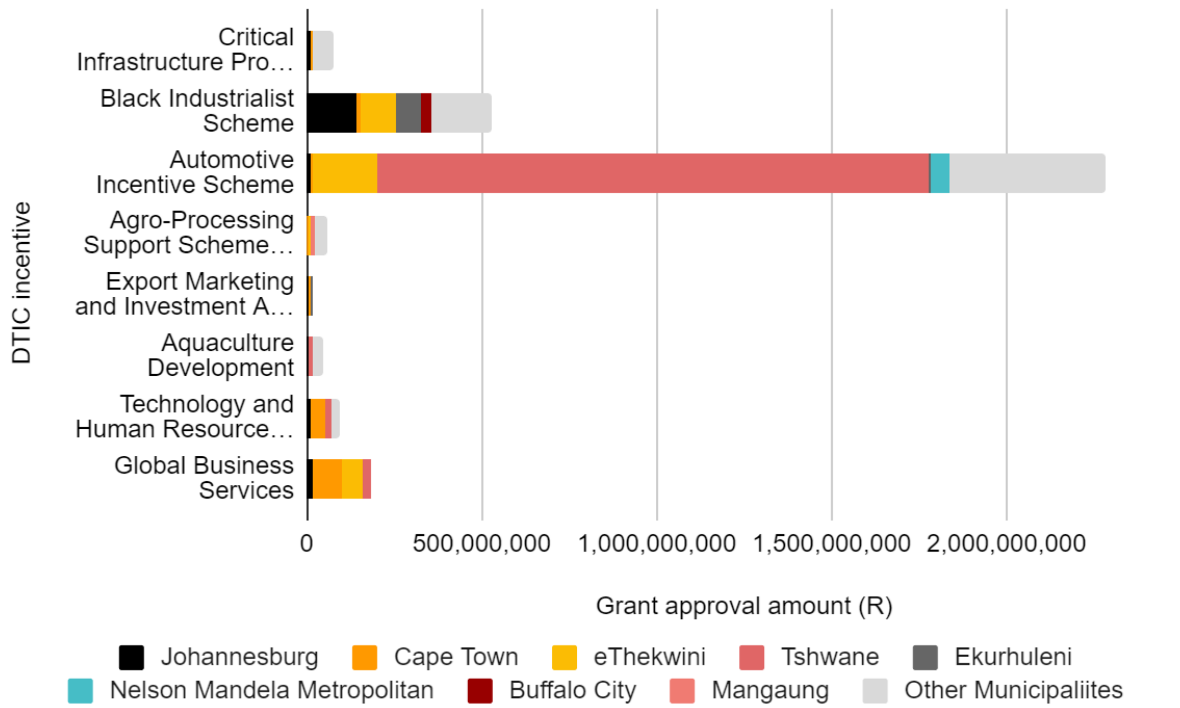
Assessment of national level incentives

In terms of incentive value, the Department of Trade, Industry and Competitiveness (DTIC) currently represents the main source of incentives to support local and foreign investors in South Africa. According to the DTIC 2019/20 annual report, total expenditure by DTIC in that financial year on all its incentives was R 5.3 billion. These include sector-specific incentive products, such as the Automotive Incentive Scheme, that aim to spur growth of specific economic sectors associated with high growth and job creation potential, thus working towards the goal of achieving inclusive economic growth. They also include non-sector specific incentives, such as the Black Industrialist Scheme which aims to enhance opportunities for previously disadvantaged groups through economic empowerment mechanisms, thus also aiming to achieve inclusive economic growth.

The DTIC incentives are generally offered country-wide without requiring the benefiting business or investment to be in any specific spatial location (with the exception of SEZ incentives and the Critical Infrastructure Program incentive). The 2019/20 DTIC reports which municipalities receive the incentive yet data on where within the municipality the investment takes place is not reported. This is a weakness in the reporting system as it does not allow for spatial analysis.

The majority of the investments took place in metros (76%). A spatial targeting towards metros of national level incentives may therefore be superfluous as they are already being applied in the metros. Tshwane received the largest amount of DTIC incentives by investment value (49%), followed by eThekwini (10%), and Johannesburg (6%). This result is largely driven by the Automotive Investment Scheme, which accounts for 2/3 of total DTIC funding and predominantly supports automotive firms in Tshwane. Without the Automotive Investment Scheme, the investment is divided between Johannesburg (19%), Cape Town (16%) and eThekwini (16%). Johannesburg and Cape Town also apply the most diverse range of incentives compared to the other cities.

Figure 3. DTIC incentive by spatial destination of investment values



Source: DTIC Annual Incentives Report, 2020.

The only DTIC incentives that have a spatial requirement are:

- Special Economic Zone (SEZ) incentives, which apply only to firms located in one of South Africa's designated SEZs (with additional National Treasury tax incentives only applying to those SEZs which have been approved for tax incentives -- currently 6 out of 11 SEZs).

  In line with inclusive economic growth goals, the SEZ incentives in South Africa are designed to help attract investment into the SEZs to promote high value adding, high job-creating sectors, attract FDI, and promote exports. The SEZ approach has been seen as a spatial policy aimed at reducing regional disparities. SEZs (and their predecessors, IDZs) have been seen in South Africa as a way to close the gap between affluent cities and townships. This contradicts the urban development logic perspective that sees cities with their concentrated economic activity, learning, innovation, diversity and creativity as the driving force of inclusive economic growth (Mdlalose, 2020; SACN, 2014; World Bank, 2010). There is thus a contradiction between urban development policies that aim to concentrate economic activity for urban agglomeration benefits and high economic growth trajectories with SEZ policies that deconcentrate (and dilute) economic activity to the periphery.

  However, in the cases of Cape Town and eThekwini, the SEZ locations, while at some distance from the city centres (40km and 30km respectively), were considered strategic: eThekwini's Dube Trade Port for its proximity to an international airport and Durban Harbour and Cape Town's

Atlantis SEZ for its proximity to suppliers and buyers and because large transport vehicles required don't readily mix with city traffic. In addition to this, revival of Atlantis aimed to provide jobs to members of low-income communities who had been displaced to the surrounding residential areas during *apartheid*.

In CCT, the SEZ had not been approved for provision of tax incentives to the frustration of developers and investment promotion agents. However, through a combination of municipal, provincial, and national level funding, infrastructure investments and investor support services, the SEZ has managed to attract R3.5 billion in investment and create 800 jobs as at November 2020. Close collaboration and proactive efforts across the different institutions in the investment promotion ecosystem (especially CCT, Wesgro, DTIC, GreenCape SPV) were seen as critical success factors in attracting the investment.

In eThekwini, few investors in the SEZ were making use of the incentives, possibly because they were not set up to qualify for the incentive. Issues raised included that foreign investors receiving SEZs incentives that were able to supply some of their product to the local market were creating unfair competition for local firms who were not able to relocate to the SEZ. While not all SEZs are export zones, more general points were raised of SEZs creating market distortions where firms located in SEZs even though it made more sense economically to locate closer to suppliers. Questions were also raised about whether opportunity costs had been considered and whether the same investments would not have had higher return in other areas, such as existing but dilapidated industrial areas would not have been more efficient than building new SEZs.

- Critical Infrastructure Programme (CIP), which applies to eligible infrastructure projects located in an area that is designated as a distressed area by the DTIC, based on indicators of economic distress or dislocation. According to DTIC's annual incentives report, the CIP supported six new infrastructure projects in 2019/20 with grants approved totalling R5.2 million, of which three were for black-owned companies. The spatial destination of the funds was mostly directed to two district municipalities in Mpumalanga. 23% of the funds were directed to metros (Johannesburg and Cape Town). Most metro level investment promotion officials interviewed for this study were unaware of this comparatively smaller DTIC programme.

While these are administered by the national level, cities can package and advertise these incentives to investors in their jurisdiction. Based on stakeholder interviews conducted as part of this study, the metros communicate national level incentives to investors to varying degrees. There are cases where metros have taken a highly proactive approach in reaching out to desired potential investors, advertising and facilitating the uptake of the available incentives. In other cases, there is little knowledge or communication. For example, few metro level investment promotion officials interviewed for this study were aware of the CIP. In other cases, there have been instances of wrong communication about national level incentives. Business representatives interviewed recounted that investors have expressed frustration with being assured access to a national level incentive by municipal officials only to find later that they do not qualify.

The other national level incentive that requires the benefiting investment to locate in a specific demarcated area is the Urban Development Zone (UDZ) incentive offered by the National Treasury through the South African Revenue Service (SARS) but co-administered by the cities. This is an income tax incentive offered in specific cities that intends to address urban decay in South Africa's inner cities by promoting private sector-led investment in commercial and residential developments.

Both the uptake and perceived effectiveness of the UDZ incentive has been mixed. In Johannesburg and Mangaung metros, the UDZ incentive is deemed to have been highly successful in developing and revitalising some parts of the inner city. In other metros, such as Buffalo City, however, the UDZ was discontinued following ten years of little uptake. The incentive was not sufficient to sway investment decisions in most areas. In the City of Cape Town, by contrast, some parts of the city that rapidly developed became "over-incentivised" with investors making use of the incentive even though they would have invested anyway given rising property prices, investment by multiple other investors, and the rapid development of the area. While an incentive was no longer needed in some areas but still needed in others, it wasn't possible to easily change the demarcation of the UDZ and it still has not been changed. A proposal by Buffalo City suggests a differentiated property development incentive by area so that areas that require more of an incentive to sway investor decisions will obtain a larger benefit.

In some parts of CCT, the UDZ was also deemed to have contributed to pushing original lower income residents out of parts of the city through rapidly rising property prices, thereby contradicting spatial transformation goals. The importance of incentivising low-income housing alongside development was emphasised to alleviate such affects and ensure mixed income households. However, the UDZ was not deemed effective in incentivising low-income housing, despite the erection, extension or improvement of or addition to low-cost housing features among the categories eligible for the incentive. The uptake for low-income housing has been poor (only 0.01% of the investment value) In eThekwini, there were no cases of the incentive being used for low-income housing.

Recommendations

The recommendations are categorised as follows:

- Policy
- Design and targeting
- Administration
- Data management
- Monitoring and evaluation

The level of priority of the recommendations is marked with coloured shading in the left column (the darker the shading, the higher the priority). We have also indicated which institutions the recommendation addresses and distinguished short-term and long-term recommendations.

Table 3. Policy-related:

No.	Recommendation	Institution
1	**Develop and clearly communicate a vision for the city to attract/catalyse economic growth and investment** that considers its specific endowments and comparative advantage, and what the city	Lead: Cities

	wants to be known for. This should consider how the attracted businesses will link into the existing endowments (people, skills, resources) as well as which industries are most likely to contribute to the ideal distributional patterns in terms of the space economy (inclusive growth - i.e. direct job creation, and requiring land uses that can be supported by the city's spatial restructuring objectives). Several cities have listed priority sectors, priority areas, and long lists of areas they would like to see addressed to improve the business environment and spur economic growth and development, such as in IDPs, economic growth strategies, BEPPs, and incentive policies. These have been helpful in identifying priority sectors, priority areas, and identifying various areas that need to be addressed. Yet the feedback from private sector stakeholders is that there is a gap on several fronts: (1) There is no credible way forward to achieve an economic turnaround with the required urgency, prioritisation, and coordination. Instead, stakeholders perceive different departments at different levels of government to be chasing different own goals and priorities and it is unclear that these will work together towards a broader turnaround plan. Representatives of businesses associations in eThekwini, for example, noted that various projects were being prioritised over economic recovery projects; (2) There is uncertainty of the policy direction of the government. Private sector actors seek clarity on, for example, whether labour costs will continue to rise with further restrictions and regulations, or whether there is real commitment to helping to make it easier to do business in South Africa, including for smaller and mid-sized companies. Where there may be such a vision, it is not clearly articulated to the private sector and is not backed up by action; (3) There is no clear long-term vision of a future state and path to get there in terms of which developments are to be undertaken where and when.	Support: Provincial Government, DDM, private sector Timeframe: short term
2	**Develop a clear investment attraction strategy to achieve the vision that links into the plans for spatial development and inclusive economic growth.** The metros have already identified the sectors it is trying to attract and the spatial areas into which it aims to attract investment. It is important that these strategies are based on strong engagement with the private sector to identify bottlenecks, solutions, and opportunities. It is also important that they take a cluster view and identify issues currently affecting firms in the entire value chain of the sectors to be attracted. Incentive policies need to sit within a wider investment strategy. They should be used/designed to target the specific firms that the strategy aims to attract.	Lead: Cities Support: Private sector, DTIC, DSBD, DDM Timeframe: short term

3	**Ensure that the city has operationalised how spatial transformation is to be achieved in practice, with clear steps and timeframes**. While there is widespread agreement on the outcome of spatial transformation, policies fail to provide a concrete plan to operationalise it with a clear path (see Rabe, 2018). While metros have plans, such as the IDP, BEPPs, and SDFs, they fail to operationalise these for implementation. A concrete implementation strategy that operationalises spatial transformation with clear steps, assigned targets and KPIs in a set timeframe can help achieve the common goal. Incentives can then be used to work towards the implementation of the plans.	Lead: Cities spatial planning departments Support: Related departments, e.g. transport, economic development, housing, revenue/finance. Timeframe: short-term
4	In parallel, to feed into the strategy, **obtain a clear understanding of the obstacles that are preventing the desired investment and the (combination of) potential incentives that could help overcome these obstacles.** There is evidence that this has not been done sufficiently in the case study countries. For example, while inclusionary housing is seen as a strategy to reach spatial transformation, developers of low-cost housing have not been engaged to identify the constraints they face or to develop incentives that speak to their specific business models. Also, property developers have not been engaged to jointly plan infrastructure and understand ways forward. It is again important to engage not only with firms in the desired industries but also with those in the entire value chain.	Lead: Investment promotion agencies Short term (and ongoing)
5	**Spatial targeting could be improved by "stacking" incentives and other initiatives together for a spatial area through coordinated efforts at all spheres.** Cities as 'agents of places' can have an influence on spatial outcomes that goes beyond planning by proactively seeking investment into specific spaces. This can be through regulatory powers, zoning, land, infrastructure spend, training programmes, precinct management, national level incentives etc. While this has been done very successfully in some cases, there are many missed opportunities. For examples, while some cities have proactively reached out to potential investors and advertised the national level GBS scheme to draw business services firms into their cities and provided metro level investor services and incentives, in other metros there are many missed opportunities to package and advertise national level incentives and to proactively reach out to potential investors or provided added support to national level efforts at attracting investment. According to DTIC staff, the proactive municipal support received around the GBS in one or two cities was far from the norm in their experience.	City in coordination with all other institutions with relevant levers; the lead/ convenor should be the organisation with the most levers for the particular initiative Short term

6	Once the vision and strategy has been defined, **take a proactive role in partnering with developers to communicate the vision, particularly around infrastructure plans, with firm commitment on timing for those plans.** Even in eThekwini, where coordination among role players in the investment promotion ecosystem and business associations is deemed to work very well, developers noted that there was no clear vision and plan around infrastructure to be developed in the city. While studies were done and plans made, these were often not followed through. They highlighted that credible lists, time plans and guarantees around upcoming public sector investment would attract private sector investment. This would allow the private sector to plug into and complement public sector infrastructure projects with their own projects, thus raising the likelihood of successful outcomes for the development of a given node.	Cities Medium term
7	**Proactively engage with desired investors to communicate the (local and national level) incentives and initiatives deemed helpful for them.** Where an incentive is deemed appropriate, ensure that the desired firms become aware of the incentive and are guided in how to apply. As mentioned above, while this has been done very successfully in some cases, it is far from the norm.	Lead: Investment facilitation body Support: Cities Medium term
8	**Where this doesn't exist already, establish an inter-agency working group in charge of policy coordination around investment promotion.** City, province, and national government need to come together to make a compelling case for investors. Together they can examine how the respective incentives and initiatives support in different ways and what needs to take priority. Cities, for example, can ensure competitive pricing of services for priority investors and support non-financial investment services. For example, InvestSA One Stop Shop Western Cape has successfully achieved close coordination between local, provincial and national spheres of government around investment promotion. Such a model could be replicated in other cities.	Lead: DTIC Support: Cities/DDMs, provincial, DTIC, DSBD city, investment promotion agency, SEZ management Short to medium-term
9	**Integrate municipal SDFs (and city investment strategies) into investment promotion at all levels.** Align focus of national level incentives with cities' strategies and spatial priority areas. According to SPLUMA, the local government is to identify priority areas for investment. Currently other incentives may detract investment away from spatial priority areas. If national level incentives, such as the UDZ or SEZ incentives were to be aligned with the city's incentives and other initiatives in the city's identified spatial priority areas for investment, this could increase the chances of success of the initiatives of each.	Cities, DTIC and Investment promotion agencies, SEZs Medium-term

10	**Actively engage the private sector using a cluster approach.** It is important to go beyond the sector to understand the needs of the entire value chain and ecosystem, as well as incorporating relevant think tanks, universities, and civil society organisations. According to business representatives that work with cluster networks, engagement currently often stops at the sector level without engaging the entire cluster or firms further up and down in the value chain from the type of firms that the government is trying to support. This means that obstacles are not holistically identified, meaning that efforts fail or opportunities are missed, particularly to successfully form backward and forward linkages with SMMEs.	Lead: Investment promotion agency Medium term
11	**A critical success factor for SEZs to work is a very concerted/coordinated approach across role players through a coordinating body.** ● City, province, and national government need to come together to make a compelling case for investors. Together they can examine what relevant sectors require, including their entire value chains and each support in different ways. A multi-agency coordination body that works across spheres has been set up in some cities, such as InvestSA One Stop Shop in Western Cape. This model could be replicated in more metros. ● Metros can ensure competitive pricing of services to attract investors into the SEZ but also ensure that comparative advantages of the city are reaped, and that the city sees a positive return from investment. One suggestion for greater influence of metros was to bring the metro in as shareholder of the SEZ or onto the SEZ Board to improve coordination. ● SEZ data should also be integrated in Cities' modelling (such as on water demand, impact on tariffs etc.) as this is often managed separately within SEZs without metros' having input or insight.	COGTA and/or already established SEZ agencies and boards. A key principle should also be leading with the actor with the most levers - e.g. if Metro-owned land is being used, they should lead the establishment; if Provincial infrastructure is catalytic/key dependency, they should lead Medium-term
12	**National government should further examine the issue of SEZs creating obstacles and distortions to local producers and improving beneficial linkages to the local economy.** Academic work has already been done in this regard, such as by the South African City Network.	National government Long-term
13	**SEZs should continue to put programmes in place to encourage SMME integration and improve backward and forward linkages to local SMMEs.** This can help ensure that, for example, foreign investors become aware of and make use of local suppliers rather than relying on	SEZs Medium-term

	imports, something that had been noted as an issue in the past. Some programmes are already underway in this regard, such as training and enterprise development programmes for adjacent communities in Atlantis. While this recommendation came out of stakeholder discussions on SEZs, such programmes could also be applied in other industrial parks or cluster networks.	
14	**Broaden the use of incentives for inclusionary housing.** The City of Johannesburg is the only metro to have inclusionary housing incentives in place. Based on our engagements with stakeholders, there is a notion that the UDZ, designed to spur urban regeneration in areas of historic blight, has contributed to gentrification in some areas, such the Salt River and Woodstock neighbourhoods in CCT. There should be a concerted effort to support urban renewal without displacing existing residents.	Cities; Department of Human Settlements
15	**Local governments can support local businesses through increased purchases of local goods** such as purchasing uniforms for local government staff from local textile companies even if these are at higher prices than imported ones. This would constitute a financial incentive.	Cities
16	**Make more use of technical and business support incentives** that are not associated with high foregone revenue but are able to make a big difference to investors and retaining existing businesses. This includes investor aftercare and ensuring key businesses have reliable access to services such as through load curtailments or introducing zones within the city with undisrupted access to power, water or wifi.	Cities
17	**Prioritisation of investment promotion and business growth needs to be driven at a senior level.** Executive leadership in metros and nationally need to buy in to the prioritisation of attracting investors, retaining businesses and growing the economy and drive this at a senior level. Practical training should be conducted in all city departments as well as national level departments to ensure wider understanding of investment promotion imperative and how policies in different departments can hinder or support this priority in order to ensure that policies do not contradict this imperative. This will also help to encourage cooperation around these joint objectives and eliminate the currently perceived zero-sum mentality and policy fragmentation among government departments.	Executive metro leadership; executive leadership across national departments and provinces

Table 4. Recommendations on incentives design and targeting

No.	Recommendation	Institution
1	**Review/redesign incentives based on the business model, size, and other characteristics of firms that the strategy tries to attract.** If an incentive can help to overcome the bottlenecks faced by the firms, understand the business models and characteristics of the firms that this is trying to attract and what would constitute a benefit for those specific firms. For example, if small businesses are to be attracted by the incentive, then there should not be limiting criteria for these such as minimum employee numbers or disproportionately burdensome reporting requirements. Or for example, If the strategy aims to attract developers that typically build and sell, then an upfront incentive is more effective than an incentive that provides relief only several years down the line such as through a depreciation allowance. Similarly, if the type of firm to be attracted has high operational costs but low capital costs, then an incentive for utilities is likely to be more effective than capital allowances. The design of the incentive needs to be attractive to the type of firm that the city aims to attract. This requires engagement with the private sector.	**Lead:** Cities **Cooperation:** DTIC, CSP & other economic research partners Timeframe: medium-term
4	**Consider designing incentives to attract foreign investors.** According to DTIC staff, since removal of the Section 12I tax incentive, there are few incentives for which foreign investors are likely to be eligible, particularly as local ownership or BB-EEE rules are likely to disqualify foreign investors who are new to the market. Meanwhile other countries who are competing with South Africa for investment do have incentives in place to lure investors. A redesign of some incentives could be considered to ensure that foreign investors are able to qualify.	DTIC Medium term
5	**Design incentives to attract low-income housing development.** The current incentives do not go far enough to attract low-income or gap housing development. Municipalities should consider targeted inclusionary approaches (including mandates for certain areas). Considering an adjustment of the UDZ to include an inclusionary housing component, and incorporating greater use of the Social Housing Restructuring Zones. Aligning low-income housing and social housing along TOD corridors can ensure greater accessibility to marginalised communities.	CSP and/or suitable partner e.g. SALGA - develop a model incentive framework **Cities** - incentive framework (in some cases e.g. WCG provincial level policy processes are in place) National

		Department of Human Settlements Medium term

Table 5: Recommendations on the administration of incentives

No.	Recommendations	Institution
1	**Ensure a customer-friendly service culture among investor-facing staff and introduce key account managers to deal with (potential) investors.** Several metros have already introduced a single point of contact to facilitate the flow of information and decision-making for local government requests and are giving investors assurances via meetings with high-ranking officials up to the premier. This way dealing with larger investments or growth-enhancing investments is prioritised over smaller requests, such as planning permissions for a residential building extension, and investors are given the assurances required to make investment decisions.	Cities, DTIC Timeframe: short to medium-term
2	**Where not already in place, single ticket-tracking should be put in place throughout the entire multi-agency system.** This could help investors better understand where in the process their application stands and facilitate the overall investor experience, thus addressing concerns with regard to unexpected delays and perceived lack of attention to investors' applications and incentive claims.	All investment promotion agencies
3	**Consider staff rotations to build staff understanding of what is required of them by staff in other departments and vice versa with regard to incentives that require multi-agency approvals and documentation.** As delays and frictions are sometimes caused by insufficient understanding of what is required by other officials for the next steps of the claims or approval process, leading to rejections and the need for resubmissions, this could be a way to help accelerate such processes. This is a method that has been applied in other countries (see Box 9) to improve processes as it helps staff to understand what the person on the other side receiving their information requires of them. It also helps to build contacts between them so that if there are deviations or issues, they will have contacts to reach out to and better address these.	Cities, DTIC, OneStopShops Short to medium-term

4	**SEZ data should be more integrated in Cities' modelling** (such as on water demand, impact on tariffs etc). SEZs often operate in silos and municipalities need to be able to respond to future needs in terms of municipal service provision and integrate this into their planning. While the revised SEZ strategic framework (DTIC, 2019) provides for equal ownership of an SEZ by the different spheres of government, operations of the SEZs are still often conducted without sufficient integration.	SEZ administrations and Cities Short-term
5	**Improve data management to simplify and speed up approvals and reporting requirements for the private sector and to ease M&E of incentives.** For example, digitising documents and making documents and information accessible across government while maintaining data protection and privacy would reduce paperwork and processing times for all parties involved. Data for monitoring could be integrated between institutions that jointly administer incentives (e.g. UDZ incentive). More data could also be made public for use and analysis by 3rd parties, such as evaluations and cross-city comparisons through open data portals.	Municipalities Short-term
6	**Introduce KPIs and performance measures for government staff dealing with approvals to cut delays** (of incentives, development applications, and other processes required by investors). These should include performance measures on processing times for applications, and responsiveness to client communication as well as KPIs related to spatial targeting or sector alignment.	DTIC, municipalities Medium term
7	**Public sector reform is required to move towards a more outcomes-oriented approach.** The current punitive compliance-based culture is an obstacle to positive outcomes. With appraisal of public officials focused too heavily on preventing even immaterial deviations from set processes, it is difficult for public officials to address situations as soon as there are slight deviations or new situations. In view of this, public officials resist decision-making to prevent punitive actions with negative consequences for the investor. Meanwhile lack of or delayed decision-making and lack of advancing outcomes goes unpunished.	Government-wide, cities Medium to long-term
8	Improve assistance to navigate incentive applications and claims. Private sector stakeholders interviewed highlighted that they struggle to receive support in navigating the incentives and regulatory requirements associated with them. While it was noted that the DTIC website is transparent and makes the rules accessible on its website, navigation through and interpretation of those rules is not always clear. This is especially the case where incentives are administered across various institutions. In addition, other institutions provide other incentives listed on other websites. Support from the government around these processes is deemed insufficient and using outsourced private services to assist investors in such processes has	DTIC, DSBD, cities, other institutions offering incentives Medium to long-term

	been met with obstruction by government officials, according to stakeholder interviews.	
9	UDZ applications could be linked to cities' management systems, streamlined, digitised and automated to speed up processes, reduce processing times and to make decisions more predictable. This would also make it easier to monitor, manage data, and evaluate the incentive. This would also give investors more certainty to make their investments.	National Treasury/SARS and Municipalities Short-term

Table 6. Recommendations on monitoring and evaluation on incentives

No.	Recommendations	Institution
1	Data for government evaluations of the incentive should be defined and requested at the outset to avoid retrospective *ad hoc* requirements.	All institutions that provide incentives Short-term
2	Incentive implementing departments should attempt to quantify the additional economic activity generated by the introduction of the incentives relative to costs. A sound M&E framework is to be established that collects and examines impact data, sets targets, and includes a feedback loop mechanism for all incentives. Key data on costs and benefits of the incentives need to be tracked, going beyond the amounts of incentives disbursed and investment value to include jobs created, investment value, type of investment and production, sales revenues, and turnover. In addition to this, the spatial location of initiatives at all levels should be recorded through GIS coordinates.	Cities, in coordination with DTIC, NT/SARS Medium-term
3	Cities should map and monitor data on not only their own city level incentives but also UDZ and other national level incentives to understand how they are being applied within their jurisdictions.	Cities in cooperation with DTIC, DSBD, IDC, SARS/NT
4	DTIC should collect and report data on where within municipalities the investments they are supporting are located, rather than reporting only the name of the municipality.	DTIC
5	Integrated systems should also allow information sharing across spheres on incentives applied in the metro's jurisdiction. This would facilitate monitoring and evaluation as well as reduce processing times of	All spheres of government Long-term

	incentives where investors are required to provide reporting for approvals.	
6	Incentives should be given time to gain traction. Information on the incentive and on realised benefits of the incentive may be delayed. In addition to this, the design of incentives has often been adjusted over time to improve shortcomings.	All spheres of government Long-term

1. Introduction

1.1 Purpose and objectives

This report has been prepared as part of the National Treasury Cities Support Programme (CSP) project "City Economic Incentives Review and Reform Recommendations Project" implemented in partnership with the World Bank and the Swiss State Secretariat for Economic Affairs (SECO). The explicit aim of this project is to deliver a technical review and assessment of national, provincial and local government economic incentives in terms of:

- how they are currently used and can be further leveraged by cities to support public sector urban spatial transformation and inclusive economic development agenda;
- how effective they are as metro spatial and economic transformation instruments, focusing on their alignment with, and contribution to, urban and local development objectives; and
- what reform of the instruments is required and whether there are other more effective incentive instruments that could alternatively be used.

The underlying aim of the project is to develop recommendations that frame a model City Economic Incentives Policy and to influence national policy towards a spatially targeted approach to the application of national economic incentives.

This final report combines the key findings from two more detailed draft reports prepared for this project. Report 1 laid out the South African context in which incentives policy exists in South Africa and reviewed international literature and lessons around the application of investment incentives. It also mapped the South African cities in terms of their incorporation of spatial development criteria in their investment incentives policy and laid out the criteria for the selection of two case study metros for further analysis. Report 2 on the Review of Public Sector Incentives examined investment incentives in the two case study cities: City of Cape Town (CCT) and eThekwini Metropolitan Municipality (eTH). It analysed both the cities' investment incentives as well as major national and provincial level incentives in these cities, each with a focus on how they are applied as tools for spatial transformation and inclusive economic development.

1.2 Background: The case for a re-examination of investment incentives

A holistic re-examination of economic incentives is viewed as crucial to ensure that the sum of national, provincial and local government policy effectively creates desired behavioural change in line with cities' key priorities of spatial transformation and equitable economic growth and development. With the public debt crisis and the COVID-19 pandemic placing additional budget pressure on government, there is an even greater need for incentives to be as effective and efficient as possible in reaching prioritised goals.

The Municipal Systems Act mandates that a Spatial Development Framework, an integral part of the Integrated Development Plan, serve as the principal planning mechanism to guide development within a municipality. To support this legislation, the Spatial Planning and Land Use Management Act (SPLUMA) has strengthened the role of the SDF in municipal decision-making. Key to successfully achieving spatial goals is the ability to link money to objectives. Working across scales, both planning and economic development directorates can overlay their objectives to ensure that their goals are achieved from a spatial lens. For example, a city corridor earmarked for TOD can have multiple nodes in various economically diverse communities, and for each node have a targeted investment plan to stimulate growth.

Globally, the design and implementation of incentives to entice the private sector to invest in projects the public sector often cannot fund is viewed as an important vehicle for spatial change. Ranging from Density Bonuses for small scale developments to Tax-Increment Financing for regional mega-projects, there have been a bevy of spatially focused economic incentives which achieve a range of spatial and policy goals.

A holistic re-examination of economic incentives is crucial to ensure that the sum of national, provincial and local government policy effectively creates the desired behavioural change in line with key priorities of spatial transformation and equitable economic growth and development. This is particularly urgent as the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plans (IPAPS) following from it had no explicit consideration of spatial issues and economic geography.

In addition to this, incentives need to be adequately focused and designed to ensure that they reach their objectives and are aligned to the desired policy outcomes. In applying incentives, Government faces various tensions and trade-offs, including the following:

- Incentives may be associated with revenue loss, administrative burden, opportunities for abuse, evasion and revenue leakage
- Trade-off between short-term government revenue gains/losses and long-term financial/social return
- Revenue gains/losses as well as operational costs and efficiencies may each accrue to different spheres of government
- Trade-off between immediate concentrated growth versus long-term equitable growth and spatial transformation
- Trade-off between decentralised development and the development of “regional industrial clusters” versus creating efficiencies through proximity to markets and ports; efficient supply and logistics chains; agglomeration and clusters; and supportive economic infrastructure”.

The debate has often juxtaposed revenue against ‘spatial transformation’ without acknowledging that spatial choices can bring revenue and efficiencies too. "Spatial transformation" encompasses spatial justice, spatial opportunities, densification, intensification, design, etc., and also associated costs/efficiencies. The lack of targeted spatial city economic incentives, apart from notably the Urban Development Zone, further demonstrates how this debate is taking shape in the public sphere. While Spatial Development Frameworks often indicate areas for investment, often economic incentives are designed to be applied ‘anywhere’ so long as investment is achieved. There are some examples of ‘spatially targeted’ incentives, however, they’re often designed for state-owned land on the periphery of cities. This highlights the conflict between directorates within a municipality, whereby a Spatial Planning office might want to direct investment along SDF identified corridors, while an Economic Development office would want to direct investment to any area that can support investment. While some economic incentives don’t align with standing legislation, such as SPLUMA, they also point to a lack of coordination between municipal directorates. This lack of coordination should be addressed to ensure a cohesive approach by the municipality to achieve spatial and economic goals.

Another area where economic incentives need to be re-examined are Special Economic Zones. While SEZs are regulated by the Department of Trade, Industry and Competition (DTIC), they're often managed by the province, metropolitan municipality and SEZ company. There needs to be greater coordination amongst the various spheres of government to ensure that SEZs function as more than just "designated areas set aside for specifically targeted economic activities to promote national economic growth" (SARS 2020) and function more effectively to meet the spatial and economic goals of the hosting municipalities. South Africa's SEZ policy enables greater industrial decentralisation, which yields lower economic return than a metro-based SEZ. Understanding the value of individual SEZ's to their locality in addition to their value added to national economic development should inform how SEZ policy is approached in the future.

South African Metros are currently at a crossroads. Already weakened by a decade of slow growth, the South African economy has taken a particular knock from the COVID-19 crisis, with a contraction of approximately 7.5% in 2020. The pandemic's effect, while yet to be fully measured, has demonstrated a range of areas for resilience planning. The combination of the economic crisis and COVID-19 has led to a significant dip in public coffers. The shrinkage of the public funds will only begin to be felt in the coming years. Cities, as agents of economic growth and development, have a window of opportunity now where they can catalyse growth and pave the way for a more equitable and sustainable development path.

1.3 Definitions and taxonomy

This study focuses on investment incentives defined as measurable economic advantages that governments provide to specific enterprises, with the goal of steering investments into favoured sectors, regions, or of influencing the character of such investments (James, 2009). More specifically, in line with the World Bank Group's Investment Policy Toolkit (The World Bank Group, 2015a), investment incentives can be defined as:

(i) A direct transfer of funds or a potential direct transfer of funds and liabilities

(ii) Exemptions from government revenue contributions that are otherwise due

(iii) Provision of goods and services other than general infrastructure, or payments-in-kind. A government may also make payments to a funding mechanism or entrust a private body to carry out one or more of the functions in (i) through (ii).

Investment incentives can also be further categorised into four types (The World Bank Group, 2015a):

5. **Tax (fiscal) incentives** are exemptions to government revenue contributions that are otherwise due by the general population. Examples of tax incentives are tax holidays, reduced tax rates, tax allowances and credits that grant firms the right to deduct investment expenses, and tax deferrals.
6. **Financial incentives** are direct or indirect (contingent or explicit) transfers of funds/liabilities to benefit a particular business/activity/sector; or advantageous provisions of goods and services, or specific payments-in-kind which benefit only the investor in question. Examples of financial incentives are matching grants, reduced interest rate loans, and reduced prices on land.
7. **Regulatory incentives** are non-financial derogations of rules and regulations offered by governments to private firms, for example to streamline processes. (OECD, 2003: 17).
8. **Technical or business support incentives** are other non-financial incentives provided to investors to assist them in setting up and running their operations. Examples include preferential treatment or relocation support.

While the focus of the study is on investment incentives based on the World Bank's definition of tax and financial incentives, as these are quantifiable for the purposes of this study, it also touches on regulatory and technical and business support incentives or what various South African metros have termed "other incentives", "non-monetary incentives" or "soft incentives".

1.4 Methodology

The findings of this report are based on:

- 25 stakeholder interviews and 5 focus group discussions held in June 2021 including with:
    - City administration officials in eThekwini and Cape Town from the revenue, spatial planning, and economic development/investment facilitation departments.
    - Private sector stakeholders including property developers, technical experts, manufacturing sector representatives, and other investors,
    - Academics and professionals with expertise in spatial planning, spatial transformation, and local governance. A complete list of the stakeholders consulted is found in the Annex.
- Desktop review including the following:
    - This included strategic and planning documents such as: the Spatial Planning and Land Use Management Act (SPLUMA), municipal integrated development plans (IDPs), municipal spatial development frameworks (MSDFs), and economic growth strategies;
    - Policies, brochures, guidelines and reviews of incentives such as city investment incentives policies, investment package brochures, incentive guidelines, annual incentive reports,
    - Academic literature and reports from governmental and international organisations on spatial transformation, investment incentives, urban development, and inclusive economic growth.
- Data compilation and analysis including:
    - Analysis of data on the cities' fiscal and other financial incentives, such as investment values, foregone
    - Original research was conducted for the city incentives using economic impact assessments (EIA). The methodology for this is further detailed in the relevant section in chapter 5.
    - Broad comparative estimates of economic impact across incentives

1.5 Structure of the report

The remainder of this report is structured as follows:

- **Section 2** provides an overview of urban policy in South Africa. This section provides a basis for the subsequent sections which looks at the case study cities.
- **Section 3** reviews the broader national policy context as it relates to transformation in South Africa.
- **Section 4** provides an overview of the investment incentive policies in South Africa. This section provides a basis for subsequent sections which analyse the incentives in case study cities.

- **Section 5** is where the main assessment of the incentives begins. It specifically examines the city level incentives of the two case study cities (eTH and CCT). The final subsections cover key issues raised.
- **Section 6** turns to incentives at the national/provincial level. It first assesses incentives with explicit spatial elements. These are the Urban Development Zone (UDZ) incentives, Special Economic Zone (SEZ) incentives, and the Critical Infrastructure Programme (CIP). It then provides broad overviews of various further incentives geared towards economic growth.
- **Section 7 and 8** contains concluding assessments and summarises key findings and recommendations.

2. The urban policy agenda

2.1 Brief history of urban policy in South Africa

As one of the most economically diverse and urbanised countries on the continent, South Africa has a robust regulatory system in which urban growth is managed. Yet South Africa also has a legacy of spatial segregation, which has permeated to most aspects of society. The post-apartheid government has gone through an iterative policy formulation process to create an integrative system, which reinforces the importance of urban development in national economic growth.

Considering the history of spatial engineering as designed by the apartheid regime, the post-democracy government has struggled to develop effective policies or implement policies effectively which would enable integrative development. With a steady flow of rural to urban migration, South African municipalities are experiencing rapid growth of informal housing, which has exacerbated sprawl across various municipalities. Efforts by the national government to provide basic services and adequate human settlements such as the Reconstruction and Development Programme (RDP) have led to ineffective investment into infrastructure critical to spatial and ultimately social integration.

The post-apartheid government has attempted to empower municipalities as drivers of economic growth through deliberate regulations, which have shown the importance of regulatory and financial decentralisation. Decentralisation allows local governments to address citizen concerns more effectively by responding to realities on the ground with agility and targeted approaches. Decentralisation also affords local governments an opportunity to manage their finances in a manner which ensures their needs are met.

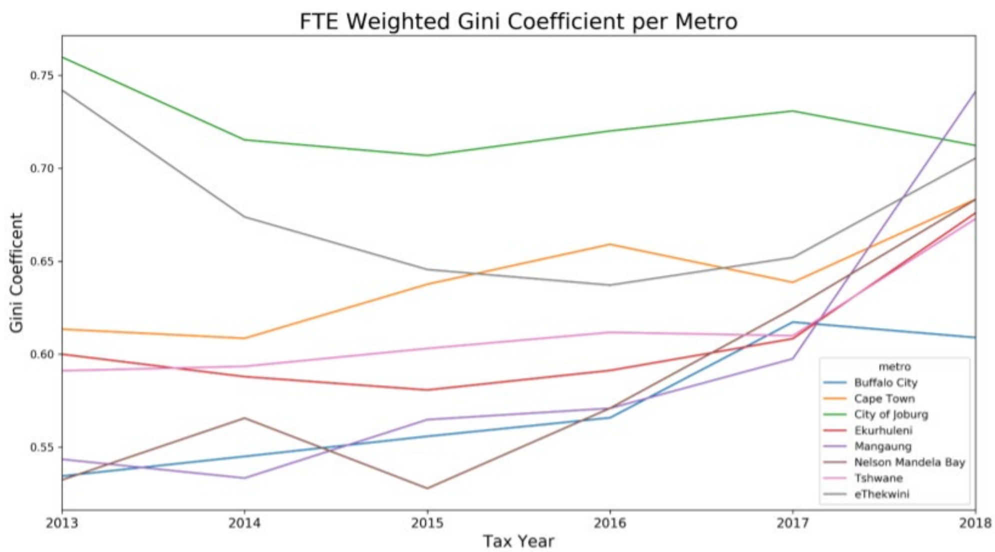
2.2 Continued spatial segregation and inequality

Despite efforts to reduce spatial segregation and inequality, inequality has in fact increased since the end of apartheid in 1994 (World Bank 2019; Palmer, Parnell and Moodley, 2017). According to the World Bank's latest estimates, its consumption expenditure Gini coefficient, one of the most common measures of economic inequality, is at 0.64 and higher than the most recent estimates for any other country (World Bank, 2019).

The urban divide is one of apartheid's most stubborn hallmarks. This is a major constraint to unleashing cities as drivers of development in South Africa. One of the factors that characterises this inequality is the disconnect between the location of jobs and homes where predominantly poor residential areas are furthest away from economic centres. Many urban environments have become unsustainable sprawls that perpetuate inequality, exacerbated by continued urbanisation.

As shown in the figure below, all South African metros continue to have very high income inequality as measured by the Gini coefficient and this has been rising over time in most metros. The Gini coefficient measures income inequality whereby 0 (0%) is perfect equality and 1 (100%) is perfect inequality. All South African metros have had scores of over 0.55 from 2013 to 2018. To put this in perspective, only six countries (including South Africa) out of 160 countries for which data is available have Gini coefficients of over 0.55, according to the World Bank's Gini coefficient estimates (World Bank 2019).

Figure 4. FTE Weighted Gini coefficient per metro



Source: National Treasury City Support Programme, 2021.

As demonstrated in figure 4, it is clear that there are constraints to inclusion in South African cities. In the South African context, this inequality is manifested in the spatial configuration of cities. Disjointed urban fabrics where the workforce is located far from economic opportunities characterises most municipalities.

2.3 Main policy goals and how incentives are used to support them

In this subsection we outline the main government policy goals in place to reach spatial transformation and inclusive economic growth. The problem of spatial inequality takes the premise that jobs and opportunities in South African cities tend to be spatially distant from where low-income populations reside. 'Spatial transformation' thus aims to undo spatial divides remaining from the country's *apartheid* history and bring jobs and opportunities in South African cities closer to where low-income populations reside.

This may include easing and reducing costs of physical access as well as enabling better information flows, exchange of ideas, trust-building, networking and engagement. The term ‘inclusive economic growth ’generally refers to economic growth that is inclusive of the large part of the country’s labour force and encompasses the idea of equality of opportunity in terms of access to market, resources and regulatory environment for businesses and individuals (World Bank 2009).

South Africa’s policy aspirations for urban development – principally the Urban Development Framework (DoH, 1997), the National Development Plan (NDP) (NPC, 2011), and the Integrated Urban Development Framework (IUDF) (COGTA, 2016) – present a vision for South Africa’s urban centres that spatially manifests ideals of equity, prosperity and sustainability.

These frameworks are to be read together with the Constitutional directive for local governments to drive “social and economic development” (RSA, 1996) and the various further stipulations of that role in, for example, the White Paper on Local Government, the Municipal Systems Act, and most recently the District Development Model - all of which provide for a local government that drives social and economic development through a combination of regulatory, planning and cooperative governance actions.

One of the mechanisms to encourage private activity (either to retain economic activity and prevent job losses in times of shocks to the economy, to attract new investment to stimulate a new sector or create new job opportunities, or to direct existing investment to a more spatially desirable location), is the use of investment incentives. At a local government level, the use of incentives can come into conflict with other goals - such as revenue-enhancement for service delivery or cross-subsidisation of under-served communities; or land-value capture models (SACN SOCR, 2016). The use of nationally driven incentives is thus an augmentation tool that extends the reach of the national government to shape city level economic performance and spatial development (SACN SOCR, 2016).

Since 1994, South African Cities have put frameworks and plans in place to work towards spatial transformation and inclusive economic growth. These include Spatial Development Frameworks (SDF), and Integrated Development Plans (IDP) and often dedicated economic development strategies or plans. Examples of spatial transformation initiatives have included: diversification in public transportation coupled with the emergence of transit-oriented development (TOD), a rise in township investments, densification of larger cities, and inner-city regeneration amongst other factors. However, there is room for improvement to better accelerate the potential of the cities in driving inclusive economic development and reducing spatial inequalities (Harrison 2021).

As a means of creating cohesion amongst municipal governments in achieving spatial agendas, the national government passed the Spatial Planning and Land Use Management Act (SPLUMA). SPLUMA has been identified as a policy tool to effectuate spatial transformation, specifically through the Spatial Development Framework.

Section 7a of SPLUMA directly addressed the need to prioritise spatial transformation through: 1) addressing spatial imbalances, 2) including persons who were previously excluded, and 3) upgrading informal settlements. As the most critical lever to achieve spatial transformation, the spatial development framework should factor into the process of designing and implementing investment incentives.

Through engagement with stakeholders involved in implementing and receiving various incentives, we unpacked the key constraints to spatial transformation and inclusive economic growth and matched these against what current interventions are aiming to achieve in relation to those constraints, as well as the incentives linked to them. In Table 7 below, we outline the incentive-based interventions highlighted in engagements in this assignment, and the “theory of change” for spatial transformation and inclusive economic growth of each. We also identify co-requirements, recognising that incentives alone are rarely sufficient as policy instruments to address the constraints to investment and/or growth of businesses in South Africa.

With regard to spatial transformation, we find that incentives currently in place tend to focus on bringing jobs closer to people; that is, on investing in underperforming parts of the city in or near low-income residential areas.

With regard to achieving inclusive economic growth, the solutions are more numerous than the spatial re-alignment focused incentives. They include (1) strategies to directly overcome existing divides, such as the unequal distribution of opportunities and wealth (including spatially) and the divide between established large businesses and small/micro (including informal) businesses, and (2) strategies to grow the economy more generally and the available job opportunities and thereby widen the currently limited number of participants in the (formal) economy. Incentives that fall more into the first category include incentives to employ previously disadvantaged individuals (PDIs), incentives to support SMME growth, and incentives that catalyse private sector development in underdeveloped areas. Incentives falling more into the second category include incentives to attract FDI, promoting exports and gains from trade, and incentives that promote investment into high job-creating and high growth-enhancing economic activities. The extent to which jobs and opportunities through the latter effectively broaden participation in the economy will vary. We also identify co-requirements, recognising that incentives alone are often not sufficient to address the constraints to investment and/or growth of businesses in South Africa.

Per the stakeholders interviewed for this study, it was noted that despite concerted efforts, policy goals and plans for transformation often aren't supported with concrete steps with targets and timeframes. While there is widespread agreement on the outcome of spatial transformation, policies fail to provide a concrete plan for operationalisation (see Rabe, 2018). It should be noted that while metros have plans, such as the IDP, BEPPs, and SDFs, implementation is lagging. A measurable implementation strategy that operationalises spatial transformation with clear steps, assigned targets and KPIs in set timeframes may help achieve the common goals. Targeted incentives can then be used to work towards the implementation of the plans.

Table 7. Identified incentive-based interventions and their mechanisms for change and policy alignment

Incentive-based interventions	**Mechanism for change**	**Examples of Co-requirements**	**Desired Outcomes**	**Spatial/Economic Policy and Planning alignment**
Inclusionary housing through **regulatory incentives** (CoJ, WCG Policy, in development in CCT)	Brings people close to jobs	Private sector housing development; non-cumbersome application processes; Available bulk	Distance of home to work opportunities is reduced, total cost of living (combined cost of housing and transport) potentially reduced, equity,	Spatial alignment, Spatial justice, spatial efficiency (SPLUMA, Housing Strategies)

		infrastructure	diversity and spatial justice benefits; if at scale (combined with other mechanisms such as SHI) reduce spatial costs of servicing low-income sprawl	
Spatial targeting of investments through **fiscal incentives** (e.g. property rate incentive for spatial area and UDZ) and **financial incentive** for infrastructure specific spatial areas (e.g. CIP) and towards township economic development	Bring jobs to where people live; Catalyse investment in areas with low development activity or need to regenerate	Infrastructure improvements, precinct management, end-user demand in the economy	Distance of work opportunities to home is reduced, investment in low-performing and under-developed areas improved; savings on transport costs for workers; potential productivity gains for businesses if less late-comers/absenteeism due to transport issues; rates uplift achieved for municipality	Spatial restructuring, spatial justice (SPLUMA, SDFs, Local/District plans, Integration Plans, Infrastructure Plans, various TED initiatives) Economic growth, inclusive economic development, industrial development, job creation (NDP, IPAP, provincial and metro economic growth strategies, potentially various TED initiatives)
Transport-linked interventions (BRT & and targeting **regulatory incentives** around TOD such as proactive upzoning, spatial alignment of **fiscal incentives**, financial incentives to support minibus taxi infrastructure, PRASA modernisation and development around PRASA stations)	Bring people and jobs closer together by making public transport, primarily used by low-income residents, more efficient (cheaper, faster, safer)	Safety and security for people and infrastructure; Integrated development policy, planning and approvals processes	Workers save time and/or money - cost of accessing work opportunities is reduced; potential productivity gains for businesses if less late-comers/absenteeism due to transport issues; over time city becomes more efficient, green and generates rates with densification along transport services	Spatial restructuring, spatial alignment, integrated transport (SPLUMA, SDFs, Integrated Plans, Infrastructure Plans, District Plans, NTP, Integrated Transport Plans, PRASA Corp Strategy)
Fiscal incentives to promote sectors, exports (e.g. DTIC, incentives), and fiscal incentives linked to job-creation targets (e.g. city rates incentives)	Opportunities for either job intensive and/or high value adding investment advanced	Stable infrastructure (water, energy), reliable ports operations; Access to raw materials, skilled labour and business know-how	Private sector investment is encouraged in sectors understood to have specific gains relating to productivity, balance of trade and/or job creation	Economic growth, inclusive economic development, industrial development, job creation (NDP, IPAP, provincial and metro economic growth strategies)
Black Industrialists	Opportunities are	All of the above -	Inequality within and	Economic growth,

Scheme; B-BBEE scorecard (**regulatory incentive**) and B-BBEE-linked criteria within **fiscal and financial incentives**	enhanced for previously disadvantaged groups through affirmative action mechanisms	same constraints as other businesses	between firms is addressed - greater degrees of ownership and direct participation in the productivity gains achieved in the economy (i.e. direct distributional impact, rather than redistributional policy)	inclusive economic development, social and economic development (NDP, IPAP, B-BEE Act, Inclusive economic growth strategies)
Financial incentives that target SMMEs and entrepreneurs (e.g. DSBD, IDC)	Address access to finance barrier to entry for SMMEs	Design frameworks for Cities - e.g. ensure active street frontage and fine grain floor space for lettable spaces that are accessible to SMMEs; Sector-based market information for opportunities of market-entry (Important to also consider the extent to which other mechanisms disproportionately exclude SMMEs)	SMME growth contributes to diversified ownership in the economy, increased productive and job creation	Economic growth, inclusive economic development, social and economic development (NDP, SMME Strategy, Inclusive economic growth strategies)

2.4 Urban Policy and Spatial Transformation

The Municipal Systems Act mandates that a Spatial Development Framework, an integral part of the Integrated Development Plan, serve as the principal planning mechanism to guide development within a municipality. To support this legislation, the Spatial Planning and Land Use Management Act (SPLUMA) has strengthened the role of the SDF in municipal decision-making. Key to successfully achieving spatial goals is the ability to link money to objectives. Through the lens of our Case Study Cities, we explore how urban policy is leveraged to enable Spatial Transformation.

eThekwini's Integrated Development Plan (IDP)

With 68% of the municipal area considered rural, eThekwini is characterised by unevenly distributed economic land uses. (eThekwini Municipality, 2019a). The institutional arrangements of land ownership in the municipal area are also disjointed with an abundance of communal land holdings under the Ingonyama Trust. As with many South African cities, population density is typically located at a distance from the city centre, and ultimately economic opportunities. The legacy of apartheid planning has resulted in a fragmented city with large areas of low density in central, well-serviced locations and large areas of high density on the urban periphery.

To deliver on its current Integrated Development Plan, the municipality has developed an 8 point plan which is aligned to mandates of all spheres of government (ibid). The plans are:

1. Develop and Sustain our Spatial, Natural and Built Environment
2. Developing a Prosperous, Diverse Economy and Employment Creation
3. Creating a Quality Living Environment
4. Fostering a Socially Equitable Environment
5. Creating a Platform for Growth, Empowerment and Skills Development
6. A Vibrant and Creative City - The Foundation for Sustainability and Social Cohesion
7. Good Governance and Responsive Local Government
8. Financially Accountable and Sustainable Municipality

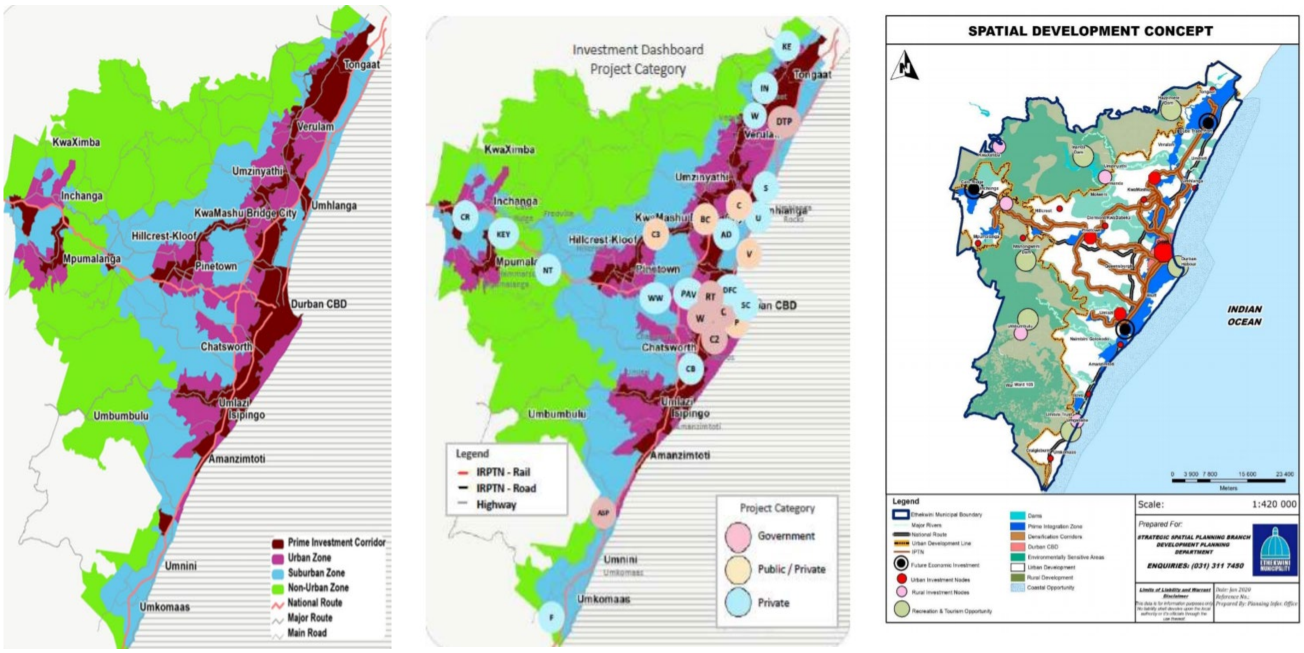
To achieve these points, the City allocates a dedicated budget to achieve measurable actions, this includes a line item for “Facilitating Development in Priority Nodes and Corridors” as part of Plan 2. In fact, Plan 2 deals most directly with the spatial development of the City, as it’s focused on investment promotion and marketing, investment facilitation and servicing, catalytic projects, and urban renewal. These points work towards the municipal vision, “By 2030 eThekwini will be Africa’s most caring and liveable city”. As the municipality's most strategic document, the IDP also prescribed the implementation process in line with other regulatory strategies.

Spatial Development Framework (SDF)

The SDF is the primary spatial strategy response to the needs and vision of the municipality as described in the IDP. To deliver on the strategic objectives of the municipality, a number of catalytic projects have been identified. Additionally, the municipality has created a targeted approach to regenerating the inner city of Durban. Though the urban core of the municipality, the inner city has experienced blight and decline which has led to a decline in investment (eThekwini Municipality, 2020a)

In the figures below, the municipality has outlined the various areas for investment throughout the metropolitan area. The projects are categorised by investment type (Government, PPP, Private). These investments correspond primarily to the ‘prime investment corridor’ and to the spatial concept which governs development for the municipality. The map in the middle outlines prospective projects which are directly aligned with the prime investment corridor (left map) and the spatial development concept for the municipality (right map).

Figure 5. Maps of eThekwini investments by category and the Spatial Development Concept, 2020



Source: eThekwini SDF

The primary method of achieving these targets is through the ‘prime investment corridor integration zone’. The Prime Investment Corridor includes:

- The South Durban Basin / Back of Port;
- The Port, Durban CBD and Inner-City Neighbourhoods;
- The Pinetown CBD;
- Cornubia and Dube Trade Port

The corridors are designed to be aligned with the public transport corridors - they are slated to be future phases of the Integrated Public Transport Network roll-out.   Based on the figures presented in the SDF, development applications show alignment between the prime integration zones and private sector initiatives. During the 2016 - 2019 review period, “37% of development applications contributed to higher residential intensification (increasing year on year), while 26.5% represent rezoning from residential use to others (e.g., Commercial, Light Industrial, Mixed Use, Environmental Conservation Reserve etc.)”. This is a significant change from the 2011-2015 review period where “22% support residential intensification, 36.5% represent rezoning from residential use to other” (ibid). This shift indicates that the municipality is making headway in achieving spatial goals.

To address the challenge of inner-city decline, the municipality has adopted the Inner-City Local Area Plan and Regeneration Strategy. This strategy is based on cross-cutting themes with the aim of attracting new investments. The three main approaches to attracting and retaining investment include 1) Coordinated Leadership and an appropriate Institutional Structure, 2) Intensive urban management, and 3) investment in small and large catalytic projects. Moreover, the Inner City falls within the Prime Corridor and Public Transport Truck Zone, positioning it for priority investments within the municipality. The Local

Area Plan is aligned to the 2040 long term vision of the inner city with measurable targets around densification, job creation, tourism, trade, walkability, connectivity, sustainability and housing.

Some of the key projects identified by the SDF include the Port Expansion and Back of Port redevelopment. These two projects are a priority for the municipality but also the country as a whole. Other key municipal priority projects include: the implementation of the IRPTN and supporting land uses, the development of Dube Trade Port and surrounding areas including Cornubia, Cato Ridge industrial area and Mpumalanga/ Hammarsdale.

Growth and Recovery strategy[1]

The Municipality's Economic Development and Planning Cluster falls under point 2 of the City's eight-point plan, which aims to develop a prosperous and diverse economy. To achieve this, the City recently adopted a revised Economic Growth and Job-Creation Strategy for the period 2019-25 through an interactive partnership approach called 'Shape Durban'. The Strategy has three focus areas, namely:

- Strengthening and growing core assets through targeted densification and improved urban management
- Growing key tradable sectors through improved competitiveness and investment attraction
- Improving the Business Environment.

The 2019/2020 City's annual report outlines the key achievements made by different units of the Economic Development Cluster which have led to the awarding of approximately R30 million in incentives per annum yielding a total of R10 billion in investment (eThekwini Municipality, 2020b).

Cape Town's Integrated Development Plan

The IDP as mandated by the national government serves as the primary strategy document for the City. The IDP also outlines the municipal vision, which serves as a common objective for all municipal strategies. The City of Cape Town's vision is:

- To be an opportunity city that creates an enabling environment for economic growth and job creation, and to provide assistance to those who need it most
- To deliver quality services to all residents
- To serve the citizens of Cape Town as a well-governed and corruption-free administration.

To achieve this vision, the IDP has a set of guiding principles, most notably, 'Transformation of the built environment through transit-oriented development (TOD)'. To address the legacies of apartheid with regard to the built environment and bring about some form of spatial transformation, the City has identified TOD and its requisite densification as a tangible development strategy.

Cape Town's Spatial Development Framework

As an integral part of the IDP, the Spatial Development Framework serves to translate the vision and strategy into a desired spatial plan. The SDF also informs public and private investment which affect

[1] We've reached out to eThekwini Municipality for more information on the data provided in the strategy, namely the R30 million in incentives which have yielded R10 billion in investment. Will update the report as soon as we receive further information.

different sectoral interests. The City is constantly reviewing its development framework to shift towards transit-oriented development. The aim of this iterative process is to ensure alignment between the IDP and the desired spatial form of the City. The three spatial priorities identified by the SDF are to build an inclusive, integrated, vibrant city, manage urban growth and create a balance between urban development and environmental protection, and to plan for employment and improve accessibility as well as access to economic opportunities.

Per the SDF, the 'Urban Inner Core' is the municipality's priority development and investment area. This is in part because the urban core is one of the areas identified prioritised for spatial transformation. The SDF underscores the importance of Incentives and regulatory reform in collaboration with other spheres of government and the private sector to achieve this goal. The City has identified three integration zones, Blue Downs/ Symphony Way, Metro South-East, Voortrekker Road. These areas were identified as key to enabling "private sector development initiatives and areas of economic potential that are easily accessible from the city's marginalised areas" (City of Cape Town 2018). These integration zones also overlap with various parts of the TOD priority zone (explained below). The SDF also indicates that local area planning documents will be created to support the further development of these integration zones. Furthermore, the SDF has a series of policy statements and guidelines.

In figure 6 below, the City provides a spatial concept for the role of the Metro South East Integration Zone, which has a primary goal of linking Mitchells Plain and Khayelitsha with the Cape Town CBD. This integration zone is unique in that it covers many of the metropolitan township communities, and many areas targeted by the Mayoral Urban Regeneration Programme[2]. Investment in transport infrastructure will feature as the primary intervention for enabling spatial transformation in the zone. Some of the transportation projects and investments include (ibid):

- The N2 Express MyCiTi (CCT),
- the Central Line Modernisation Programme (PRASA and Metrorail),
- Phase 2A MyCiTi (CCT),
- the redevelopment of the Nolungile Public Transportation Interchange,
- Khayelitsha CBD and;
- the Station Deck precinct development.

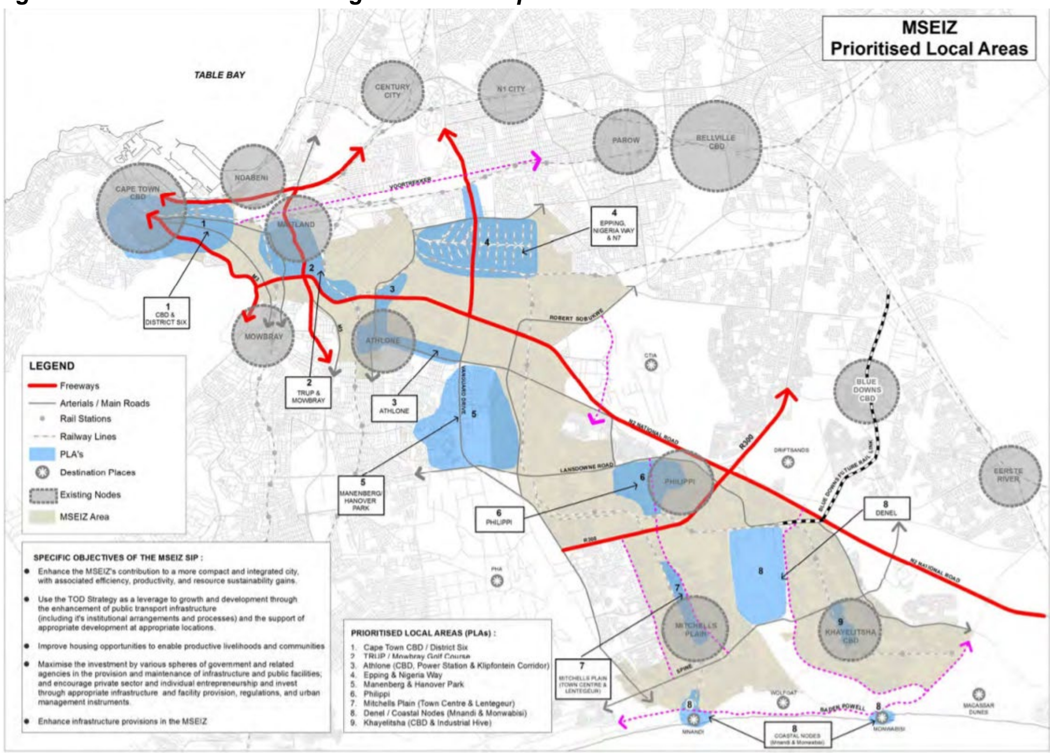
Two of the most important strategic projects in this integration zone are the redevelopment of the Athlone Power Station, and the Two Rivers Urban Park (TRUP). Both projects are regarded as catalysts for spatial change in the City. This spatial structure (figure 6) serves as a precursor to what will be a local area plan that will 'action' spatial targeting and be aligned to the Integrated City Development Grant. The city has developed a spatial structure for the Voortrekker corridor, and is in the process of developing a spatial structure for the Blue Downs / Symphony Way Integration Zone.

The City has designed a TOD Strategic Framework, with a toolkit which describes the mechanisms, interventions and tools. The 'tools' are a series of regulatory mechanisms designed to enable and

[2] The Objective of the Programme is to uplift former neglected & dysfunctional areas, such as CBD's, Town Centers, Community Nodes and Commercial Corridors which are regressing rapidly, by stabilizing the Area by improving safety, quality of life and the socio-economic situation within the shared public environment by introducing a sustainable system of operations and maintenance of public infrastructure & facilities in partnership with communities, while providing a platform for effective public and private investment.

facilitate the development of TOD. Examples include streamlining land-use applications, public land development schemes, value capture models, and amendments to housing policies. These tools are specific to assisting in enabling the market to shift towards TOD projects (City of Cape Town, 2016).

Figure 6. Metro South-East Integration Zone Spatial Structure



Sources: City of Cape Town Spatial Development Framework

The City has also identified six major projects through which it will facilitate TOD by means of public sector intervention and targeted service delivery:

- Foreshore Freeway Project.
- Inner-city precinct, inclusive of Ebenezer, Gallows Hill and Maiden's Cove
- Bellville CBD development project incorporating the public transport interchange and Paint City site
- Paardevlei
- Philippi East
- Athlone power station (although the City has recently indicated reconsidering this site, and potentially re-commissioning it for energy production)

These identified precincts correspond to the City's spatial transformation areas, for example, Philippi East and Athlone are part of the Metro South-East Integration Zone (MSEIZ) which serves to link Mitchells Plain and Khayelitsha with Cape Town CBD. The MSEIZ comprises various marginalised communities which have been identified as the City's neediest communities as defined by the Socio-economic Index based on the 2011 Census. The Philippi East TOD precinct will serve as an important nodal point for this portion of the metropolitan area. The City's approach to TOD encompasses the spatial and socio-economic dynamics of the metropolitan area - meaning it's not just an instrument for change but also an integral part of the City's overall approach to delivering services.

Inclusive Economic Growth Strategy

The CCT's Inclusive Economic Growth Strategy 2021 aims to address inadequate economic growth, institutional inequality and widespread unemployment. The document outlines that inequality is not just a spatial challenge but one ingrained "in the social fabric of the city, with underlying social hierarchies and preconceptions that prejudice in favour of certain demographics on various levels" (Inclusive Economic Growth Strategy, 2021). The report goes on to note that the city is still characterised by significant spatial division, which is exacerbated by inadequate public transportation.

From a spatial perspective, the strategy indicates that the City will be:

- Conducting a review of the City and National Treasury Precinct Management Framework to determine and implement precinct development and business typologies, as well as to assess and identify precinct support for identified priority precincts.
- Developing and implementing a proposal for a hybrid Business Improvement Zone model, including a feasibility study, in prioritised business districts where privately funded City Improvement District organisations are not feasible.
- Establishing improved platforms of engagement between City departments and business communities, relying on area economic partnerships to align government action with local needs.
- Strengthening District SDFs to incorporate economic development components specific to each district and identifying infrastructural, safety and security and other needs for the stimulation of growth and investment.
- Investing in economic analysis tools to assist with tracking the performance of economic nodes.
- Improving coordination with organisations such as Neighbourhood Safety Teams and City Facility Protection Officers in order to increase safety in precincts and in areas around City facilities.
- Rolling out specific place making programmes in conjunction with precinct management initiatives so as to increase the liveability and attractiveness of certain under-resourced neighbourhoods in Cape Town in line with the ongoing Mayoral Urban Regeneration Program.
- Expanding and implementing the City's SEZ and UDZ offering to allow for targeted areas, identified for strategic growth, to foster improved prospects for inclusive economic growth, including around key strategic assets such as the airport.

While the Strategy has yet to be adopted, it is an important addition to the package of policies to support economic transformation across Cape Town.

South African Metros are currently at a crossroads. Already weakened by a decade of slow growth, the South African economy has taken a particular knock from the COVID-19 crisis, with a contraction of approximately 8.8% in 2020[3]. The shrinkage of the public funds will only begin to be felt in the coming years. Cities, as agents of economic growth and development, have a window of opportunity now where they can catalyse growth and pave the way for a more equitable and sustainable development path.

[3] Based on PwC South Africa's Economic Outlook: February 2021.

Spatial transformation is a critical component of the development trajectory, and we believe this report provides a basis for re-engaging with economic incentives through a spatial lens.

3. The broader national policy context in South Africa

This section provides an overview of the broader national policy context in South Africa. Cities' incentives policies need to take into account the country's financial situation, national government priorities, and appetite for different types of reforms.

3.1 The current socioeconomic context and trends

The prolonged economic downturn has dampened business confidence. The South African economy has experienced a prolonged period of slow growth since 2009. Business confidence, as measured by the Bureau for Economic Research (BER)'s Business Confidence Index (BCI), is at a 20-year low. On its scale of 0 to 100, where 50 is the breakeven level between pessimism and optimism, business confidence has been consistently negative since 2008.

The effects of COVID-19 have further hit the economy and business confidence. According to the IMF (2021), the South African economy contracted by 6.4% in 2020 and is expected to recover by 5% on a real annual basis in 2021.

Along with domestic investment, foreign direct investment (FDI) inflows were also on the decline. According to the United Nations Conference on Trade and Development (UNCTAD, 2020), FDI inflows to South Africa decreased by 15% in 2019 from a peak in 2018 and were expected to drop by almost half in 2020 as a result of the COVID-19 pandemic.[4] FDI inflow was $4.6 billion in 2019, mostly directed to mining, manufacturing (automobiles and consumer goods) and services (finance and banking) (UNCTAD, 2020). Traditionally, European Union countries have been the major investors, while more recently China is becoming a big player. A significant part of FDI consists of intrafirm financial transfers while there is little new greenfield investment (UNCTAD, 2020). FDI predominantly flows into financial and insurance activities, followed by mining and quarrying.

According to investment climate reviews (US State Department, 2020; EU Chamber of Commerce and Industry, 2019), attractive elements include the following:

- The most advanced broad-based economy in Africa
- Good infrastructure
- Political stability and stable institutions
- Transparent legal system, independent judiciary, free press
- Mature financial and services sector
- Abundant natural resources

[4] Note that UNCTAD data for 2020 has not been made available. This relies on the release of firms' annual financial reports creating a lag in the data.

Reasons for low scores in the ranking include:
- High crime rate
- Low ICT adoption
- Skills gaps
- Increasing social unrest (strikes and demonstrations)
- High levels of corruption
- Structural challenges in electricity supply and logistics
- Lack of clarity concerning policy and structural reforms

Rising debt and interest expenditure is increasingly restricting other government spending. According to the National Treasury's Medium-Term Budget Policy Statement of November 2021, national debt has grown to over 70% of GDP and is expected to rise to over 78% in the next 5 years. Debt service costs the fastest-growing spending item, currently standing at around R1 trillion and crowding out other spending. Debt-service costs are expected to increase from 14.2% in 2021/22 to 17.9% in 2024/25 (National Treasury, 2021c).

The debt-to-GDP ratio has been rising since 2008 and, combined with low/negative economic growth and a lack of structural reforms to address this, resulted in South Africa being downgraded to below investment grade by Moody's Investors Service in March 2020. Fitch Ratings and S&P Global Ratings already cut South Africa to non-investment grade during 2017.

The country is experiencing an unemployment crisis. The country's official unemployment rate had already risen to a historical high of 32.1% by the first quarter of 2020, prior to COVID-19 lockdown restrictions, with youth unemployment (ages 15-24) reaching as high as 50%. The unemployment rate hit a new record high of 34.4% in the second quarter of 2021.

In sum, South Africa continues to face challenges of structural inequality, poverty and unemployment. The COVID-19 crisis and associated shocks have reinvigorated government priorities towards economic recovery and employment. There is also a pressing need to bring down the fiscal deficit and avert a debt crisis. This means that any changes to the incentives regime needs to be aligned with these priorities and do not contradict goals of economic recovery and employment creation/retention. This also means the timing of any policy levers needs to be considered as some policies may negatively affect tax revenue in the short run, even if they may lead to growth or higher tax revenue in the longer term.

3.2 National policy direction

Addressing national policy priorities received further impetus from the COVID-19 crisis. The National Development Plan (NDP) 2030 sets out the long-term plan for South Africa. Its main goals are reduction of poverty and inequality. It aims to **transform the economy** and create a **sustainable expansion for job creation** through a number of methods, including:
- Increasing exports
- Reducing the cost of living for low-income and working-class households
- Reducing the cost of regulatory compliance, especially for small- and medium-sized enterprises (SMEs)

- A commitment to public and private procurement approaches that stimulate domestic industry and job creation
- A higher rate of investment, with public sector investment crowding in private investment

The COVID-19 crisis gave new impetus for urgent action to increase growth and employment. The Government of South Africa's structural reform agenda, as articulated in the Economic Reconstruction and Recovery Plan released in September 2020 (Government of South Africa 2020), especially prioritises aggressive infrastructure investment.

A key factor driving the priorities of job creation and economic growth is sufficient investment. President Cyril Ramaphosa has consistently reinforced the importance of investment for the South African economy and has made repeated calls for foreign direct investment and scaled-up domestic investment as the necessary catalyst.

The Government is taking a more critical stance towards incentives. In the last two national budgets, there has been a shift from the Government towards a more critical view of incentives. As alluded to in the finance minister's 2020 Medium-Term Budget Policy Statement (MTBPS) speech, the approach to increasing revenue in the short run is to focus on improving tax administration and reduction of leakage to obtain revenue while holding back on any growth-stifling rate increases until growth recovers. In line with this, the government has looked to eliminate tax incentives and exemptions while keeping the headline tax rates from rising. In the most recent (2020/2021) fiscal budget it announced that certain incentives on the income tax would not be renewed, such as Section 12J of the Income Tax Act, and that instead the general corporate income tax rate would see a decrease of 1%.

Table 8. Policy documents and position on tax policy and incentives

Document	Year	Objective	Highlighted points
Davis Tax Commission Closing Report	2018	Review of the country's tax policy and its role in supporting growth and overcoming persistent unemployment, poverty and inequality.	Need to simplify tax legislation to encourage local and foreign direct investment The tax system (and associated compliance and reporting) had become too onerous and complicated. Need to raise the revenue stream in view of spending pressures without inducing "taxpayer fatigue" and without compromising local and foreign direct investment
Medium-Term Budget Policy Statement (MTBPS)	2020	Sets out the broad strategic priorities and policy goals to guide Government in preparing their budgets for the subsequent financial year and over the medium term	Government's medium-term policy priorities are economic recovery and fiscal consolidation Focus on simplifying tax compliance and administration and reduction of leakage to obtain revenue while holding back on any growth-stifling rate increases until growth recovers.
Budget	2021	Reflects the choices that government	Tax incentives with sunset clauses were not

Review		has to make, and is the tool it uses to achieve its economic and development goals. In the budget, the government sets out what it is going to spend (expenditure) and the income it collects (revenue), which it needs to finance expenditure.	renewed, e.g. Section 12J of the Income Tax.

This had already been a recommendation of the Davis Tax Commission. The commission was convened in 2013 to review the country's tax policy and its role in supporting growth and overcoming persistent unemployment, poverty and inequality. In its Closing Report published in 2018 (Davis Tax Commission 2018), the commission noted that there was a need to simplify tax legislation to encourage local and foreign direct investment. The tax system had become too onerous and complicated. Associated tax compliance and reporting requirements had become too burdensome and expensive.

At the same time, it noted a need to raise the revenue stream in view of spending pressures without inducing "taxpayer fatigue" - but also without compromising local and foreign direct investment. It also noted the limitations of using the tax system to solve all problems and that this instead required a coordinated whole-of-government approach in consultation with business and labour.

In sum, the Government is taking a more critical stance towards incentives, eliminating reduced rates, rebates and other exemptions while instead giving preference to a reduction of the general corporate tax rate. The tax incentives opportunities have thus been declining with several incentives reaching the sunset date without being renewed and it is unlikely that much additional funding will be made available for new cash incentives.

Also, given the current context, South Africa's investment strategies, and the incentives to support them, may merit at least as much focus on retaining existing investors as on drawing new investors to locate in South Africa from abroad.

4. Overview of investment incentives applied in South African metros

Various investment incentives are applied at the metropolitan level. These include incentives provided by departments at the national level which metros can promote to investors and facilitate, as well as metros' own incentives.

4.1 National level incentives

The Department of Trade, Investment and Competitiveness (DTIC) currently represents the main source of incentives to support local and foreign investors in South Africa in terms of incentive values. According to the DTIC 2019/20 annual report, total expenditure by DTIC in that financial year on all its incentives was R 5.3 billion. These include sector-specific incentive products, such as the Automotive Investment Scheme and the Agro-Processing Support Scheme, that aim to spur growth of specific economic sectors associated with high growth and job creation potential, thus working towards the goal of achieving inclusive economic growth. They also include non-sector specific incentives, such as the Black Industrialist Scheme which aims to enhance opportunities for previously disadvantaged groups through affirmative action mechanisms, thus also aiming to achieve inclusive economic growth.

The DTIC incentives are generally rules-based and are open to all who fulfil the set criteria. They are generally offered country-wide without requiring the benefiting business or investment to be in any specific spatial location. The only DTIC incentives that have a spatial requirement are:

- Special economic zone (SEZ) incentives, which apply only to firms located in one of the 11 designated SEZs for which the use of incentives has been approved. (See section 6 for more detail on SEZ incentives).
- Critical Infrastructure Programme (CIP), which applies to eligible infrastructure projects that are in an area that is designated as a distressed area by the Department, based on indicators of economic distress or dislocation, including but not limited to unemployment, poverty and job losses. (See Section 6 for more detail on the CIP incentive).

We examine further national level incentives that do not have a spatial element but that are applied in cities (including DTIC, IDC, and DSBD incentives) in greater detail in Section 6. The other national level incentive that requires the benefiting investment to be located in a specific demarcated area is the Urban Development Zone (UDZ) incentive offered by National Treasury/SARS. This is a tax incentive offered in specific cities that intends to address urban decay in South Africa's inner cities by promoting private sector-led investment in commercial and residential developments.

Both the uptake and perceived effectiveness of the UDZ incentive has been mixed. In Johannesburg and Mangaung metros, the UDZ incentive is deemed to have been highly successful in developing and revitalising some parts of the inner city. In other metros, such as Buffalo City, however, the UDZ was discontinued following ten years of little uptake. The incentive was not sufficient to sway investment decisions in most areas. In the City of Cape Town, by contrast, some parts of the city that rapidly developed became "over-incentivised" with investors making use of the incentive that would have invested anyway. While an incentive was no longer needed in some areas but still needed in others, it wasn't possible to easily change the demarcation of the UDZ. A proposal by Buffalo City suggests a differentiated property incentive by area so that areas that require more of an incentive to sway investor decisions will obtain a larger benefit. In some parts of Cape Town, the UDZ was also deemed to have also contributed to pushing original lower income residents out of parts of the city through rapidly rising property prices, thereby contradicting spatial transformation goals. The importance of incentivising low-income housing alongside development was emphasised. More details on these conclusions are found in Section 6 on the UDZ incentive.

4.2 City level incentives

In addition to the above incentives, metros offer their own range of investment incentives. Different metros have made use of different incentives from a range of fiscal or other financial incentives, regulatory incentives and business support incentives (see definitions of incentive categories above in section 1). Table 9 below gives an overview of various incentives applied by cities that aim to achieve (inclusive) economic growth and spatial transformation.

Table 9. Fiscal/Financial incentives across eThekwini municipality, City of Cape Town and other select South African metros

Fiscal/Financial City incentive	CCT	eTH	CoJ	CoE	NMB	MAN	CoT	BFC
Property rate reduction, rebate, or exemption		✔	✔	✔		✔	✔	✔
Service charge reduction (water, electricity, refuse removal)	✔	✔		✔	✔	✔	✔	✔
Building plan/land use application fee waiver/	✔	✔			✔	✔	✔	✔
Development contribution waiver/discount	✔	✔			✔	✔		
Land and rental subsidations		✔				✔		
Development incentives				✔				
Community enterprise development fund				✔				
Capital infrastructure fund							✔	
Inclusionary housing incentive	(draft policy)		✔					
Support to agriculture sector and SMMEs								✔
Technical and business support incentives	✔	✔	✔	✔	✔	✔	✔	✔

Sources: City incentive policies, investor brochures, and stakeholder interviews.
Note: The accuracy and completeness of the information in the table is not guaranteed and has not been confirmed with the municipalities in all cases.

- ***Fiscal incentives: property rate, service charge, building fee, land use application fee development contribution reductions or waivers***

  With regard to the fiscal incentives offered, some municipalities discount or give waivers to the taxes and fees owed to them by businesses in their jurisdiction, such as property taxes or service charges, or they provide waivers or discounts on fees owed by developers in the process of property development, such as building or land use application fees and development contributions.[5] Based on metro's investment incentive policies and investor brochures, these incentives are each used in five metros, including by at least one of our two case study cities for this project.

Where reduced property rates, reduced service charges, and fee waivers in the development process are applied, some metros apply these in a spatially targeted way, i.e. they include a spatial element in the qualifying criteria in order to spur development into priority investment areas as identified in their MSDFs.

For example, the City of Cape Town makes spatial location in selected industrial areas an eligibility criterion to be able to access the manufacturing incentive (an exception is made for certain tertiary sectors that can be set up anywhere in the city). Meanwhile, in eThekwini Metropolitan Municipality, the value of the incentive increases for investments located in the designated spatial area. If a high-value, job-intensive investment in a priority sector takes place within a priority spatial area, that investment can qualify for 100% incentive. However, investments that do not meet all criteria can still obtain partial incentives. In other words, while not mandatory for eligibility, a greater rebate is given for an investment in a Spatial Priority Area as defined in the Municipality's Spatial Development Plan and the Inclusive Growth Strategy 2020-2025.

In Ekurhuleni, discounted or waived development contributions apply for township nodal development projects (as well as other forms of projects such as green economy projects and R&D projects such as biotechnology labs) if they exceed a certain investment amount. In other metros still, rates are written off on an *ad hoc* basis in negotiations to ensure that the desired investment is made. Other municipalities such as the City of Tshwane offer property rate rebates for other purposes, such as for renewable energy projects.

In some cases, a City may consider themselves as offering a competitive advantage or "incentive" in comparison to another South African metro through eliminating a specific cost of doing business that applies in other metros. For example, some cities have waived development contributions (DCs) as an incentive. However DCs can be a useful tool to generate funds towards infrastructure budgets associated with the growth of the City. From a spatial targeting perspective, eliminating this entirely means the city has one less tool in the toolkit to negotiate with developers around and offer a differentiated calculation of the DC based on the location choice.

There is uncertainty among the municipalities about the legality of some of the fiscal incentives. For example, while CCT sought a legal opinion on the use of reduced property rates as an incentive. The opinion did not confirm its legality in view of the Municipal Property Rates Act (MPRA) 6 of 2004. Other municipalities, meanwhile, have interpreted section 8 and section 15 of the MPRA to provides municipalities with a degree of discretion to decide what categories of differential rates, exemptions, reductions and/or rebates in rates will be applicable within their jurisdictions, i.e. they can determine what criteria will form the basis of these benefits (one of which could be an incentive for development).

[5] A development contribution is a once-off capital charge imposed on a developer in order for the municipality to cover the cost of bulk municipal engineering services required as a result of the intensification of land use.

Other municipalities have expressed uncertainty of the legality of applying special rates on the tariff for basic services. Both property rates and tariff reductions are, however, applied by some municipalities.

Based on the National Treasury's informal feedback, "reducing property rates, granting special rates on the tariff for basic services or waiving development contributions does not go against any legislation. Municipalities have the discretion to decide whether or not to grant, exemptions, reductions and/or rebates on the revenue sources to be collected but they must have in place policies (adopted by Municipal Council) which clearly outline the criteria that must be complied with when exemptions, reductions and or/rebates are granted."

- ***Financial incentives (development rebate, enterprise development fund, land subsidisation, township economic development)***

  Regarding financial incentives, there is a more heterogeneous application across the municipalities. Ekurhuleni offers a Community Enterprise Development Fund to support the development of community enterprises in the form of individual entrepreneurs, small, micro and medium enterprises, cooperatives, informal traders and formal businesses for township economy, industrialisation, business services, environmental services, and human development initiatives. Buffalo City supports SMMEs with in kind support, such as paying for equipment they require to start their business. Mangaung offers subsidised land disposal: the City may sell land at below market price/valuation benchmark. Its brochure of investment opportunities also states that a capital grant may be considered to supplement business or industry investments made in prime nodes or corridors i.e. the CBD, N8 Corridor and Mangaung Activity Corridor (Mangaung, 2012).

  Another form of financial incentive for municipalities to incentivise or direct private sector investments is to co-invest. This can be through setting up special purpose vehicles to develop projects that individually might not be viable by only the public or private sector; or, for example, through tenanting agreements - relocating public sector offices to areas in need of development, and thereby guaranteeing a market to a developer whose investment requires de-risking. Examples of this from eThekwini include Bridge City and Midway Crossing.

- ***Regulatory incentives***

  Few metros currently make use of regulatory incentives. For example, through proactive upzoning, whereby a municipality takes the initiative to increase the rights assigned to land in its jurisdiction, a municipality can encourage development to occur in line with municipal policies. Municipalities can utilise their regulatory power to incentive developers with increased Floor Area Ratios (FAR) and increased density (du/ha). These types of incentives can be aligned with policy goals such as gap housing or increasing stock to influence the housing market.

  Yet South African municipalities have rarely made use of these kinds of incentives (Denoon-Stevens and Nell, 2020). Only one metro (City of Johannesburg) has an inclusionary housing policy in place that offers regulatory incentives and it was approved only recently (2019).[6] Western Cape Province also recently issued a draft which is to be implemented by the municipalities within Western Cape.

In 2019 the South African Property Owners Association (SAPOA) reviewed the City of Johannesburg's Inclusionary Housing Policy. The review provided a few key insights which can inform future policies and incentives. The first and most important aspect is the considerations of the policy elements, which include the inclusionary requirements, the definitions of affordable, and the mechanisms for ensuring affordability. The approach to implementing the goal of inclusionary housing should be based on one of, or a combination of the four options:

1. A mandatory process: This approach means developers are obliged to set aside a number of affordable units, or there's a requirement of inclusionary housing in order to receive the development rights
2. Voluntary: A process whereby the public sector offers incentives to entice developers
3. Targeted: an approach which is spatially focused and mandatory
4. Negotiated: the unique circumstances of a project will afford the public and private sector to negotiate based on mutual interest

The research concluded by SAPOA concluded that 66% of stakeholders consulted agreed that the private sector should be more active in alleviating the affordable housing backlog, while 45% believed that private developers should be mandated to provide affordable housing as part of market-orientated residential developments, and 55% believed that the implementation of the Johannesburg Inclusionary Housing policy would have a negative effect on the residential property market. As for the incentives offered by the policy, 64% of respondents indicated the incentives were insufficient. The stakeholders indicated the following as their preferred incentives:

- reduced bulk services contributions (76,3%);
- reduced municipal rates (73,7%);
- decreased bulk infrastructure connection time (44,7%);
- favourable lending rates (42,1%); and
- bulk services infrastructure payment holiday (34,2%)

The review of this policy by private sector actors is an important aspect of the policy development process as the private sector is expected to deliver the policy goals. Feedback from private sector stakeholders of the City Economic Incentives Focus Groups indicated a lack of engagement by policymakers both in the design, development and implementation of policies - this should be institutionally addressed.

Box 1. International Lesson Learnt: Regulatory Incentives

[6] An inclusionary housing policy had already been approved in 2008, that mandated and incentivised inclusionary housing in high priority public transport management areas. Evaluations showed that it was hardly used for various reasons such as resistance from middle income residents and the property development sector, housing price cliffs, and legal and institutional issues (Denoon-Stevens and Nell, 2020; Todes, 2012).

In Singapore, density bonuses were utilised to support urban renewal and rejuvenation in the central city and expand commercial space to support the vision of becoming a global financial hub. In order to attract investors, Singapore designed a range of regulatory incentives to complement the unique PPP model used to fund the TOD project. Singapore's zoning policies were designed to ensure that floor area ratios are based on metro accessibility: the closer to the rail system, the greater the density allowance. Additionally, developers could benefit from density bonuses if they adhered to strict urban design policies.

Based on the Singapore case the lessons learned are:

- Transit and planning goals are aligned and articulated in legislation. Singapore's masterplan targets for 2030 include ensuring that 8 in 10 households live within a 10-minute walk of a transit station, 85 percent of public transport journeys are completed within 60 minutes, and 75 percent of all journeys in peak hours are undertaken on public transport (LTA 2013).
- The planning agency designed context specific zoning policies.
- TOD is driven by the planning agency and coordinated with relevant agencies. TOD is seen as a planning tool and not one to drive transit.
- While the goal is to maximise growth along transit corridors, this is done in conjunction with the goal of enabling city-wide urban renewal.

Source: Urban Redevelopment Authority, Singapore

- ***Technical and business support incentives***

  All the metros' investment incentive policies that were reviewed offer "other incentives", "non-monetary incentives", or "soft incentives" some of which may fall under the category of technical and business support incentives. These are listed in the table below, with additional information added from investment brochures and the cities' investment promotion websites. It is to be noted that several discrepancies were found between what is proposed in investment incentive policies, what is offered in investment brochures, and what is offered/applied in practice.

  Some of the activities listed by the metros as "incentives" arguably don't not fall under the definition of investment incentives as measurable economic advantages provided to specific enterprises, with the goal of steering investments into favoured sectors, regions, or of influencing the character of such investments (James, 2009). This includes investor services such as investor relationship management or making existing studies or economic information available to investors. Several metros offer fast-tracking of applications, and some offer such services only to prioritised investments, such as those that fall into a spatial category (e.g. City of Ekurhuleni offers this to investments in Priority Development Areas). As part of the fast-tracking of applications, some metros offer a single point of contact to facilitate the flow of information and decision-making and relaxation of some conditions of development (without infringing on legislation of stakeholders), which may fall under a regulatory incentive (see for example City of Tshwane in the table below).

Table 10. Non-financial incentives across metros

	Investment promotion	Investor facilitation and aftercare
CCT	• Provision of regularly updated economic information	• One stop investment shop • Fast tracking of development applications • Investment facilitation officers • Facilitation with DTIC, through Wesgro, to obtain relevant incentives • Expedited City owned land disposals agreements • Load curtailments (guaranteed access to power during power load shedding)
eTH	• General economic information • Research on specific sectors • Introduction to key suppliers, financiers, customers • Opportunity identification and development • Local market reports • Site evaluation and selection • Business establishment assistance	• Immigration and visa support • Orientation tours • Relationship maintenance • Company registration • DTIC application support • Business administration support
CoJ	• Linkage services • Trade Council services • Investment information services including market intelligence • Updated spatial economic information available to investors • Access training opportunities.	• Investment tracking and prioritisation • Single point of entry for business
CoT	• While not mentioned in its investment incentive policy, CoT has an Investor Portal on the e-Tshwane platform that allows potential investors to interact directly with the Economic Development Department for information requests, guidance, and assistance. Exact services are not listed.	• Fast tracking applications through a dedicated process manager as a single point of contact to facilitate the flow of information and decision making; expedited processing through a Joint Operation Committee (JOC) experts through a defined meeting or a series of such meetings;
CoE	Profiled businesses will be categorised according to the sector they fall in (e.g. tourism, industrial, manufacturing etc.) and placed in the municipal website as part of marketing and communication	• Expedited time frame for the approval of building plans, where development is taking place within the Priority Development Area and has met all criterion set • Expedited land application processes and decision making • Fast-tracking decisions making on land release

MLM	• Information on economic trends • Options of land available • Information on infrastructure availability for new ventures • Rules and regulations of acquiring land • Rules on business and work permits • Contact details of service providers	N/A
BFC	N/A - Investment policy not available	N/A - Investment policy not available
NMB	• Marketing and promotion of NMB as an investment destination • Support and facilitate skills development and training to employees of new investments • Facilitate and support cluster development initiatives • Updated, market and industry information • Integrated Marketing and Promotion of Nelson Mandela Bay	• Investment One stop shop • Facilitating the expedient processing of applications submitted by investors (building plans, clearance certificate, municipal comment on environmental impact assessment (EIA), rezoning water and electricity connections • Streamline Municipal processes and procedures (EIA applications to DEDEA, Applications for incentives offered by the DTI, Applications for investment finance by development finance institutions, Identifying local joint venture partners for foreign investors where required, Negotiations with other spheres of government) • Investment aftercare services • Identify constraints and solutions to increase investment in NMB

Source: Metropolitan municipalities' investment incentive policy documents and investment brochures/websites.
Note: There may be discrepancies between what is listed/proposed in investment incentive policies and what is being implemented in practice.

Based on interviews with investment promotion staff in several metros, these support services are very important and highly welcomed and can, in some circumstances, be more important than financial incentives. In particular, connecting and orienting investors is appreciated and making the process as smooth as possible. This can also have a strong signalling effect to investors that the city is open for business and willing to support rather than obstruct investors.

Developers interviewed highlighted that reliable timing of approvals are more important than financial incentives. With developers carrying a lot of risk in their projects, timing is important and unexpected delays are typically associated with high costs and project cancellations. Fast-tracking, but especially providing certainty on the timing of approvals, even if they take long, are likely to help encourage investment.

For several businesses, electricity outages or water supply shortages are also far costlier than what a financial incentive is likely to be able to compensate. One proposal from one of the metros was to introduce areas of improved services. Much like SEZs aim to ensure well running infrastructure and services in a specific area, cities could ring-fence spatial priority areas and provide reliable access to power, water, sewerage and other services as a form of "incentive", at least in the interim economic recovery period until the general quality of services is is able to improve on a general level. As the government has raised the threshold for unlicensed distributed power generation to 100MW, this may offer an opportunity for independent power producers to supply these "areas of improved services". CCT has offered load curtailments as an incentive, i.e. 24 hour guaranteed uninterrupted access to electricity during power cuts (load shedding). This incentive was a decisive factor for a large manufacturing investor to locate in CCT rather than in alternative destinations.

Box 2. International Lesson Learnt: Business Support
Spain: National-Subnational Coordination for Investment Attraction

Over the past forty years, Spain's national-subnational investment promotion model has yielded massive improvement in its service delivery to investors and in facilitating investment promotion. The investment promotion model combines legal, institutional, mechanisms and ICT tools, such as the investment climate analysis tools, to drive success.

ICEX-Invest (Spain's public corporation focused on international investment promotion and promoting Spanish companies) alongside its sub-national IPA's, established some tools and activities to foster effective collaboration between the central government and regional governments. Benefits resulting from this model include the nation's ability to present a strong value proposition for Spain as an FDI destination; Spain was able to present both country-wide offerings and the various offerings across the different territories/sub-regions. The advantages of the different sub-national CCAAs (autonomous communities of Spain) were showcased through various channels. Overall, this enabled the Spanish Administration to "manage and channel European aid in favour of the CCAAs", moreover, investors have a one-stop-shop where they can attain both national and sub-national investment regional profiles.

Based on the Spanish case the lessons learned vis-a-vis establishing a successful national-subnational investment promotion model:

- Enabling legal, regulatory and institutional frameworks are key to building cooperation amongst the key stakeholders
- The use of design and management principles supported by specific tools and instruments in the form of ICT tools, specialised committees, and working groups, are of aid to investment promotion. A results-focused execution where the principles (recognised above) are carried out operationally is important to help realise success
- Complementary and coordination mechanisms need to be put in place to ensure that an investment model with coexisting national and sub-national IPAs is successful in ensuring that respective sub-regions offer comprehensive and specialised services. In Spain's case, the collaboration between ICEX-Invest in Spain and CCAAs' IPAs on the investment promotion front was enabled through open channels of communication in a highly decentralised country
- Stable, supportive stakeholder cooperation is critical. Key stakeholders should align on the vision of attracting better investment and maintain buy-in
- The Government administration's response rate to investor inquiries, and the staff's extensive knowledge on the sub-national offerings is crucial. A contributing factor to investor attraction

and their choice of investment location-destination during the entry and final stage of engagement, is the influence of human-interaction experience with the IPA staff, particularly their ability to relay both the national and subnational value propositions to the investors

Source: Fernandez et al., 2021

Out of the eight metros in South Africa, seven have investment incentive policies in place that guide the use of incentives in their jurisdiction. The policies differ substantially in what they cover, in the incentives provided, and in the degree to which spatial considerations play a role. We examined these in terms of the extent to which they include spatial considerations. The results are summarised in the table below.

Table 11. Integration of spatial considerations in metros' investment incentive policies

City	Investment incentive	Integration of spatial considerations in the investment incentive policy
CoJ	Investment Incentive Policy, 2009 (new policy in draft)	No explicit link to spatial considerations.
CCT	Investment Incentive Policy 2018	The policy's objective is to assist targeting of desirable investment in particular spatial locations. Includes principles for spatial targeting of incentives. Identifies areas for incentives to apply in alignment with the MSDF and to complement existing spatial initiatives. Areas identified for manufacturing incentives must, in addition to being in the urban inner core, also be zoned for industrial use. An exception to this is for investments in priority tertiary (services) industries, which are unlikely to be located in industrial areas.
eTH	Economic Incentive Policy 2020-2021	"Spatially inclusive" is a core policy principle. It lists procedures for spatial priority application. It identifies spatial priority nodes/areas for economic development. Special Qualifying Criteria for Financial Incentives include "spatial location".
CoT	Development Incentives Policy 2014	Guideline is to align incentives with MSDF and RSDF though does not specify further
CoE	DRAFT Development Incentive Policy, 2018	States objective to give effect to and direct investment according to SDF and IDP. Identifies Development Priority Areas according to SDF.
NMBM	Investment Incentive Policy 2020	Mentions that focus is on key economic development nodes as laid out in NMBM SDF.

BCMM	[Policy in draft]	The city is divided into established, emerging, and declining nodes. The draft policy proposes a more differentiated scale of incentives depending on the area and to allow smaller investors to benefit from incentives in certain areas.
MAN	Towards a Comprehensive Investment Promotion and Incentives Policy, 2006	Considers a capital grant to support business or industry to be established in prime nodes or corridors.

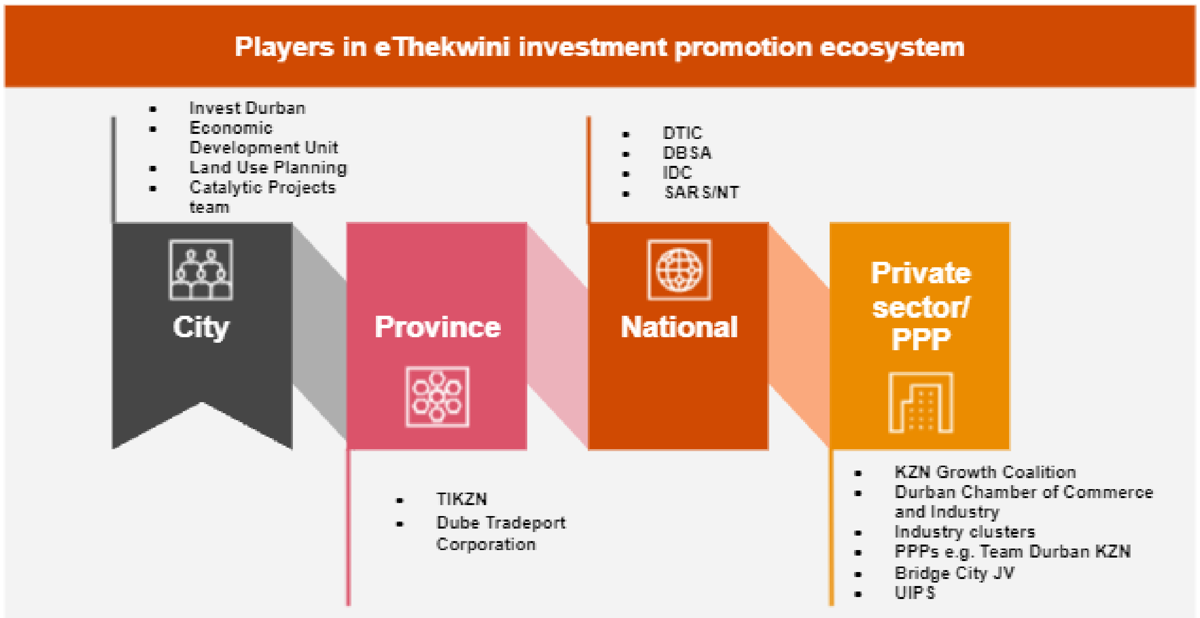
4.3 Investment promotion ecosystem and coordination

A key success factor for successfully making use of investment incentives and drawing investors is a highly proactive metro level investment promotion unit. Where city investment promotion agencies have been proactive in engaging with potential investors and navigating investors through multi-agency processes to set up their businesses/investments and investment incentives, this has met with success. An example noted by DTIC is the success of the national government's Global Business Services (GBS) incentive in Cape Town through the proactive activity of its Enterprise and Investment team rather than relying on provincial or national level agencies to draw investors into the city.

Proactive city level investment promotion is best achieved through a dedicated agency. For example, in eTH, Invest Durban is eThekwini's unit responsible for driving all investment promotion into the metro (formerly Durban Investment Promotion Authority), working with the Metro Council and private businesses. Its mandate covers: investment promotion and marketing; foreign investment identification, attraction and facilitation; FDI aftercare and expansion; and investment advocacy. Prior to 2017, Invest Durban was functionally part of the Economic Development Unit (EDU). A key strategic decision was taken by the municipal council, supported by the World Bank, to elevate investment promotion by making it a stand alone unit. According to EDU and Invest Durban stakeholders, there is still a close connection between the units. While the EDU creates the environment to grow the economy, covering regulatory/policy, the business environment, platforms, tools and instruments to grow the economy, Invest Durban is the face vis-a-vis investors, maintaining close contact and marketing the city. Each has a unique role which complements the other.

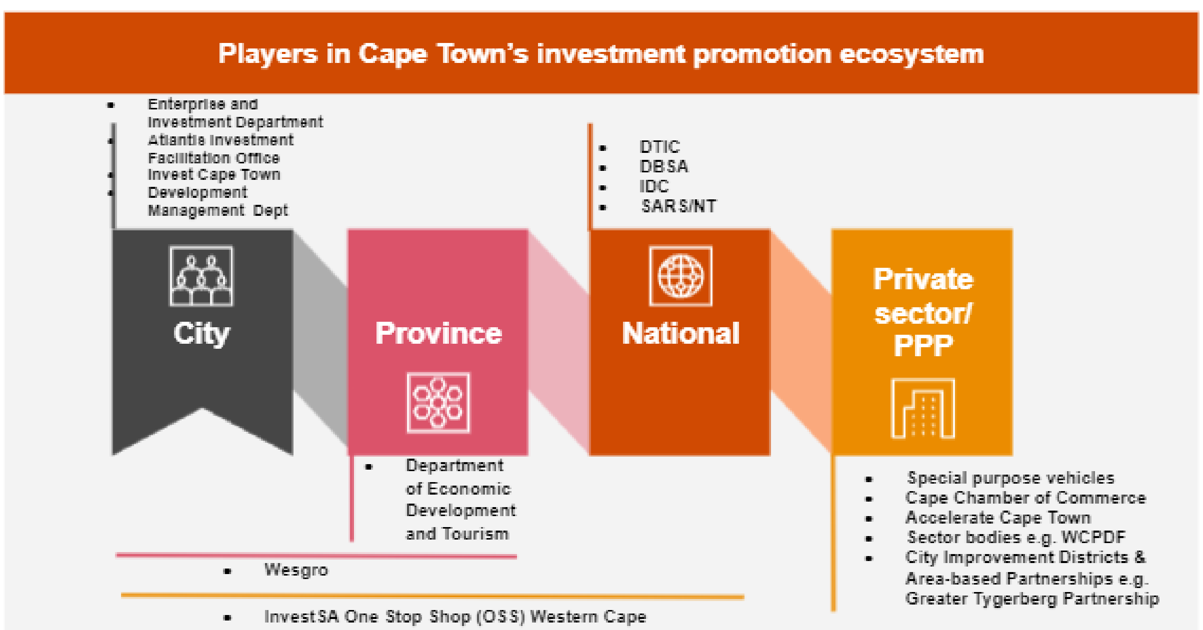
Coordination across various institutions is required in the investment promotion and provision of investment incentives. The investment promotion ecosystem in the metros generally includes bodies at the city level, provincial level, national level as well as SOEs and private sector bodies as seen in the example below for eThekwini. In eThekwini, large business representatives commended that cooperation with the government worked well with weekly meetings occurring with Invest Durban, Trade and Investment KwaZulu-Natal (TIKZN), DTIC, municipal managers, Durban Chamber of Commerce and the KZN Growth Coalition. It was seen as highly positive that municipal managers were open to listen to concerns and meeting minutes were taken and progress with tasks agreed in meetings were followed up on. It was commented that the issue lies in the implementation rather than in the cooperation, with insufficient funds being made available for growth-enhancing infrastructure projects and co-financing opportunities.

Figure 7. Indicative list of various players in eThekwini's investment promotion ecosystem



Similarly to eThekwini, Cape Town has a grouping of role players who sit both internal to and outside of the municipality.

Figure 8. Indicative list of various players in Cape Town's investment promotion ecosystem



Note: Wesgro is a collaboration between city and provincial government and InvestSA OSS Western Cape is a collaboration between all three spheres of government

Coordination between city level departments can be improved. In an example provided by private sector stakeholders, an economic development department promised an incentive without coordinating with the finance department, which later rejected the incentive as it was not financially feasible and not permitted. It was mentioned that delays and frictions are sometimes caused by insufficient understanding on the part of officials of what is required by other officials in the next steps of the claims or approval process, leading to rejections and the need for resubmissions. Private sector stakeholders interviewed also perceived a disconnect between policies of different government departments including between city departments. There was also a perception of a lack of direction or vision whereby different city departments seem to chase different objectives rather than coordinating around priority goals.

There are opportunities to streamline processes. The actual processing of applications for various business processes (be it to receive a specific incentive, or related, for example, to a specific development process), still lie within the relevant government authority mandated to deliver that process. As such, from a business perspective these processes can still be experienced as disjointed, slow or cumbersome. While mandated functions cannot be moved outside of the relevant authority, support with reforms to improve those processes can assist the overall investment promotion ecosystem. Likewise, methods for automating aspects of the process with single ticket tracking or concierge systems throughout the entire multi-agency system could aid in streamlining the overall investor experience.

To facilitate processes, one-stop-shops have been created, such as TIKZN's One-Stop-Shop. However, stakeholders admitted there was ample room for improvement. The One-Stop-Shop currently facilitates connections with other institutions (such as the city's planning department for building approvals or the DTIC for access to its incentives) but it is far from being a single service point for investors' interaction with the government. In other words, rather than being a single window for investors where all applications can be handled, it directs investors to different government bodies.

The InvestSA One Stop Shop (OSS) Western Cape, operated by Wesgro and the Western Cape Government, is a collaboration across all three spheres of government: national, provincial and local. Yet despite its name, it too is more an information centre or "concierge desk" directing investors to the various government agencies in the process that they may need to interact with for incentives, licensing, and permissions. Private sector investors and city officials interviewed considered the InvestSA OSS Western Cape to be successful in its coordination between local, provincial and national spheres of government around investment promotion. This may be in part due to the fact that Wesgro is co-funded between CCT (around 30%) and Western Cape (around 70%) yet with an independent board of directors and mandate. CCT's Enterprise and Investment Department also has a representation in the OSS.

Investors still experience long delays in approvals during the investment process from the institutions, including building plan approvals and approvals for incentives across all spheres of government. Additionally, investors are often frustrated by unclear and/or changing plans or commitments, specifically citing the lack of follow-through on precinct management in the inner-city and port area, the lack of follow through on critical bulk infrastructure projects such as at Bridge City, and the lack of implementation of transport services (BRT) in eTH. This demonstrates the principles that incentives alone are insufficient if the other levers of government are not introduced in concert.

Private sector stakeholders also passed on frustrations with delayed decision-making when it comes to approvals for incentives and development applications. For example, for city level incentives that are not automatic, a report may first be written by the investment team. This is then typically taken to Council, which only meets on certain days per month. From there it goes to a portfolio committee for decisions and from there to a Mayoral Committee Council each of which may only meet on a few days per month, so the process can take at least 3 months. Additionally, there are legislated public participation processes and, in cases where these and/or deviations require the involvement of municipal planning tribunals, or provincial environmental or heritage structures, long periods of time can pass before approval is obtained. Regulatory incentives such as overlay zones which remove some of these barriers, or processes for automated approval of frequent deviations in specific areas, could reduce effort and irritation in the system, and allow discerning effort to be applied to more complex cases.

Making business processes more efficient (such as registering property, obtaining construction permits and getting electricity, which the World Bank Subnational Doing Business programme focuses on), while not an incentive as such if applied broadly, can reduce the cost of doing business for investors. According to academics consulted who focus on the socio-economic development of Cape Town and Western Cape, this is a consequence of the wider public sector system, where there is little motivation for public officials to speed up processes. Based on this view, the current punitive compliance-based culture is such that appraisal of public officials is too heavily focused on preventing even immaterial deviations from set processes, making it difficult for public officials to address situations as soon as there are slight deviations or new situations.

The investment promotion ecosystem could be better served by investing in a cohesive government approach to the spatial and economic development of the respective metros. Through a shared vision approach, with strong internal integration and alignment and sequencing of budgets and processes, there could be a streamlined and collective mandate to achieve the spatial transformation vision of the IDP.

While the metros have vision statements and lists strategic goals in its strategy and policy documents such as the IDP, BEPP etc, private sector stakeholders still considered there to be a gap on several fronts: (1) There is no credible way forward to achieve an economic turnaround with the required prioritisation and joint path forward. Instead, stakeholders perceive different departments at different levels of government following their own goals and priorities and it is unclear that these will work together towards a broader turnaround plan, particularly with the focus having turned away from growth enhancing projects; (2) There is uncertainty of the policy direction of government. Private sector actors seek clarity on, for example, whether labour costs will continue to rise with further restrictions, or whether there is real commitment to helping to make it easier to do business in South Africa, including for smaller and mid-sized companies. It was stated that, where there may be such a vision, it is not clearly articulated to the private sector and is not backed up by action; (3) There is no clear vision of a future state and path to get there in terms of which developments are to be undertaken where and when. They noted that it would be useful to obtain a list and schedule with planned infrastructure plans and schedules and for the timings to be guaranteed and committed to. This would allow developers to complement such projects with their own development and increase the confidence required to make investments.

Special purpose vehicles (SPVs) play a key role in the investment ecosystem. In CCT, for example, examples include Business Process enabling South Africa (BPeSA), which supports BPO and call centres and GreenCape, which supports the green economy and renewable energy sector. The province and the municipalities co-fund the same SPVs. Based on stakeholder interviews, the SPVs' cluster support has been highly effective as the SPVs understand the needs of organisations in the cluster and provide targeted support. They have also generated start-up incubation facilities, education and training centres.

City Improvement Districts (CIDs), also known as Special Ratings Areas, play a role in the investment promotion ecosystem. According to developers interviewed, the improved urban management provided in CIDs has a significant impact in increasing investor confidence in a given area and in making an area attractive for development and urban regeneration. CIDS are non-profit organisations within a defined geographic area, within which property owners join together to fund top-up services such as safety and security, street cleaning, and urban management. While these take different forms, they represent a form of landowners' organisation at the neighbourhood level, dealing with the provision of additional services in order to improve commercial and residential areas in decline. They aim to enhance the physical appearance of the area, bring in more foot traffic, and increase the property value in the area.

For example, in CCT there are 47 CIDs, the majority of which are now in residential or residential and light-commercial (i.e. "main road") areas. The major commercial areas with CIDs are the CBD, Claremont, Voortrekker Road and Tygervalley. There are also several industrial areas with CIDs, including Stikland, Blackheath and Airport Industria. These areas with CIDs have become the most successful commercial and industrial areas in terms of property values, retaining tenants and drawing development according to Rode Reports on the SA property market. There are many areas where CIDs cannot be applied, i.e. where rates aren't being collected, or where fewer than 50%+1 of ratepayers vote in favour of the establishment, or where the area is too small to be able to carry the associated compliance and administrative costs (for example if an area is between large publicly owned pieces of land that would not contribute to its levies).

5. Assessment of city level incentives

In this section we examine the cities' own incentives applied in the two case study metropolitan municipalities, focussing on tax and fiscal incentives. Following a descriptive assessment of each incentive, we examine its alignment with government policy in view of spatial transformation and inclusive economic growth solutions, discuss uptake and additionality, foregone revenue and impact.

In section 5, we examine the national/provincial level incentives applied in these cities.

5.1 Alignment with spatial policy

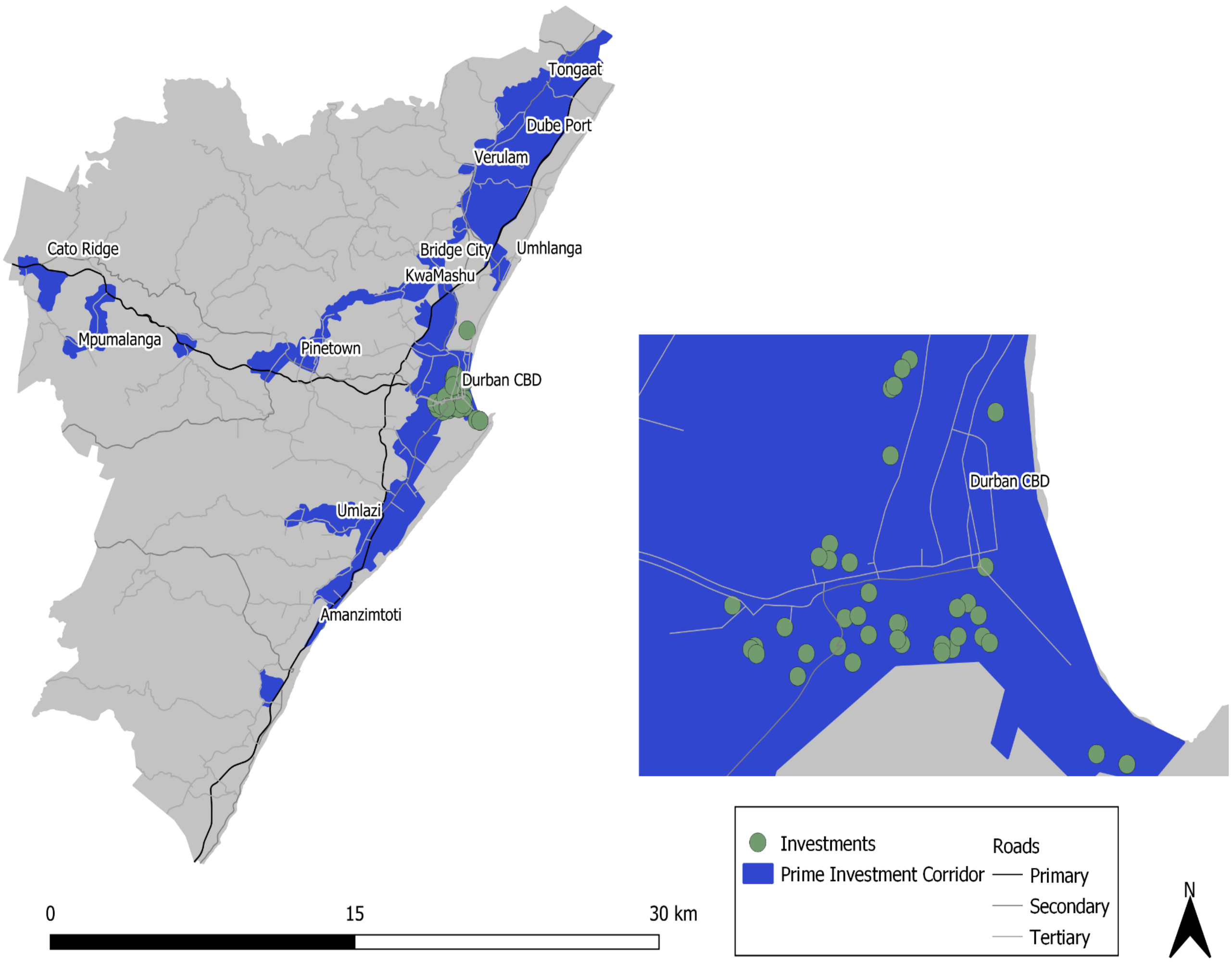
Where reduced property rates, reduced service charges, and fee waivers in the development process are applied, some metros apply these in a spatially targeted way, i.e. they include a spatial element in the qualifying criteria in order to spur development into priority investment areas as identified in their MSDFs.

Meanwhile, in eThekwini Metropolitan Municipality, the value of the incentive increases for investments located in the designated spatial area. If a high-value, job-intensive investment in a priority sector takes place within a priority spatial area, that investment can qualify for 100% incentive. However, investments that do not meet all criteria can still obtain partial incentives. In other words, while not mandatory for eligibility, a greater rebate is given for an investment in a Spatial Priority Area as defined in the Municipality's Spatial Development Plan and the Inclusive Growth Strategy 2020-2025.

We examined the actual spatial location of investments benefitting from the incentives in the two case study metros: eThekwini (eTH) and Cape Town (CCT). Our analysis of the case studies has shown that these have been used to draw investors into specific spatial areas in line with the metros' IDPs and MSDFs.

In eThekwini , which offers property rate incentives as its only incentive, as the map below shows, investments benefiting from local property rate incentives have been used for development in Durban's CBD, which is a key priority investment area. Of 16 investments benefiting from the incentive between FY2015/16 and FY2020/21, only one investment was situated outside of the spatial priority area.

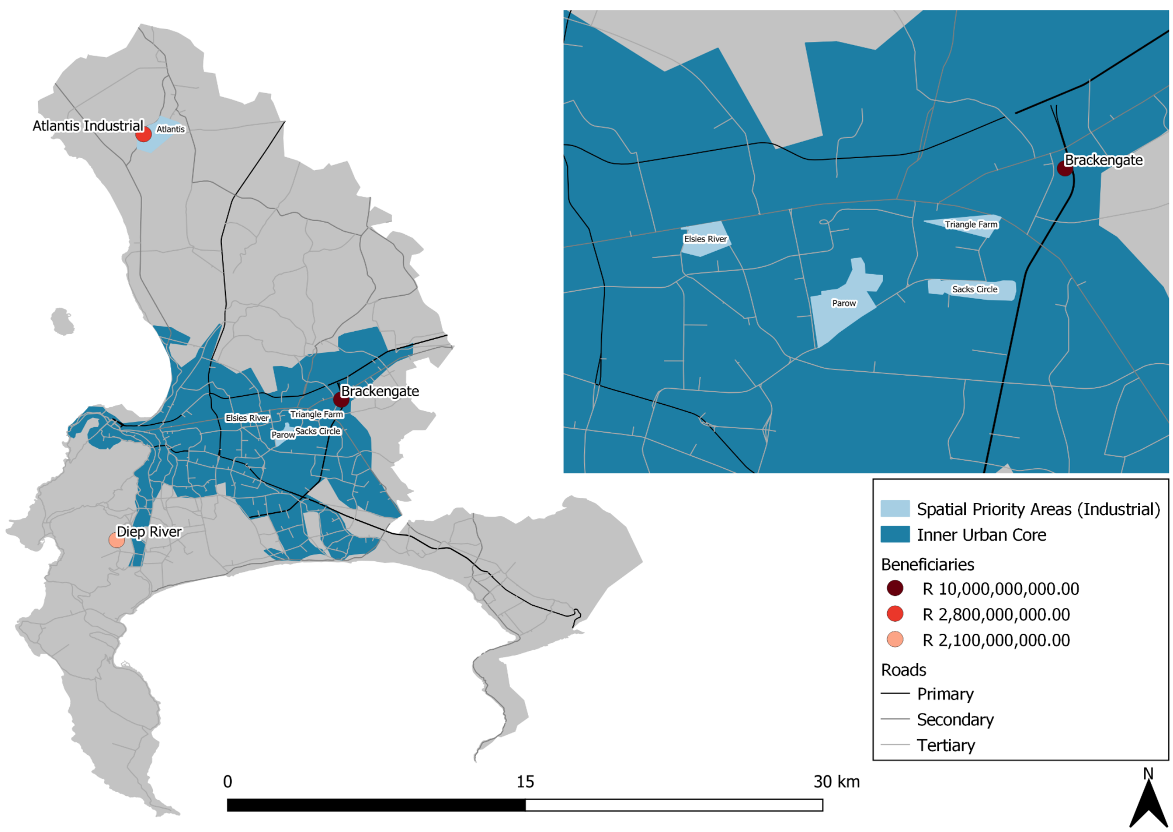
Figure 9. Location of investments benefiting from eTH's property rate incentives within the prime investment corridor, 2015/16 - 2020/21



Source: PwC, based on data from eTH

In CCT, the spatially targeted fiscal incentives aimed to draw manufacturing firms into six different areas zoned for industrial use. However, all firms that benefited from incentives set up in Atlantis SEZ. (Two further firms in the specific tertiary sectors, for which the spatial criterion is not required, set up in Brackengate and Diep River). No manufacturing investment was attracted into any of the other five industrial areas through the incentives beyond Atlantis. This indicates that the incentive alone is insufficient to sway investor decisions in most areas. The package of incentives and other initiatives and services (e.g. new infrastructure) provided in the Atlantis SEZ through funding by all spheres of government is likely to have contributed to drawing investors. Based on stakeholder consultations, the combination of city level incentives with other (provincial and national level) incentives, and support and facilitation by all levels worked successfully to motivate investment into Atlantis SEZ.

Figure 10. Location of incentives making use of city incentives within industrial areas and inner urban core



Source: PwC based on CCT data

5.2 Alignment with inclusive economic growth

The city level fiscal incentives are all targeted to property developers and other investors making new investments. It is thus primarily aligned to the goal of catalysing private sector investment.

It aims to encourage jobs growth, both from the construction and, where businesses are newly established, relocated, or expanded, from the resulting economic activities of the business. Some metros also aim to promote high growth return by prioritising high growth sectors, high value-adding sectors, and/or high employment creating sectors (e.g. manufacturing or tertiary industries).

In some municipalities, such as in eTH, the amount of rebate granted is calculated through a formula that includes a number of criteria including the number of (permanent) jobs created. The incentive encourages job creation through its formula as well as by nature of incentivising development as this is expected to lead to job creation, both temporary from construction and permanent resulting from the economic activity emanating from the development, such as through construction of a factory.

There is potential contradiction with the goal of supporting SMME growth where municipalities provide a greater discount for investments that foresee a higher number of jobs created and higher investment values. Whilst SMMEs are not excluded from benefiting from the investment, there is an inherent large-firm bias.

5.3 Uptake and additionality

Of the city level incentives applied, property rates and discounted electricity tariffs are deemed to have the potential to make a significant difference to investors' bottom line and investment decision. The uptake for the property rates incentive was examined in eTH. It was taken up for 16 different investments totalling R1.84 billion from FY 2015/16 to FY 2020/2021.

Some developers interviewed claimed that the incentive did help to reduce risk; however, it was deemed that other methods of reducing risk would be more effective than the incentive, such as certainty around the granting of approvals for building permits and around promised public sector investments. This point is further elaborated in the key issues and recommendations sections below.

However, city incentives do not benefit all developers equally. For example, the characteristics of this incentive benefit investors that hold on to the property more than those who build and sell or pass off utility and property rates to tenants. For the latter, incentives such as land use application fee waivers were deemed to be more attractive as they provide an upfront relief. The electricity tariff incentive was particularly effective in attracting firms with high energy usage, such as business process outsourcing and IT firms. The property rates incentive provides relief more immediately than, for example, the UDZ incentive which benefits firms only after the investment becomes profitable, typically several years down the line when they move from loss-making to profit-making and, again, if their business model involves them holding on to the property over those years.

It was mentioned that, for example, affordable housing developers do not benefit from the incentive since their business model is generally to build and sell the property so would not benefit from a property tax after construction. It was suggested that the business models of firms the city aims to incentivise be more closely examined through closer communication with potential investors.

It is to be noted that property rates and electricity tariffs are generally also important own-source revenue sources for cities' already constrained budgets. According to metropolitan municipalities' budget data, electricity tariffs made up approximately 35% and property rates made up approximately 20% of metros' income in 2020. Moreover, there is risk of a "race to the bottom" if cities compete against each other by undercutting each other's lower rates, leading to a decline in revenue for all. This may bring about a trade-off between attracting investment but also being financially sustainable. The gains of an incentive must therefore be compared against the opportunity cost of local government expenditures. Minimum rates may be applied as a method to avoid incentives competition.

There has been a debate around the introduction of a local business tax in South Africa (or shifting existing small businesses/turnover taxes to local government so as not to impose an additional burden on small businesses). This would allow local governments to steer policy through incentives on such a tax but also faces the issues mentioned above of potentially leading to a "race to the bottom" in view of competition with other cities and the trade-off between attracting investment and being financially sustainable.

Incentive competition has been overcome in other countries by mandating bands, i.e. mandating a minimum tax rate (often in addition to a maximum tax rate so as not stifle small business growth) (see Ahmad, Brosio, Jimenez, 2019). In theory, a local business tax may have the advantage of adding impetus to local governments to see businesses in their jurisdictions grow over time and helping them to do so.

We compared the uptake of the four different fiscal incentives applied in the CCT. As presented in more detail in the table below, the building plan and land use application incentives saw the most uptake with 46 and 16 firms benefiting respectively between financial years 2015/16 and 2020/21. These are granted automatically through the City's Development Application Management System (DAMS) if the given criteria are met. This removes any discretion and makes them relatively easy to administer for the City and easy to comply with for the investor. Development contribution and electricity tariff incentives, meanwhile, are negotiated on a case-by-case basis. 6 firms have benefited from the electricity tariffs incentive. Only two firms have benefited from the development contribution incentive during financial years 2015/16 to 2020/21, which amounted to the largest incentive value on average. In total 54 firms have benefited from the city's incentives over the period with their investments totalling R15 billion.

Table 12. Cape Town financial incentives, 2015/16 - 2020/21

	Number of cases (and firms benefiting)	Total investment value associated with the incentive	Revenue foregone (Incentive value)	Average incentive per case (or firm)
Building plan incentive	85 (46)	R498,498,581	R4,307,684	R 51,919.
Development contribution incentive	2 (2)	R53,500,000	R1,434,983	R717,492

Land use application incentive	21 (16)	R284,828, 819	R22,642	R1,158
Electricity tariff	56 (6)	R14,114,000,000	R85,150,158	(R9,551,176)
Totals (without double counting investments)	**164 (54)**	**R14,947,771,556**	**R90,915,468**	**(R1,663,051)**
Average per year	**27 (9)**	**R2.5 billion**	**R15 million**	**R277 thousand**

As shown in Table 5 below, the spatial location of the benefiting firms is predominantly Atlantis (59 out of 61), which is also a special economic zone (SEZ). The two investments that were not in Atlantis fell into the category of tertiary priority sectors where the spatial criterion does not apply. No manufacturing investment was attracted into any of the other five industrial areas through the incentives. Of the investment attracted into Atlantis Industrial, 70% are in the textiles, clothing, leather products and footwear manufacturing sector, 9% are in other manufacturing and recycling, and 7% in the paper and proper products manufacturing sector.

The package of incentives and other initiatives and services (e.g. new infrastructure) provided in the Atlantis SEZ through funding by all spheres of government is likely to have contributed to drawing investors. The high uptake of the city incentives in Atlantis, but low uptake elsewhere, may be indicative of the incentive being insufficient on its own without a package of other initiatives. City officials also proactively sought and reached out to potential investors to locate in the Atlantis SEZ which is likely to have contributed to increased knowledge around the incentive among those potential investors. Based on stakeholder consultations, the combination of city level incentives with other (provincial and national level) incentives, and support and facilitation by all levels worked successfully to motivate investment into Atlantis Industrial. This is further elaborated below in Section 6.1.2 on SEZs (see Box 4).

Two further firms located in Brackengate and Diep River, which are not priority investment areas (but the investments are in priority tertiary industries, namely ICT, thus eligible for the incentives) also benefited. The investment from these two firms, both in the ICT sector, made up 81% of the total investment value and both occurred in 2020/21. These two investments are data centres, representing infrastructure that enables the broader growth of the ICT sector in Cape Town. Data centres are also energy-intensive and typically require upgrades to energy distribution infrastructure.

Table 13. Spatial location of firms benefiting from Cape Town city financial incentives

Node	No of firms	Investment value	Priority investment area
Atlantis Industrial	59	2.8 billion	Priority area zoned for industrial use
Brackengate	1	10 billion	Urban inner core or “blue turtle” areaNo
Diep River	1	2.1 billion	Urban inner core or “blue turtle” area
Total	**61**	**14.9 billion**	

5.4 Foregone revenue

In CCT, on average per year from 2015-2020, annual foregone revenue was 15 million, less than 1% of the R2.5 billion annual average value invested by the firms and 0.02% of the City's tax revenue. The R15 million of foregone revenue of the City on average per year is far less than the R375 million tax revenue to the national fiscus on average per year through knock-on effects of the investment in the economy (not counting resulting economic activity after the investment phase is complete). However, as mentioned above, the extent to which the specific incentives were causal to the investment decisions is unclear, though they formed part of an attractive package for investors.

In eThekwini, from 2015-2020, 16 firms have benefited from eTH's property tax incentive, totalling an investment value of R1.84 billion. While foregone revenue totalled 36.3 million, property rates received through the investments considerably exceeded this, totalling R65 million. Here too, it is difficult to determine the extent to which the investment decisions were attributable to the incentive.

Table 14. Comparative table of incentives

Incentive	Metro	Sphere	No. of firms benefiting (annual average)	Investment value per year	Foregone revenue per year
Discounted property rate eTH	eTH	Local	3	R307 million	R6 million
Building plan incentive	CCT	Local	5	R99 million	R861,000
Development contribution waiver	CCT	Local	1	R10.6 million	R43,498
Land use application incentive	CCT	Local	3	57 million	R4,867
Discounted electricity tariff	CCT	Local	1	2,822 million	R17 million

Note: Values are annual averages over the period 2015-2020
Sources: eThekwiniand CCT data

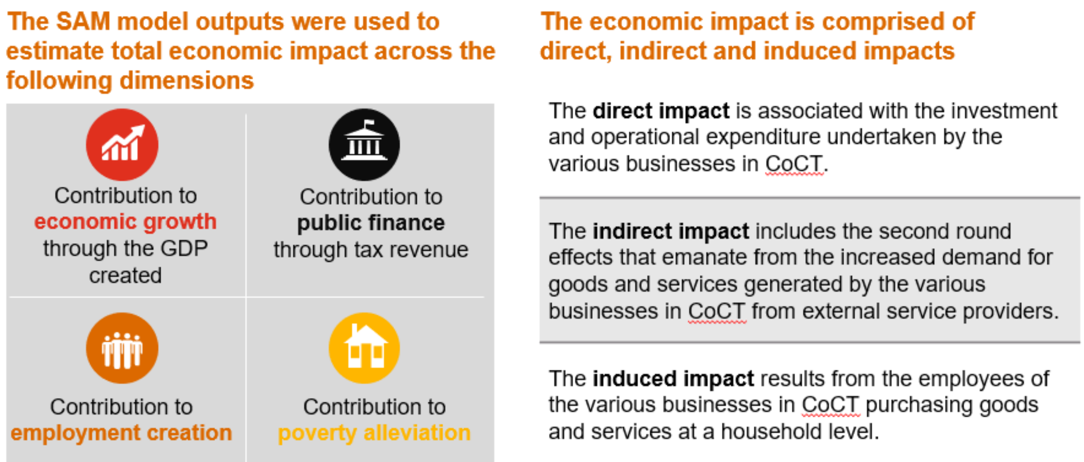
5.5 Impact

Impact: We estimated the economic impact of the investments associated with the various incentives on the economy for the City of Cape Town.[7] To do this, an Economic Impact Assessment (EIA) was

[7] We were unable to conduct the same analysis for eThekwini due to limited data available on the nature of the investments benefiting from the incentive.

conducted using an internationally accepted approach, informed by the Global Report Initiative (GRI) standards to quantify the economic value of the investments for the local economy. We used the Social Accounting Matrix (SAM) methodology to estimate how the activities associated with the investment affect other sectors of the economy, and how the revenue is distributed in the economy. The SAM uses national accounts based on data from Reserve Bank, National Treasury (NT), StatsSA, Labour Force Survey, as well as local and provincial accounts.

Figure 11. Social accounting matrix (SAM) model: key concepts

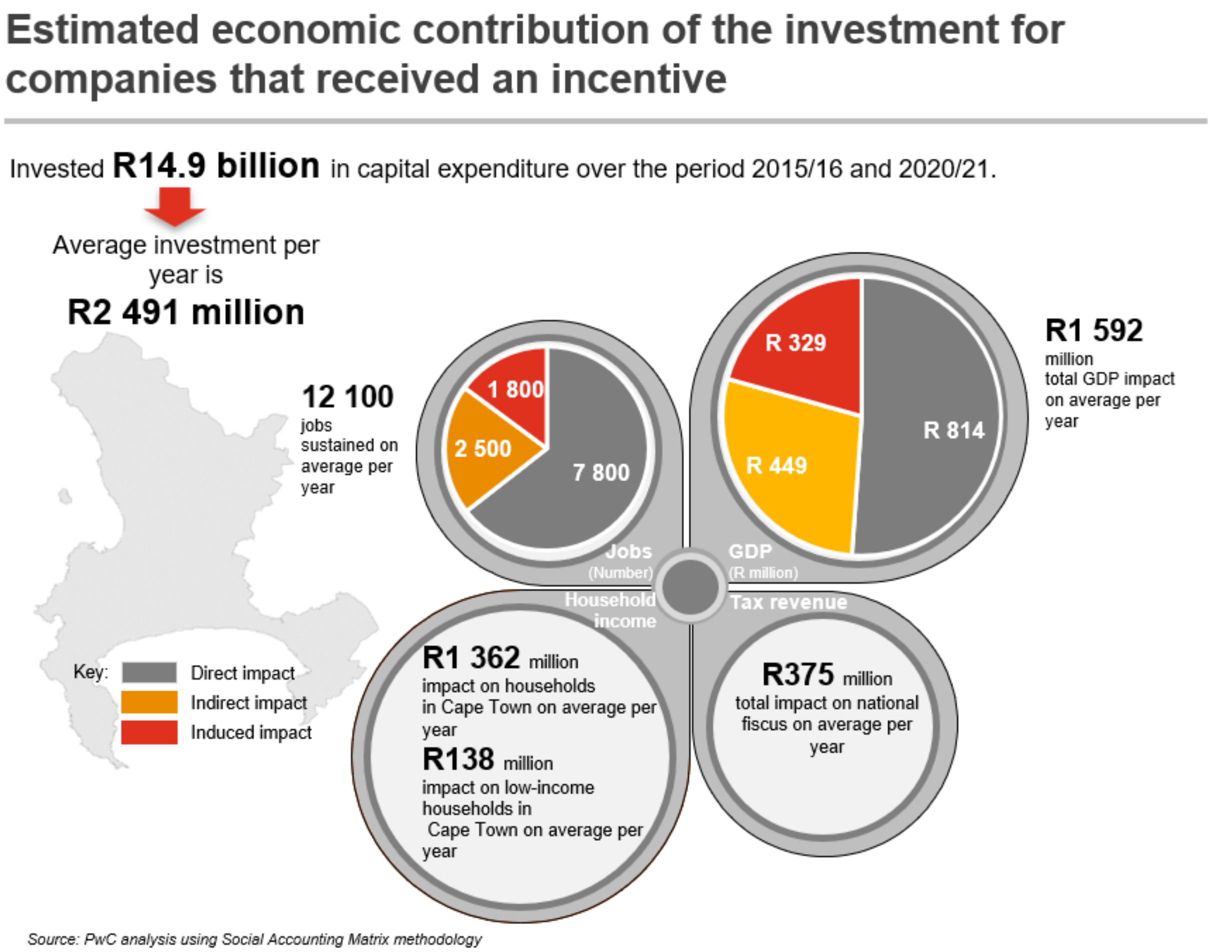


Source: PwC analysis using Social Accounting matrix methodology

Using data from the CCT on investment values for each investment benefiting from the incentive and details on the type of investment, we calculated the economic contribution of the investment for those companies that received an incentive. In addition, we also modelled the potential long-term impact through the operational activities once the investment activity is complete. The contributions are estimated through the impact on GDP, jobs, household income and public finance.

We estimated that the economic activity created in the CCT due to investment was about R2.5 billion, on average per year, between 2015/16 and 2020/21, where an incentive was in place.

Figure 12. Results of the economic impact assessment



GDP is one of the broadest measures of economic growth. Therefore, it is an all-encompassing measure representing the City's investment to economic growth in the City of Cape Town.

Over the period 2015/16 and 2020/21, the estimated economic activity created in the City of Cape Town as a result of the investment was around R1.6 billion on average per year. The direct impact accounted for 51% of the total GDP multiplier effect, while the indirect and induced impacts made up the remaining 49%.

Through the investment by various businesses in the City, job opportunities were created and sustained in the Cape Town economy. This in turn generates income for households, both directly and indirectly. Three types of jobs were created and/or sustained in the City of Cape Town:

- the estimated direct jobs that were created due to on-going investment
- the estimated indirect jobs resulting from the multiplier effects of the investment
- the estimated induced jobs that occur because of the increase in household-to-business activity caused by the direct and indirect job effects

PwC's estimated that due to the investment by various businesses in the City over the period 2015/16 and 2020/21, about 12 100 jobs were created and/or sustained on average per year. An average of about 7 800 jobs were created directly, while 1 800 jobs were sustained indirectly in those sectors that provide inputs to the various businesses. Over the same period, an average of approximately 2 500 jobs were created due to the economic activity that resulted from the payment of salaries and wages to people who are directly employed by these companies and its suppliers.

The contribution to public finance represents a major part of the positive impact to the societies in the City of Cape Town. This is through the payment of direct and indirect taxes as well as non-tax revenue mechanisms.

Due to the investment by various businesses in the City, the Government received tax revenue through induced taxes[8].This contribution increased by an estimated R375 million, on average per year over the period 2015/16 and 2020/21.

Compared to the foregone revenue of R15 million on average per year for the incentive, the estimated benefit to the economy of R375 million is large.

Investment by businesses in the City is expected to contribute positively towards improving economic development in the City. This in turn potentially increases these businesses' output, which leads to an increased economic contribution across the sectors in which the businesses operate and in those sectors that provide inputs to the businesses. The long-term economic benefits that could be realised because of future investment spend if the incentives continue, are shown below.

Figure 13. The multiplier effect of private investments in the City

Source: PwC analysis using Social Accounting Matrix methodology

The above multiplier effects highlight the contribution that infrastructure development and investment activities make to the Cape Town economy.

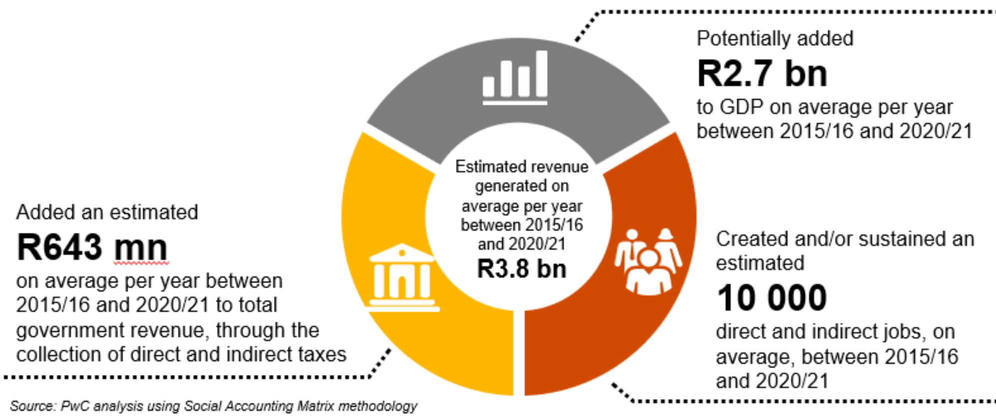
In addition to the economic impacts associated with the investment, there will also be long-term economic contributions created by the additional production in the various sectors, once the investment phase is complete. Therefore, it is important to understand the impact of these sectors in the economy. Through the production of various products, such as the manufacturing of pet food or leather products, expenses incurred through day-to-day operations and the people directly employed, beneficial impacts occur. For example, if company A invested in their business, there will be an increase in company A's output and

[8] Induced taxation: The different rounds of the multiplier effect, from the initial spending in the sector, through to employees spending their salaries on goods and services (and its resultant effects).

economic contribution. This will increase the demand for products and services that supply company A with service or products such as electricity, water, electrical equipment, insurance, and business services.

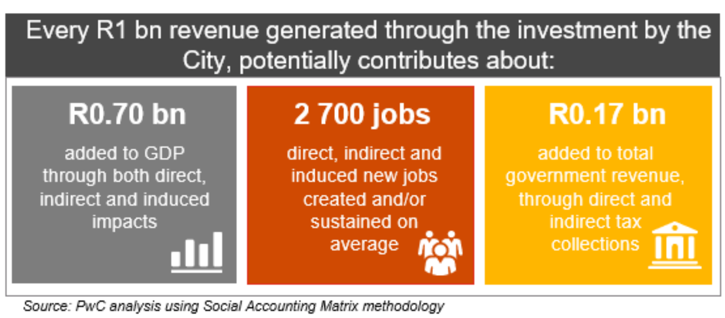
We quantified these indirect impacts on the City of Cape Town economy. We used industry-wide data to calculate the resultant impact.

Figure 14. Economic impacts associated with infrastructure development



This analysis shows that investment in various businesses and the resultant production have a positive impact on local communities and the local government in terms of job creation, poverty alleviation and contribution to public finances.

Figure 15. The multiplier effect of public investments



These multiplier effects highlight the contribution that the production activities associated with the various businesses make to the Cape Town economy.

5.6 Monitoring and evaluation

In the metros, M&E is generally geared towards reporting to the mayoral committee on compliance with requirements but not for examining impact and effectiveness in reaching the desired policy outcomes. For example, while the CCT applies its city level incentives to catalyse job-creation as a primary objective, it does not collect data on job numbers that were created or retained through the investments benefitting from the incentives. While data was maintained on the types of developments occurring, which was used for the EIA in this study, this was not organised in a way that allowed for easy, regular analysis. There is no framework in place to continuously monitor outcomes against policy plans and to feed lessons learnt into future policy.

The metros instead tend to limit reporting to foregone revenue and the value of the investment. Some metros, such as eThekwini also record the rates received through the investment that benefit from incentives. Some metros are also in the process of matching investments with GIS coordinates in order to be able to visualise and more easily monitor where these occurred spatially.

Table 15. eThekwini's property rate incentive, 2015/16 - 2020/2021

<table>
<tr><th></th><th>Number of investments receiving the incentive</th><th>Investment value</th><th>Total rates received through these investments</th><th>Foregone revenue (rebate amount)</th><th>Average rebate per firm</th><th>Percentage rebate (of full rates)</th></tr>
<tr><td colspan="7"></td></tr>
<tr><td>Total</td><td>16</td><td>R1.84 billion</td><td>R65.1 million</td><td>R36.3 million</td><td>R2.3 million</td><td rowspan="2">36%</td></tr>
<tr><td>Average annual</td><td>2.7</td><td>R307 million</td><td>R11 million</td><td>R6 million</td><td>R380 thousand</td></tr>
</table>

Source: eThekwinidata

5.7 Issues related to city level incentives

Policy-related issues raised by stakeholders

- **According to both private sector stakeholders and city officials interviewed, even city incentives with high potential incentive values, such as property rate reductions/exemptions and service charge reductions/exemptions, are unable to attract investment if fundamental aspects of the business environment are not in place**, such as reliable access to basic services or provision of efficient transport. According to private sector stakeholders, the incentives in isolation will not make a difference as various other factors influence business decision-making. Stakeholders claimed that providing reliable access to power would have a greater impact on growth and attracting investment than any incentives.
- **There is uncertainty among the municipalities with regard to the legality of some of the fiscal incentives.** For example, while CCT sought a legal opinion on the use of reduced property rates as an incentive. The opinion did not confirm its legality in view of the Municipal Property Rates Act (MPRA) 6 of 2004. Other municipalities, meanwhile, have interpreted section 8 and section 15 of the MPRA to provides municipalities with a degree of discretion to decide what categories of differential rates, exemptions, reductions and/or rebates in rates will be applicable within their jurisdictions, i.e., they can determine what criteria will form the basis of these benefits (one of which could be an incentive for development). Other municipalities have expressed

uncertainty of the legality of applying special rates on the tariff for basic services. Both property rates and tariff reductions are, however, applied by some municipalities.

- Based on the National Treasury's informal feedback, "reducing property rates, granting special rates on the tariff for basic services or waiving development contributions does not go against any legislation. Municipalities have the discretion to decide whether or not to grant, exemptions, reductions and/or rebates on the revenue sources to be collected but they must have in place policies (adopted by Municipal Council) which clearly outline the criteria that must be complied with when exemptions, reductions and or/rebates are granted."

- **Non-financial business support incentives and investor support services are very important to attract investment and create a favourable business environment and can, in some instances, be more important than fiscal or financial incentives.** According to private sector stakeholders interviewed, investor support services have an important signalling effect to firms that a locality is open for business and that the government welcomes and supports investors. Developers interviewed also highlighted that fast-tracking applications and creating certainty around timing of approvals in the investment process in particular can save more costs to developers than the benefits from a fiscal incentive can make up for. However, it was also cautioned that removing a fiscal and financial incentive can be "the straw that breaks the camel's back" if difficult economic conditions are already putting pressure on businesses or if it leads to businesses perceiving an anti-business policy direction.

- **While property rates and utility tariffs can be used as important tools at the city level, they are also important own-source revenue raising tools for cities' already constrained budgets.** According to metropolitan municipalities' budget data, electricity tariffs made up approximately 35% and property rates made up approximately 20% of metros' income in 2020. Moreover, there is risk of "a race to the bottom" if cities compete against each other by undercutting each other's lower rates, leading to a decline in revenue for all. This may bring about a trade-off between attracting investment but also being financially sustainable. The gains of an incentive must therefore be compared against the opportunity cost of local government expenditures.

Administration of city incentives

- **According to developers interviewed, delays and uncertainty of approvals in the investment process are a serious concern and can reverse any benefits of the fiscal incentive.** Developers in particular carry a lot of risk in their projects. Timing is important and unexpected delays are typically associated with high costs and project cancellations. Faster processing and increased certainty around processing times would reduce risk and encourage more investment. In part this may be due

- Both case study cities have made efforts to address this, such as through single priority accounts, fast-tracking approvals, and setting targets around turnaround times. However, it appears that **there remains room for improvement.** Unlike the UDZ that requires further steps in the approval process by different spheres of government, the city level incentives are housed within the city government.

Design of incentives

- The design of the case study cities' fiscal incentives both included spatial criteria but with different approaches. **The approach of making the spatial element into an eligibility criterion, as opposed to only increasing the incentive amount if the investment were located in the spatial priority area, more effectively ensures that the specific areas are targeted.**

- **Different firms benefit differently from different types of incentives.** Among city incentives, property rates and discounted service charges were generally seen by stakeholders as significant incentives that could make a big difference to investors' bottom line and investment decision. However, this is not true across the board. Firms that are more energy intensive, such as data centres, will benefit far more from electricity tariff reductions. Developers that build and sell or are otherwise not affected by the property tax, will not benefit from a property rate reduction. For these, an upfront investment such as a building plan waiver or a development contribution waiver, constitutes a more interesting benefit. It is thus important to be clear about which type of firms the city aims to attract, understand what would constitute a benefit, and to offer incentives accordingly.

- **While some incentives are amenable to being granted automatically through an automated application management system, others are not.** Waivers/discounts to land and building approval incentives can easily be automated, reducing processing time and creating certainty for the investor. In CCT, for example, the incentive is automatically granted through its Development Application Management System (DAMS). For electricity charge incentives, however, a more bespoke approach is negotiated as different firms may use power differently at different times of day (with rates changing according to the time of day). The expected usage is modelled, and the incentive worked out accordingly in a way that it constitutes a sufficient benefit without creating excessive lost revenue for the City.

Monitoring and evaluation

- **Data is not consistently collected on the economic impact of the firms benefiting from the incentive and this is not monitored or evaluated.** For example, no data was readily available on the number of jobs created through the investments that benefited from the incentive. Similarly, no data was managed on the economic activity resulting from the investments and their contribution to the local economy.

6. Assessment of national level incentives

6.1 Incentives with an explicit spatial focus

This section covers incentives that pertain to the national sphere of government and that have an explicit spatial focus:

- UDZ incentive (National Treasury)
- SEZ incentives (DTIC)
- Critical Infrastructure Programme (DTIC)

6.1.1 Urban Development Zone (UDZ) tax incentive

Table 16. UDZ incentive overview

No.	Criterion	Description
1	**Overview**	The UDZ incentive was introduced by the National Treasury in 2003 in partnership with the 16 municipalities. It is a spatially targeted tax incentive allowing property owners/developers to write off building costs against the income of businesses in the promulgated UDZ areas. It differs slightly from place to place.
2	**Purpose**	The UDZ was intended to attract re/development to declining urban areas with good infrastructure and economic potential. The objective was to address urban decay in South Africa's inner cities by promoting private sector-led investment in commercial and residential developments.
3	**Intended beneficiary**	Property owners/developers.
4	**Spatial targeting**	Yes. Investment must be in the spatially defined area delimited as UDZ. Taxpayers must obtain a location certificate, issued by the municipality, confirming it is located within a UDZ. According to SARS' Guide to the UDZ Allowance (Issue 8), the municipality demarcates the area as a UDZ with National Treasury approval. The National Treasury lays out the criteria for a UDZ to be approved as such. These include that it is a developed urban location in one of several listed metros or cities; the area is prioritised in the municipality's IDP for further investment; that area proportionately contributes or previously contributed a significant portion of the total revenue collections as measured by property rates or assessed property value and is undergoing a sustained real or nominal decline; significant fiscal measures have been implemented by that municipality to support the regeneration of that area. While these demarcated areas were agreed with the municipalities, this was done prior to the introduction of MSDFs and they are now difficult to change. They thus may be different from the City's more recent spatial priority areas that were identified in more recently established MSDFs.

	Inclusive economic growth goals	Needs to be used for the purpose of a trade (jobs growth). Targeted at brownfield urban areas (urban economic growth).
5	**Sector**	Not prescribed (development for purpose of a trade).
6	**Type of interventions**	Indirect fiscal incentives (accelerated depreciation allowance).
7	**Role of local government (and/or other institutions)**	Administered by National Treasury whereby the City is required to spatially align boundaries of the UDZ to areas that display characteristics of urban decay and lack private investment (in accordance with criteria set by Treasury).

Assessment

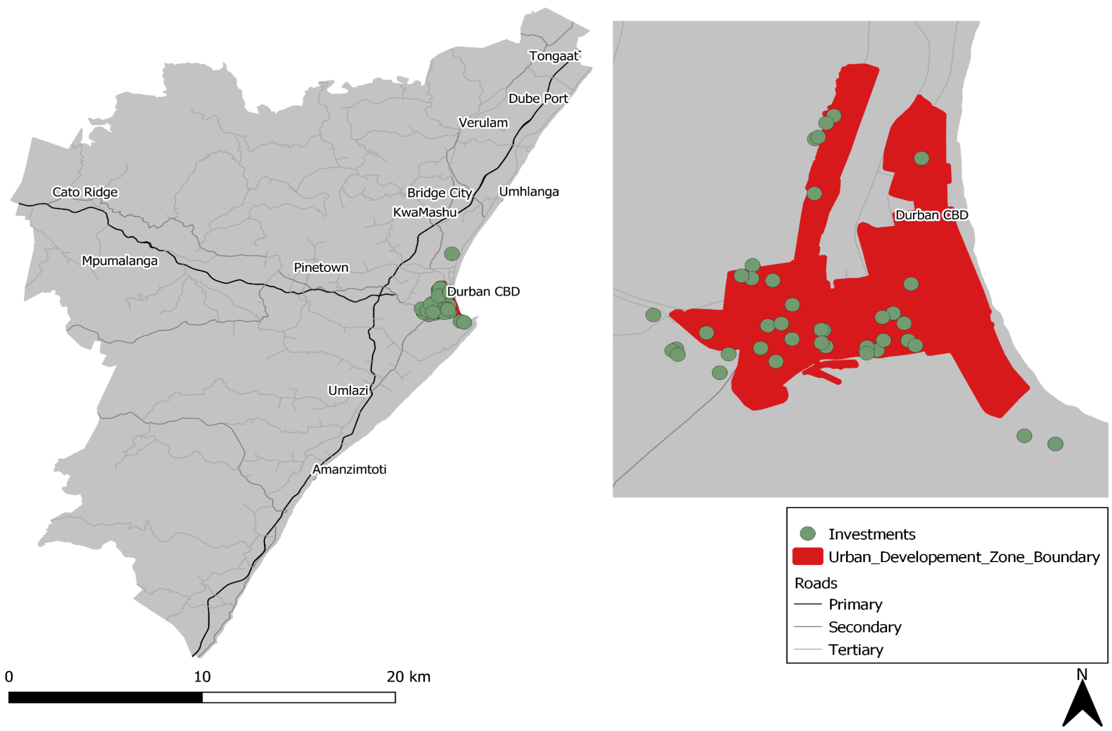
Policy alignment - inclusive economic growth: The UDZ incentive is in principle aligned with the goal of incentivising inclusive economic growth as it aims to address urban decay in South Africa's inner cities by catalysing private sector-led investment in commercial and residential developments. The urban centres targeted tend to have low-income populations that would benefit from a revitalisation of economic activity and job creation that the incentive spurs. Through the criteria for demarcation of an UDZ (see criteria in row 4 of the table above), the incentive targets urban (brownfield) areas, which tend to have higher growth potential through agglomeration advantages than greenfield development. The criteria also target areas with economic potential that are experiencing decline and aim to complement other initiatives to revitalise the area. These criteria aim to achieve inclusive economic growth in an efficient manner.

Policy alignment - spatial transformation: The UDZ is in principle aligned to spatial transformation goals of bringing jobs closer to people as it aims to revive business in urban centres where low-income residents reside. Where it encourages development of low-income housing in central areas, it also brings people closer to jobs. Low-cost residential accommodation close to the economic opportunities of the inner city also creates economies of scale in the use of public transport and utilities.

However, as shown below, the UDZ has not been successful as a tool to incentivise low-income housing, at least not in the case study cities examined (CCT and eTH). Without low-income housing, the incentive may contradict spatial transformation goals if it causes high volumes of investment to push up property prices and rental prices in central, and thereby pushes low-income residents out of economic centres.

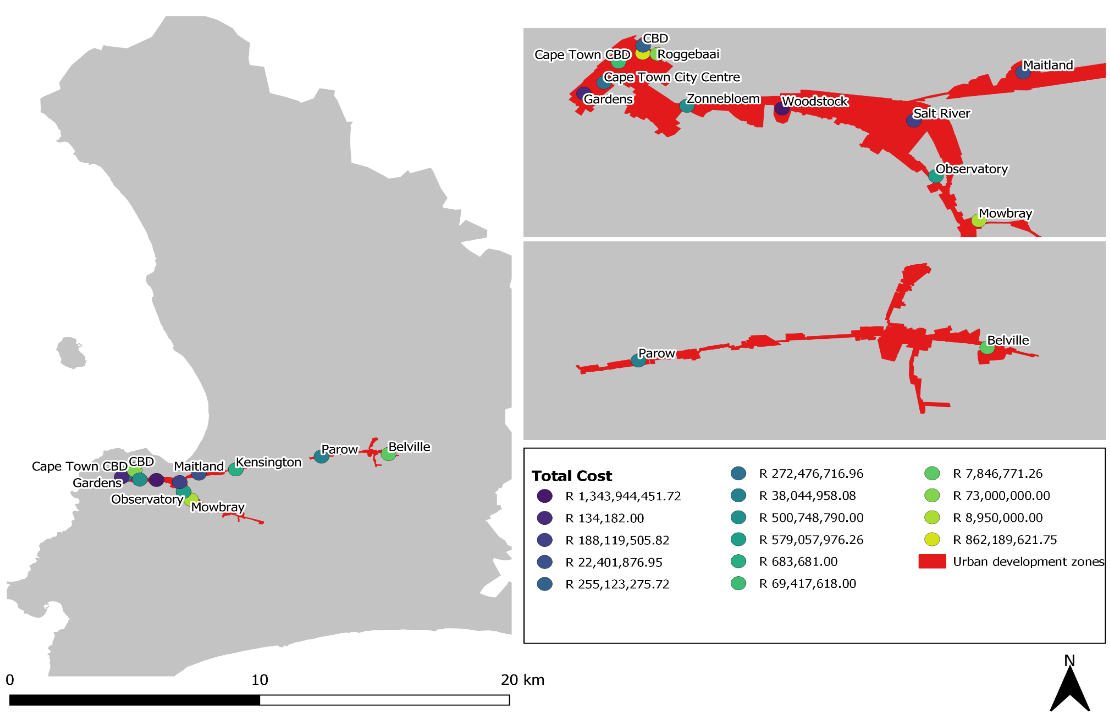
The UDZ and location of investments where the UDZ incentive was claimed are shown below for eThekwini and Cape Town.

Figure 16. UDZ and investments that claimed the UDZ incentive in eThekwini



Source: PwC based on eThekwini data

Figure 17. UDZ and UDZ incentives in Cape Town



Source: PwC based on CCT data

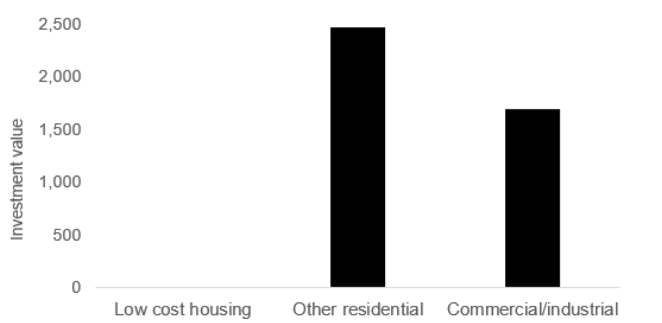
Uptake and additionality: Based on data provided by Cities, the UDZ has seen considerable uptake in Cape Town with 1144 claims totalling R4 billion in investments between 2015 and 2021 but little uptake in eThekwini (with only 41 claims totalling under R885 million in investments between 2015 and 2020.

In Cape Town, uptake for low-income housing has been poor (only 0.01% of the investment value) with most investments in other residential and commercial buildings. This indicates that the UDZ has not been a successful tool to incentivise low-income housing in economic centres. This is corroborated by stakeholder interviews in which it was noted that while the UDZ allowance contributed to growth in Cape Town office development, it has been far less successful at attracting the level of private investment in residential development that this city needs. In eThekwini, there were no cases of the incentive being used for low-income housing.

The low-cost housing element was added to the original incentive design at a later stage. This may be a lesson to avoid aiming to fit multiple objectives into one tool as a short-cut process for a more rigorous and independent policy proposal, such as one related to low-cost housing.

While the UDZ was not originally designed with affordable housing as its intent, but rather to catalyse investment of market activity in poor-performing areas, in reality it has been used in well performing areas (especially in Cape Town). Furthermore, the housing and spatial policy environments have shifted since the original introduction of the UDZ - with the strengthening of spatial justice principles through SPLUMA, as well as more recent transitions in housing practices such as the introduction of inclusionary housing practices. As such, the UDZ potentially warrants an update in terms of its fit within a suite of tools for different market segments, areas and cycles.

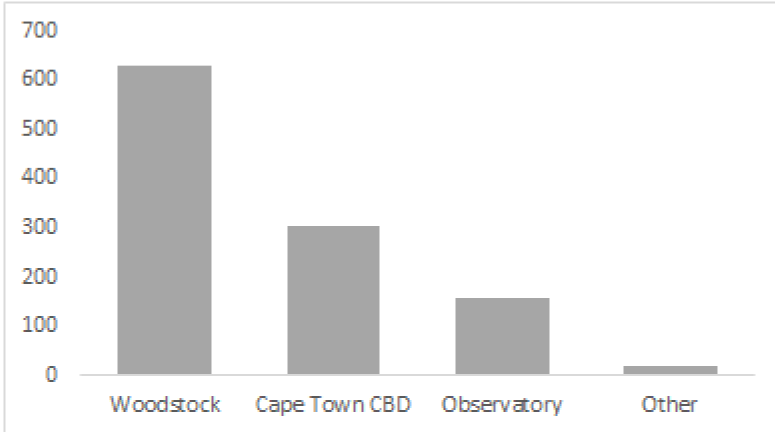
Figure 18. Number of claims by type in CCT, 2015-2021



Source: CCT UDZ data

While the incentive has been taken up by large and small-scale investors, this uptake is concentrated in only a few suburbs, as illustrated in the figure below. While there was high uptake in Woodstock, Cape Town CBD and Observatory, there was low uptake in the remaining seven suburbs (maximum five claims each). This may indicate that the incentive has mostly taken place where the investment risk was already low or where other factors contributed to making the investment attractive alongside the incentive, such as improved urban management, reductions in crime, or rising momentum in the property market through other investments.

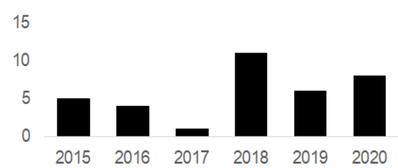
Figure 19. Number of claims by suburb in CCT, 2015-2021

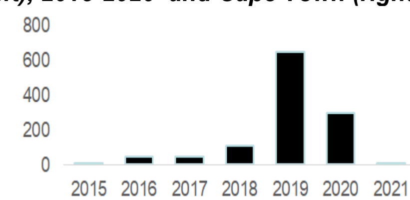


Source: CCT UDZ data
Note: 'Other' groups Bellville, Gardens, Kensington, Maitland, Parrow, Roggebaai, and Zonnebloem

According to stakeholder views, the number of claims may have been lower in eThekwini compared to Cape Town because the incentive was not attractive enough to make up for other factors that may have prevented investment (such as crime). In Cape Town, for example, the Central City Improvement District and the Woodstock Improvement District contributed to investor confidence through property owners and businesses funding top-up services in the area and ensuring sound urban management alongside government funded services.

Figure 20 & 21. Number of claims per year in eThekwini (left), 2015-2020 and Cape Town (right), 2015-2021





Source: eThekwiniUDZ data; CCT UDZ data

Foregone revenue: While the incentive is not associated with revenue foregone for Cities (but to National Treasury), there is a cost of administering the incentive. On the other hand, the incentive can have potential positive effects on property rate revenue for Cities of those investments and potential increases in property rates in the demarcated areas. We were unable to access data on the foregone revenue (for national government) of the UDZ incentive in the city nor on the (rise in) property rates received through the investments. The national government's total foregone revenue for the UDZ incentive to the national government is reported in the annexure to the national budget. This was R205 million for the most recent year reported (2018/19) (National Treasury, 2021b). We were unable to obtain such estimates by city.

Impact: No data was provided on the jobs, investment type or economic activities resulting from the UDZ incentives. This data was not held or monitored at the city level. We were thus unable to conduct an Economic Impact Assessment of investments associated with the UDZ incentives.

According to National Treasury stakeholders, information on the types of businesses and activities benefiting from the incentive is supposed to be available from the annual reporting municipalities should provide to SARS and the National Treasury. However, this has not been done. The National Treasury recently engaged municipalities to try to bring this information up to date but has not had a sufficient response as yet.

A simplified estimate of the jobs from construction resulting from the investments that benefited from the UDZ incentive can be made using job multipliers. For Cape Town, assuming a jobs multiplier of every R1 million investment in construction yielding approximately 8 jobs is applied. In Cape Town, given the total investment of R4,020,597,637 by firms benefiting from the UDZ over the period 2015-2020, this yields an estimated 32,160 jobs or 6,432 jobs per year on average. It is important to note that the jobs in construction are generally temporary. This calculation does not take into account the indirect and induced jobs created through the economic activity resulting from the business activity. According to stakeholder interviews, there has been high growth in office development as well as speculative apartments for rental. With the COVID-19 pandemic, much of this space lies empty with little economic activity resulting from it (Rodes and Associates, 2021).

For eThekwini Metropolitan Municipality, the city uses a jobs multiplier of 6 jobs created through every R1 million investment in construction, and based on the investment of R885,489,182 by firms benefiting from the UDZ over the period 2015-2020, these would have yielded an estimated 5,310 jobs or 1,062 jobs per year on average.

Table 17. Comparative table of incentives, annual averages[9]

Incentive	Metro	Sphere	No. of firms benefiting	Investment value per year	Jobs impact from constructio n	Foregone revenue per year
Discounted property rate eTH	eTH	Local	3	R307 million	1,842	R6 million
Building plan incentive	CCT	Local	5	R99 million	792	R861,000
Development contribution waiver	CCT	Local	0.5	R10.6 million	85	R43,498
Land use application incentive	CCT	Local	3	R57 million	456	R4,867
Discounted electricity tariff	CCT	Local	1	R2,822 million	22,576	R17 million
UDZ incentive	eTH	National (administrat ion local)	8	R117 million	1062	Data not held at city level

[9] *Note 1: Figures are per year on average during years provided (2015 to 2020/21)*

UDZ incentive	CCT	National (administration local)	190	R670 million	5360	Data not held at city level

Note 1. Values are annual averages over the period 2015-2020; Note 2. Several of the investments benefited from more than one incentive. The incentive is therefore by no means solely responsible for the investment value. Note 3: The jobs multipliers provided were 8 jobs for every R1m investment for Cape Town and 6 jobs for every R1m investment for eThekwini.
Sources: own calculations based on eThekwini and CCT data

Key issues: Based on the stakeholder consultations for this project, the following key issues and challenges were identified with regard to the UDZ:

Policy related issues

- **The general view collected, based on stakeholder interviews with city investment promotion officials in five metros, was that cities were in favour of a continuation of the UDZ incentive.** Stakeholders in Johannesburg and Mangaung particularly credited the UDZ for being a decisive tool to help catalyse investment and revitalise certain areas of the city. In other cities, such as in Cape Town, the general view was that the UDZ was creating unnecessary lost revenue for the city as it was over-incentivising investment into some areas (i.e. those investments would have happened without the incentive). Several suggestions were made to improve the design of the incentive (see below).

- **In some instances, the UDZ can work against spatial transformation goals.** Increased development in business districts may raise property values and push lower income residents out. This contradicts one of the key pathways towards spatial transformation of bringing low-income residents and jobs closer together. For example, gentrification in Salt River and Lower Woodstock whereby long term, low-income residents were displaced by price rises following changes since the 2004 tax incentive programme was introduced, has been recorded (see for example Mathijsen, 2018; Carls, 2016).

- **Where the UDZ incentive does not go hand-in-hand with hands-on urban management and other initiatives to make the area attractive for investors, the UDZ tends to have little uptake.** The areas that saw the most uptake through the UDZ were also areas where city improvement districts had created enhanced security, ensured streets were clean, and services functional. In CCT, the Cape Town Central City Improvement District and Woodstock Improvement District were established in the early 2000s. These are also the areas where over 80% of the investments benefiting from the incentive were made (see figure 19 above).

Design related issues

- **According to city officials in both case study cities, a key problem with the UDZ is that the delineation of the zone is too static and can quickly become outdated, leading to poor targeting of the incentive and poor de facto alignment with inclusive economic growth and spatial targeting goals.** The UDZ delineation follows different criteria from those in the MSDFs and the boundaries were set before a lot of the MSDFs and the process for deciding on priority investment areas were laid down by the Cities. The UDZ boundaries are now difficult to change. As areas change from declining to developed or vice versa, the incentive does not keep up. It is neither tied to property prices nor to municipalities' more recent prioritisation of prime investment nodes through their MSDFs. For this reason, in some areas developers are "over-incentivised" as they would have located their development there anyway. Meanwhile other areas remain "under-incentivised"; they may be in decline and there is no incentive to turn this around.

Because of this, in Cape Town's Central Business District (CBD), the UDZ was seen as a "cherry on top" where the investor would have invested anyway as property prices were rising and investment risk was already low enough for investments to take place without the incentive. The incentive was no longer needed in this area yet it continued to be granted. Meanwhile, the UDZ incentive may not have been enough to sway investors in other priority areas.

According to assessments in other places, such as the City of Joburg, the UDZ incentive was seen as the deciding factor for investors and resulted in major successes in urban regeneration in some parts of Johannesburg's inner city (Garner, 2011). Based on stakeholder interviews with the City of Joburg, the UDZ is still considered to be a highly successful instrument to revitalise certain areas of the inner city.

- The delineation of the zone for the UDZ does not necessarily match the priority areas as per the MSDF. The criteria for demarcating UDZ zones generally followed different criteria from the criteria used by cities to demarcate spatial priority investment areas. While the UDZ zone demarcation was agreed with the cities, this was done prior to the introduction of MSDFs in which cities laid out the criteria for selecting priority investment areas and nodes.

- **Increasing flexibility of boundaries too much may create uncertainty among investors.** With regard to the point above that UDZ boundaries are too static and therefore can lead to poor targeting as areas develop or decline, introducing more flexibility needs to be done within limits. Frequently changing demarcated areas create uncertainty among investors. When planning an investment, a developer needs certainty that the development will still be in the zone once the project is approved. Especially in view of long approval processes, it is important that investors can have certainty when they plan the development that they will still be able to claim the incentive for the investment in a certain area.

- **The design of the UDZ incentive has not been effective to encourage development for low-income housing**. The UDZ incentive offers the greatest allowance to developers of low-cost residential units (in line with spatial transformation goals). However affordable housing has not seen much uptake in the cases examined. In CCT they constituted less than 1% of claims totalling R490,000 in investment from 2016-2020 and no claims in eThekwini during the same period. If they incentivised the development of low-income housing, this could work towards reaching goals of spatial transformation and also help to counter potential gentrification of low income residents as the urban centre moves from decaying to affluent (as occurred in some areas in Cape Town). However, the design of the UDZ is such that it generally does not constitute a benefit for low-cost housing development. According to developers interviewed, the business model for such development is generally to build and sell, so the developer does not carry the costs of property rates over various years. A discount on those property rates that the UDZ offers therefore does not benefit them.

- **The design does not differentiate discount rates between areas.** Some areas of a city may require a higher discount rate than others as they aim to compensate for a less favourable business environment. With one discount rate, investment in some certain areas may be over incentivised while investment in others may remain insufficiently incentivised.

Administration related issues

- **A long and uncertain application process deters uptake of the incentive.** Private sector stakeholders have noted that processing times are long and approvals are not predictable in advance. The uncertainty of continuation of the incentive has therefore also contributed to a drop in use, according to city officials (renewals have been questioned by National Treasury and, when granted, expire after a couple of years). The application is currently not linked to cities' management systems and requires manual processing - the development application is managed by the City's development management systems. Meanwhile, the income tax benefit is managed by SARS, and the confirmation that the development qualifies for the UDZ benefit is handled manually between the developer, the City and SARS.

Issues related to monitoring and evaluation

- **Uncertainty of scheme renewal is affecting the uptake of the incentive.** The uptake of the incentive is slowing with uncertainty around whether the National Treasury will extend the UDZ incentive and which areas will be included, with short time periods (e.g. 2 years) in which NT reviews and re-evaluates the incentive for potential elimination.
- **Cities do not generally collect or maintain information required for monitoring the impact of the incentive.** The UDZ is a national level incentive with foregone revenue accruing to the national government even though it is largely administered by the local government. Information on the firms benefiting from the UDZ incentive is not integrated into the cities' data and document management systems. According to National Treasury stakeholders, information on the types of businesses and activities benefiting from the incentive and jobs created is supposed to be available from the annual reporting that municipalities should provide to SARS and the National Treasury. However this has not been done adequately. The National Treasury recently engaged municipalities to try to bring this information up to date, but has not had a sufficient response as yet.

6.1.2 Special Economic Zone (SEZ) incentives

The SEZ programme was mandated by the SEZ Act of 2014. According to the DTIC, "SEZs are a tool to help (i) promote industrial agglomeration, (ii) build the required industrial infrastructure, (iii) promote coordinated planning among key government agencies and the private sector, and (iv) guide the deployment of other necessary development tools" (DTIC, 2020).

The Government's SEZ policy picks up on and aims to improve upon the previous Industrial Development Zone (IDZ) policy (see Box 3). As part of the new approach, it aims to identify nodes of strategic importance and complement SEZ incentives with infrastructure provision. In particular, the SEZ Act and the SEZ draft strategy aim to encourage the private sector to play an active role, envisaging public private partnerships in the development and operation of the SEZs (DTIC website, 2021).

Box 3. Failures of past IDZ programme

SEZs aim to improve upon the past industrial development zone (IDZ) programme. Government has spent over R25 billion on the programme since the inception of IDZs. The bulk of funding was through the DTIC, mainly towards infrastructure (top structures and bulk works).

Issues with IDZs:

- Poor coordination across spheres of government.
- Incentives not realised because SARS was not sufficiently consulted resulting in false promises to potential investors.
- Bias towards heavy capital-intensive industry with low labour content.
- Used to uplift underdeveloped regions far from economic heartland and dynamism of metros.
- SEZs not sufficiently embedded into the local economy (e.g. in ELIDZ monoculture automotive firms sourced their raw materials from outside SA creating limited linkages with the domestic market).
- Narrow focus on infrastructure.

SEZs aim to go beyond this by providing a full package of business support including incubation programmes, R&D support, market access support, and one-stop-shops.

Source: Bisseker, 2012

The SEZ Act No. 16 of 2014 determines SEZ policy and strategy, establishes an SEZ Advisory Board and an SEZ Fund. According to the SEZ website, the SEZ Fund is to provide multi-year funding for SEZ infrastructure and related operator performance improvement initiatives aimed at accelerating growth of manufacturing and internationally traded service operations, to be located within the designated zones.

It provides capital and, as a secondary focus, provides limited operator and investor project financial and advisory support for project feasibility and for work that will measurably improve the efficiency and effectiveness of SEZs to improve the competitiveness and sustainability of SEZs and their supply chains.

The industrial infrastructure is expected to leverage FDI and private investment and achieve:

- Increased exports of value added products
- Measurable improvement in levels of localisation and related value chains
- Increased beneficiation of mineral and agricultural resources
- Increased flow of foreign direct investment
- Increased job opportunities
- Creation of industrial hubs, clusters and value chains in underdeveloped areas.

The SEZ Act also establishes a one-stop-shop to deliver government services within the zone.

To complement the DTIC's SEZ strategy, the SEZ Act provides for the enactment of regulatory measures and incentives for SEZs in order to attract domestic investment as well as FDI. The table below provides an overview of the SEZ incentives in place.

Table 18. SEZ incentives overview

No.	Criterion	Description
1	**Overview**	SEZs incentives include the SEZ Fund for infrastructure and related operator performance improvement initiatives (financial incentive) and the following tax incentives: ● Preferential 15% corporate income tax (CIT) - instead of 28% ● Building allowance - accelerated depreciation allowance on capital structures (buildings) ● Employment Tax Incentive (ETI) - reduces the employer's cost of hiring young people by allowing the employer to reduce the amount of Pay-As-You-Earn (PAYE) they pay while leaving the wage received by the employee unaffected ● Customs Controlled Area (CCA): relief from Value-Added Tax.
2	**Purpose**	To promote trade, economic growth and industrialisation. ● SEZ Fund: reduce firm costs and offer enabling infrastructure environment ● Preferential CIT: reduce firm costs ● Building allowance: reduce firm costs ● Employment Tax Incentive (ETI): encourage youth employment by reducing the employer's cost of hiring young people ● Customs Controlled Area (CCA): ease doing business by reducing time and potential losses/uncertainty from VAT payment and rebate.
3	**Intended beneficiary**	Firms operating in the SEZ.
4	**Spatial targeting**	Yes: Designated special economic zone gazetted as such. These are sometimes not closely aligned with spatial priority areas designated at the city level. SEZ proposals usually come from the Provincial government, with provincial objectives superseding municipal plans. The location decision undergoes a process to ensure it is strategic. Cities are also involved, and DTIC finally approves.
	Policy focus	Aimed at enhancing infrastructure and industrial development, and increasing investment, and export of value-added commodities. Also includes a youth employment element in ETI.
5	**Validity period**	Sunset clauses in place.
6	**Sector**	Different SEZs target different sectors. For example, Saldanha SEZ targets ship repair value chain while Atlantis targets green tech firms.
7	**Type of interventions**	● Preferential corporate tax: direct tax incentive ● Building allowance: Indirect fiscal incentives ● ETI: indirect fiscal incentive ● CCA: direct tax incentive ● Bulk infrastructure and top structure subsidy.

8	**Role of local government (and/or other institutions)**	The DTIC is the custodian of the SEZ programme (part of its industrial development mandate). It is responsible for formulating and drafting the SEZ policy and strategies. Provincial governments are the applicants of individual SEZs and provide funding for SEZs' operations. The revised SEZ strategic framework (DTIC, 2019) provides for equal ownership of an SEZ by the different spheres of government, for example the Tshwane Automotive Special Economic Zones is equally owned by the Gauteng Department of Economic Development, Tshwane Metropolitan Municipality and the DTIC. The municipalities provide vital services necessary for the optimal operation of the SEZs (e.g. donation of land, utility services, waste services, and the construction, maintenance and upgrading of access roads to the SEZ). Utility services such as water and electricity are sometimes also granted at lower rates. These preferential rates are negotiated on a case-by-case basis and are not prescribed in the SEZ Act. Municipalities are also involved in the location decision of the SEZ.

Sources: DTIC website, 2021

Assessment

Policy alignment - inclusive economic growth: SEZs are places where the government invests in industrial infrastructure and services in order to attract and facilitate (foreign) investment, integrate local firms into global value chains, promote export-oriented growth and generate employment (Mdlalose, (2020; Akinci & Crittle, 2008). In line with inclusive economic growth goals, the SEZ incentives in South Africa (outlined in the table above) are designed to help attract investment into the SEZs to promote high value adding, high job-creating sectors, attract FDI and promote exports. They also aim to encourage jobs growth in the priority sectors. The employment tax incentive additionally reduces the employer's cost of hiring young people by allowing the employer to reduce the amount of Pay-As-You-Earn (PAYE) they pay while leaving the wage received by the employee unaffected. This aims to additionally encourage job creation, particularly among youths.

Policy alignment - spatial transformation: The location choices of SEZs, while seen as strategic for several reasons (see below), are not always ideally located from an urban development logic perspective. According to this logic, as places of concentrated economic activity, cultural diversity, learning, innovation and creativity, cities are the driving force for inclusive economic growth (Mdlalose, 2020; SACN, 2014; World Bank, 2010). Yet the SEZs tend to be located at distance from urban centres. The SEZ approach is aimed at reducing regional disparities, alongside other objectives such as increasing global competitiveness and creating sustainable employment and industrialisation. They are seen in South Africa as a way to close the gap between affluent metropolitan cities and secondary cities and townships.

SEZs were seen as a way to reduce regional disparities in economic activity and in income through the "industrial decentralisation through growth pole" theory (Barca et al, 2012; OECD, 2011).

The SEZs examined in the case study have been included as part of the municipalities' spatial priority areas. Both Dube Trade Port in eTH and Atlantis in CCT are part of the respective spatial priority areas into which the municipalities aim to draw investment through their city incentives.

Atlantis SEZ was designated a priority investment area by the city despite that it scored low on the city's index of priority nodes using ECAMP indicators for underperforming areas that also have high economic potential. Atlantis had been created during the apartheid era in the 1970s for evicted members of Cape Town's 'coloured' population far from the city centre. Considerable funds were spent on infrastructure to build industrial buildings and housing. Incentives were offered including a relocation tax credit, low-cost loans for land and building purchases, and reduced corporate taxes. At its peak, 119 manufacturing enterprises were set up. Yet when the incentives expired in the mid-1980's, factories moved out and unemployment rose along with crime and poverty (Grant, Carmody and Murphy, 2020).

With the new designation of Atlantis as Africa's first 'green tech zone' and its official launch as a SEZ in 2018 CCT and WCG hoped to create employment, enable smart green economic growth, and to revitalise the area and attract foreign direct investment and domestic investment (Deloitte, 2014).

It is to be noted that both SEZs are located considerably outside of the urban centre. Dube Trade Port is located 30km from Durban's centre. Atlantis is located 40km from Cape Town's centre.

South Africa's IDZ and SEZ history was traditionally associated with mineral sectors and exportation. More recent SEZs are based on diversification of industrial activity and therefore do not need to rely on locations with links to commodities chains and coastal ports, necessarily (Mdlalose, 2020[10]). The Atlantis SEZ is an example of an SEZ that is more future thinking and based on a place-based approach to development of an existing labour market, and linkages with a specific local market (the green industrial and energy markets), whereas Dube TradePort is similarly linked to warehousing and high-value freight-forwarding and logistics as a trade-hub connecting global markets to the African market.

Dube TradePort's location was considered strategic as it is adjacent to the King Shaka International Airport and also in the vicinity of the Durban Harbour, Africa's busiest cargo terminal (Dube TradePort, 2015).

Atlantis SEZ was considered locationally strategic as it was close to the markets of its tenants, which are suppliers to renewable energy independent power producers (i.e. close to the Port of Saldanha for imports of panels, blades and turbines and close to N7 and N1 highways to facilitate transport to solar and wind farms). It was also seen to have locational advantages for manufacturing activities sensitive to "urban" transport movements (e.g. large vehicles not readily mixed with city traffic) (Deloitte, 2014). In addition to this, revival of Atlantis aimed to provide jobs to members of low-income communities in the surrounding residential areas.

SEZs may contradict policies to support SMME growth where distortions are created for competing local suppliers who are unable to take advantage of the incentive. This issue is further elaborated in the key issues below. However, consciousness around this issue is starting to increase with SEZs looking to improve linkages with the domestic economy. Atlantis SEZ, for example, has introduced programmes for skills development and enterprise development among surrounding communities to be able to benefit from the SEZ. Where SEZs are far from urban centres and low-income residential areas, they potentially contradict spatial transformation goals as they could pull jobs and people apart and raise the cost of transport between these. In the case study SEZs, however, the SEZs were located near low-income areas and programmes were put in place, such as a jobs database for the community, skills and

[10]Mdlalose, M. 2020. Coastal Regional Development in South Africa through Special Economic Zones. In SACN Urban Economies Papers. Available online: https://www.sacities.net/wp-content/uploads/2020/03/Urban-Economies-Papers.pdf

community engagement programmes to enable existing nearby communities to service the SEZs (Atlantis SEZ, 2021).

While cost-benefit analyses yield positive outcomes in terms of the expected benefits to the economy versus its costs, these do not consider opportunity costs of how far the funds used for the SEZ could have gone through alternative activities. Considerable infrastructure investments were required at all levels of government and the investments do not allow for reaping benefits of existing infrastructure and economies of scale in service provision. It is possible that alternative investment into reviving existing industrial areas or urban centres recognising the economic potential of cities to drive economic growth may be more cost-effective (Farole and Sharp, 2020).

Uptake and additionality: According to a recent spending review by the National Treasury (2021), to date 11 SEZs have been designated and six further SEZs are proposed. The SEZ Act only came into operation in 2016, and the gazettes approving specific SEZs were only published in July 2018. Only 6 of the 11 SEZs have been approved for claiming the preferential tax treatment:

- Coega (Eastern Cape)
- Dube Tradeport (KwaZulu-Natal)
- East London (Eastern Cape)
- Maluti-A-Phofung (Free State)
- Richards Bay (KwaZulu-Natal)
- Saldanha Bay (Western Cape)

The delayed process of setting up the SEZs and obtaining approvals for claiming the tax incentives has created considerable frustrations according to stakeholders. As of yet, Atlantis SEZ, for example, has not been approved for claiming the SEZ tax incentives. For those that have been approved, there are also obstacles and unmet expectations. For example, there was lack of clarity around the incentives' sunset clauses which has further hindered their uptake and discouraged investors following positive expectations. When the SEZ tax regime was first introduced, the tax incentives were to be available for a period of up to 10 years and cease to apply after 2023. Because of the delay in SEZ provisions coming into effect, qualifying companies were no longer afforded the time period during which the incentives were intended to be available.

Data on Dube Port below shows that not all investors operating in SEZs, and for whom SEZ status has been approved, take up the available incentives:

Table 19. Investors operating in Dube Trade Port SEZ and which incentives they have taken up

Number of investors operating in the SEZ	Investors benefiting from CCA	Investors benefiting from preferential CIT	Investors benefiting from ETI
16	4	1 (further 5 currently not making profit but may benefit once they do)	5

Source: data provided by Invest Durban

Reasons for the low uptake are unclear. According to SEZ management, factors may include the government's communication of the incentives' offering and qualifying criteria as well as the business acumen of investors to set themselves up in a way that they will qualify.

The additionality of the incentive is difficult to isolate from other initiatives that have drawn investment into the SEZ. According to the leadership of Coega SEZ, what attracts firms to SEZs is often the accessibility to newer, better services of recently built infrastructure and the open space and security. By contrast, for example, Durban's inner city industrial areas are crowded, infrastructure and services are in decay, and property there may be difficult to protect from a security perspective.

It is also to be noted that different incentives work for different situations, depending on specific needs of the targeted sectors in the specific context. As shown in the example in Box 4 below, in some contexts the SEZ incentives can be decisive to draw the targeted investors.

Box 4. Saldanha Bay SEZ in Western Cape

Different incentives work for different situations, depending on specific needs of the targeted sectors in the specific context.

For example, based on stakeholder consultations with the leadership of Saldanha Bay SEZ, the Customs Controlled Area (CCA) is absolutely key (together with having a port within the SEZ and port infrastructure) given that its key industry is shipbuilding and repairs. This allows vessels to dock, be repaired and leave without this being dealt with as an import with VAT which, while it can be claimed back, comes with delays and currency risk that can leave workers at a loss. The CCA therefore significantly improves the ease of doing business. In other areas with other industry focus, this incentive may have less importance.

Source: Stakeholder consultations

Impact: According to a DTIC presentation in May 2021 (DTIC presentation, 2021), a total 129 investors were signed on to SEZ incentives, with another 96 in the pipeline. 15,392 direct jobs were created. According to SEZ management interviewed, despite that SEZs came into effect in 2016, it may still be soon to evaluate the success of the SEZ incentives; there has been a substantial time lag between gazetting of an SEZ, approval to apply the incentives, and companies being able to take up the incentive. Investment in SEZs may then also have been subdued due to the COVID-19 crisis since its onset at the beginning of 2020.

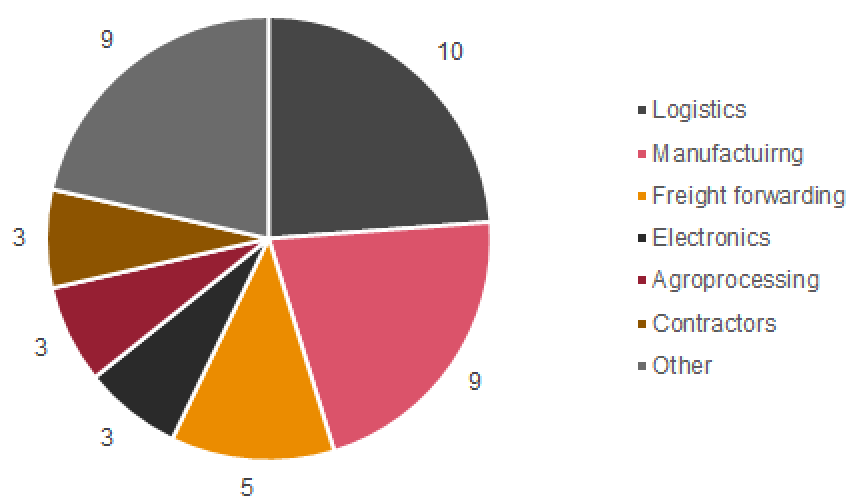
Based on Dube Trade Port's Progress Report for Quarter 4 of 2020/21, the Dube Trade Port SEZ in eTH, as at March 2021, had:

- Attracted 42 operational investments (Zone 1) worth approximately R2bn.
- Created 3870 jobs
- The pipeline investment value is R1.3bn with pharmaceutical and electronics investments expected in Zone 2; however, some of the investments in the pipeline were deferring their plans to locate at Dube Trade Port due to COVID-19 or struggling to conclude funding arrangements to progress their plans.

According to a study by the Brenthurst Foundation (2021), during interactions with industry stakeholders, Dube TradePort in KwaZuluNatal was frequently cited as an example of a successful SEZ due to having secured a favourable location adjacent to King Shaka International Airport; leveraging the province's comparative advantage of being a major logistics hub; and delivering on its promises with high-quality infrastructure and amenities for its tenants.

Of the 42 businesses attracted, 8% were foreign, 77% were local, and 15% were joint foreign and local. The breakdown of industries attracted is shown in the figure below. The majority of the industries attracted were in the logistics, manufacturing, freight forwarding sectors.

Figure 22. Operational investments in Dube Trade Port as at March 2020/21 by industry



Source: Dube Trade Port Progress Report Q4 of 2020/21

According to the eThekwini's IDP 2021/22, the trade port is expected to eventually provide 150,000 permanent jobs with a total rate contribution of R180 million annually. Though it does not specify a timeframe, it may be presumed that this to be achieved over a circa two decades time period. The overall investment value is R13 billion.

With regard to the impact of Atlantis SEZ, according to GreenCape (2019), the site is expected to create approximately 3100 jobs by 2030. 322 jobs had been created by 2019. According to InvestCapeTown (2021), as at November 2020, Atlantis SEZ had:

- R3.5 billion in investment lined up servicing
- 800 jobs.

It is to be noted that the benefits have come at considerable costs. These include upgrading of physical infrastructure improvements in electricity, water management, telecommunications and public transport systems. Funding has been made available for entrepreneurship support and worker skills development programmes by the different shareholders of the Atlantis SEZ, including CCT. The project has been the result of a tremendous effort across all spheres of government (see Box 5).

Box 5. Atlantis SEZ in CCT: Example of a successful collaborative effort across spheres

The success of Atlantis SEZ in attracting investment has been the result of particularly strong coordination and proactive efforts across the different institutions in the investment ecosystem across all spheres (Wesgro, DTIC, CCT, and GreenCape SPV), as well as high public sector investment.

The collaborative effort was recognised by a 2016 UNCTAD Investment Promotion Award. The award recognised the efforts of InvestSA, the national investment promotion agency of South Africa, and Wesgro, the investment promotion agency of the Western Cape for an effective partnership between each other and with other key stakeholders to provide focussed support in attracting investment projects in the green economy and sustainable development. These partnered and facilitated with a number of government departments, agencies, regulatory bodies, development finance institutions, banks, investors, industry associations and communities to facilitate investments in this sector. InvestSA and Wesgro were instrumental in providing support, coordinating across the levels of government and in nurturing partnerships in rolling out these investments.

Source: Grant, Carmody, Murphy (2020); Wesgro and stakeholder interviews.

Key issues: Based on the stakeholder consultations conducted for this project, the following issues and challenges were raised with regard to the SEZ incentives:

Policy related issues with the SEZ

- **Unfair competition vis-a-vis local firms**: According to the management of SEZs, unfair competition vis-a-vis local firms has been identified as an issue in some instances. For example, foreign cement manufacturers may access the SEZ incentive and are allowed to sell 20% to the domestic market (though they must export at least 80%). Meanwhile, local cement manufacturers may be unable to move out to the SEZ as this may not be financially viable for them. Now the foreign manufacturers may be competing in the local market at discounted cost, giving them an unfair advantage over the local manufacturer.

- **There is considerable opportunity cost associated with investment in SEZs.** Investment in new infrastructure is considerable when it is readily available in some dilapidated industrial areas elsewhere. Cost effectiveness may be questionable with SEZs requiring long distances to market, lack of supporting industries, skills, and lack of public transport. To be effective, as highlighted in Grant, Carmody and Murphy (2020), 'hard infrastructure' projects and production outcomes of a SEZ need to be complemented by 'soft' outcomes: networks, partnerships, capacity building, enterprise development programmes, skills and training programmes, etc.

- **Adding more SEZs may dilute the benefits/viability of existing ones**: SEZs require concentrating a lot of investments and initiatives to make them work. Further SEZs may end up competing with one another for investors as well as for the required government resources.

- **Municipalities tend to have little insight and input into SEZ operations and data as SEZs often operate in silos.** For example, stakeholders in eThekwini recounted that SEZ data on issues that affect the metro and its ability to respond to future needs in terms of municipal service provision, (such as on water demand, impact on tariffs, etc) are not shared or well integrated in the metros' modelling. While the revised SEZ strategic framework (DTIC, 2019) provides for equal ownership of an SEZ by the different spheres of government, operations of the SEZs such as data management are still at times conducted without sufficient integration or communication across spheres.

- According to DTIC staff interviewed, **in the current context of a constrained fiscus, it was difficult to motivate for a new incentive to come into force.** There was a need to pay more attention to non-financial incentives.

Design issues:

- **The location of SEZs is often far from urban centres, potentially drawing investment out of urban centres to the periphery.** In both of the case studies, the SEZs were located at considerable distances from the urban centres. Dube Trade Port for example, is 30km km from Durban's urban centre. Atlantis is located 40km outside of Cape Town's centre. While the locations were both considered strategic, the high investments made into these distant locations miss urban agglomeration benefits and opportunities for higher growth.

Administrative issues

- **There is substantial room for improvement with One-Stop-Shops.** This is currently deemed a misnomer as many stops are still required across the different spheres of government and different institutions. These function well as "concierge desk" services providing access to information about investment opportunities and investment facilitation, development facilitation and incentive information. There is also insufficient understanding of how cases for approval will be interpreted and decided on in other departments.

- **Smaller businesses in the value chain need more attention.** Small entrepreneurial businesses require support. Youths also require support from skills training, to learnership to apprenticeship: get them through the whole chain to offer skills effectively.

- **Stakeholders noted that SEZs often operate in silos SEZ plans and data are not integrated into Cities' modelling (such as on water demand, impact on tariffs etc.).** This makes it difficult for municipalities to be able to respond to future needs in terms of municipal service provision and integrate this into their planning.

- **Accessing approval for SEZ tax incentives has been a major challenge** with tax incentives still not approved for Atlantis SEZ. Especially where these have been promised and not approved for investors, this creates uncertainty and frustration among investors.

Monitoring and evaluation issues

- While we were able to obtain information on investments made and direct jobs created to date, we were unable to obtain information on total government spending on the SEZ and what had been spent by different spheres of government on infrastructure, services and other spending for the SEZ.

- According to city stakeholders, data on SEZ operations and incentives is not currently well integrated into cities' data management systems and modelling but operated and examined separately.

Box 6. International Lesson Learnt: SEZ

Bangladesh: Promoting inclusive growth in Bangladesh through special economic zones

To stimulate economic growth, employment and tackle regional disparities, Bangladesh undertook the task of developing close to a 100 SEZs. With the assistance of the World Bank Group, a regulatory and institutional framework enabling the formation of SEZs was drafted in the interest of expanding the States' industrial land.

Lessons learned on the analysis of Bangladesh's SEZ program are:

- Incentives in lagging regions need to be more attractive than elsewhere in order for investors to overcome any locational disadvantages
- Focusing on few targeted incentives in lagging regions rather than focusing on a wide range could help ensure that there are adequate incentives and focused policy attention; having too many sub-optimally sized SEZs cannot help in better exploiting agglomeration economies, especially when these are not located in established urban centres
- Appropriate, adequate and well-functioning infrastructure is critical for lagging regions, as well as their connectivity to major economic corridors is key to investment attraction
- Having appropriately skilled staff for SEZ in less developed regions is particularly important; implementing a skills development program to help support and equip staff is critical in enabling the economic viability of the SEZs in their respective regions. Bangladesh's 7YFP suggests that skills development would be useful to support lagging regions
- Whilst Bangladesh has room to mature in accessing quality data, successfully using SEZ policies to obtain regional development will require strong analytical policy work, enabled by sufficient and quality data
- Match and align Strategic plans (for example 5-year plans) with zone development work on the ground. In the interest of addressing regional disparities, Bangladesh's Seventh Five Year Plan (7FYP) strategy of 2016-2020 outlined the need to largely prioritise the development of the western region of Bangladesh which is relatively less developed than the east (Greater Dhaka and Chittagong). However, the progress of SEZ developments in the west did not precisely match the strategy stipulation.

Source: Razzaque et al., 2018 and The World Bank Group, 2021

6.1.3 Critical Infrastructure Programme (CIP)

Table 20. CIP incentive overview

No.	Criterion	Description

1	**Overview**	The CIP supports infrastructure that is deemed to be critical in that it enables the establishment or continuing 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 achieved score 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 if such investment would not take place without the said infrastructure or the said investment would not operate optimally.
2	**Purpose**	The programme aims 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. More broadly, this is an incentive aimed at enhancing infrastructure and industrial development, and increasing investment, and export of value-added commodities. The grant element is expected to have a knock-on effect of lowering the cost of doing business, thus improving competitiveness and allowing for more production, ultimately stimulating investment growth.
3	**Intended beneficiary**	Private companies in specific sectors: ● Agro-processing ● Fuel supply systems ● Bulk water supply ● Electrical systems or equipment ● Electricity transmission and distribution systems ● Industrial parks (IPs) ● Water storage facilities.
4	**Spatial criteria**	Yes. To be eligible, the company needs to meet a number of criteria. One of these criteria is spatial: the infrastructure project be located in an economically distressed area; that is, an area (town, community or other geographic area) that is designated as a distressed area by the Department, based on indicators of economic distress or dislocation, including but not limited to unemployment, poverty and job losses.
5	**Inclusive economic growth objectives**	Further eligibility criteria include: ● B-BBEE compliance requirements ● Priority sectors: Agro-processing or those identified in Industrial Policy Action Plan (priority growth sectors): minerals beneficiation, agriculture and construction; mining and other labour absorbing sectors (high job creation).
6	**Policy focus**	In line with the National Industrial Policy Framework and Industrial Policy Action Plan.
7	**Type of interventions**	Financial incentive (cost-sharing incentive).
8	**Implementing agency/role of LG**	DTIC incentive. Limited role for local government.

Assessment:

Policy alignment - inclusive economic growth: The incentive is aligned to the goal of achieving economic growth: it aims to spur growth by catalysing development in specific high value-adding, growth-enhancing and high job-creating sectors through a cost-sharing grant. The higher the project scores on the incenitve's Economic Benefit Criteria, the higher the possible grant proportion (10-30%). It aims to specifically target *inclusive* growth by targeting previously disadvantaged populations through its B-BBEE compliance requirement.

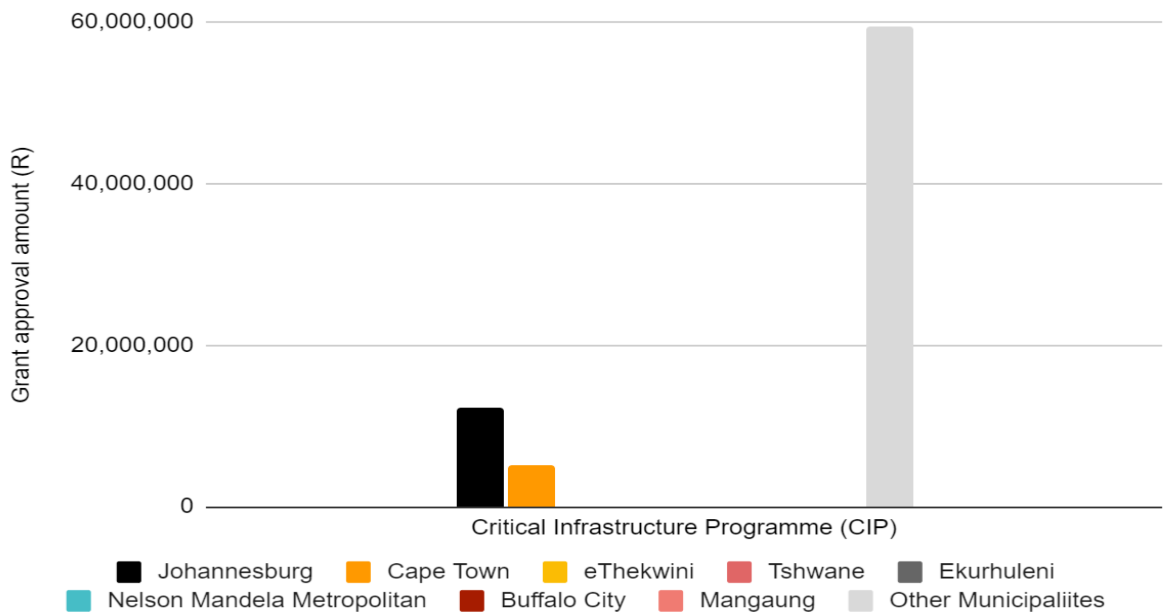
Policy alignment - spatial transformation:
This incentive has a spatial criterion as an eligibility requirement. However, this is not linked to the cities' spatial priority areas but follows its own criteria. To qualify for the incentive, the benefitting infrastructure project must be located in an economically distressed area; that is, an area (town, community or other geographic area) that is designated as a distressed area by DTIC, based on indicators of economic distress or dislocation, including but not limited to unemployment, poverty and job losses. According to a Parliamentary Group Discussion on incentives, there were provisions in place to make sure there is a consolidated strong business case for provinces to be able to access and identify those nodes which could be revitalised.

It is unclear how far the local government is involved in the decisions around the Critical Infrastructure Fund. The criterion does not currently link the incentive to municipal SDFs. Based on interviews for this study with municipalities' investment promotion officials, most were unaware of this incentive.

Foregone revenue: The grant spending from the national government for this incentive totalled R76.9 million to leverage investment in 2019/20.

Uptake and additionality: Six new infrastructure projects were supported in 2019/20, of which three were for black-owned companies. The spatial destination of the funds were mostly directed to two district municipalities in Mpumalanga (Ehlanzeni District Municipality and Nkangala District Municipality). 23% of the funds were used for infrastructure projects in Johannesburg and Cape Town in 2019/20. The largest project that received co -funding was for an oil and gas refinery in the CCT, with a projected investment of R4.9 billion.

Figure 23: Critical Infrastructure Programme Grant Approvals



Impact: According to the DTIC (2020) Annual Incentives Report, “the projects’ investment multiplier equates to a significant 133 times the grant approved, which demonstrates that, as in previous years, CIP projects hold high investment potential”.

The DTIC report further states that beneficiaries have also shared that they have supported local municipal services and improved telecommunication and internet connectivity as a result of the incentive.

Table 21. Outcomes of Critical Infrastructure Programme

Year	Projects approved	Jobs to be created	Construction jobs to be created	Im (Investment multiplier)	Projected investment	Approval amount
2017/18	7	2 396	4 966	102.5	R4 847 454 987	R47 284 876
2018/19	9	6 971	4 137	63.1	R7 383 831 423	R116 999 102
2019/20	6	2 675	5 969	132.5	R10 193 114 844	R76 908 414

Source: DTIC Annual Incentives Review, 2020.

Key Issues:

- **There is no provision to ensure that the spatial location of the infrastructure is aligned with the city's MSDF.** It may therefore miss the benefit of joint initiatives complementing each other in spatial areas.
- **There is little knowledge of the CIP among municipalities.** Most municipalities and private sector stakeholders interviewed for this study were not aware of this incentive. Greater awareness may increase the uptake for cities to use in priority investment areas.

6.2 National level incentives with no explicit spatial focus

In this section we examine further national level incentives that do not have a spatial focus but are geared towards inclusive economic development. While these currently do not have a spatial element, they are predominantly applied in cities. Cities are able to advertise these incentives for investment into their jurisdictions.

We examine incentives offered by the Department of Trade Industry and Competition (DTIC), the Industrial Development Corporation (IDC), and the Department of Small Business Development (DSBD). We show how far their goals and objectives are aligned with inclusive economic growth and where the incentives are applied spatially across the metros. We then discuss communication around the incentives by cities. We also discuss how far the incentives should in future have a spatial focus.

6.2.1 DTIC incentives

Policy alignment - inclusive economic growth: The most important incentives by value are Department of Trade, Industry and Competitiveness (DTIC) financial incentives. In line with economic growth goals, DTIC uses its industrial policy incentives to enable the following:

- Attract Foreign Direct Investments (FDI);
- Promote structural transformation, to enable an industrialised and globally competitive economy;
- Create an equitable, competitive and socially responsible environment;
- Create growth in the manufacturing sector to boost job creation, investment and exports (the DTI, 2018).

In selecting beneficiaries for the incentives, DTIC uses the eligibility criteria in the incentives to contribute to *inclusiveness* of economic growth through Broad-Based Black Economic Empowerment (B-BBEE) certification to target the financial incentives towards previously disadvantaged individuals.

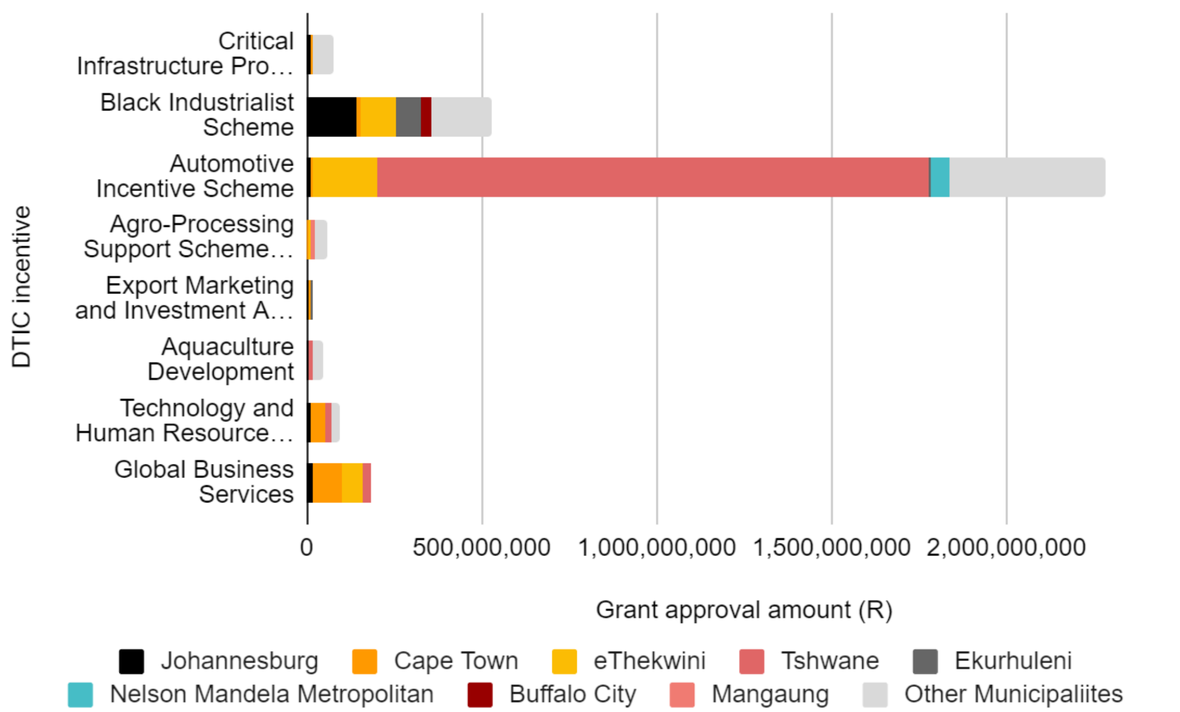
In addition to this, the B-BBEE programme as a regulatory incentive aims to support black owned businesses and integrate previously disadvantaged people in the workspace. Businesses are awarded points which they can claim on a B-BBEE certificate which entitles them to a greater chance of obtaining contracts (DTIC, 2014).

Policy alignment - spatial transformation: The incentives are generally offered nation-wide without regard to where the businesses or the investments made are located.

Uptake and additionality: According to the DTIC 2019/20 annual report, total expenditure by DTIC in that financial year on all of its incentives was R 5.3 billion. R3.2 billion of the expenditure was disbursed to beneficiaries in automotive, Black Industrialist, agro-processing and industrial loans for manufacturers under the manufacturing development incentives. A further R1.5 billion was financial support for bulk infrastructure, top structures and critical infrastructure to improve industrialisation, regional development, exports, employment and attract foreign and domestic direct investment in the SEZs, Industrial Parks and economic areas of various municipalities. The annual report does not report incentive costs by individual incentives.

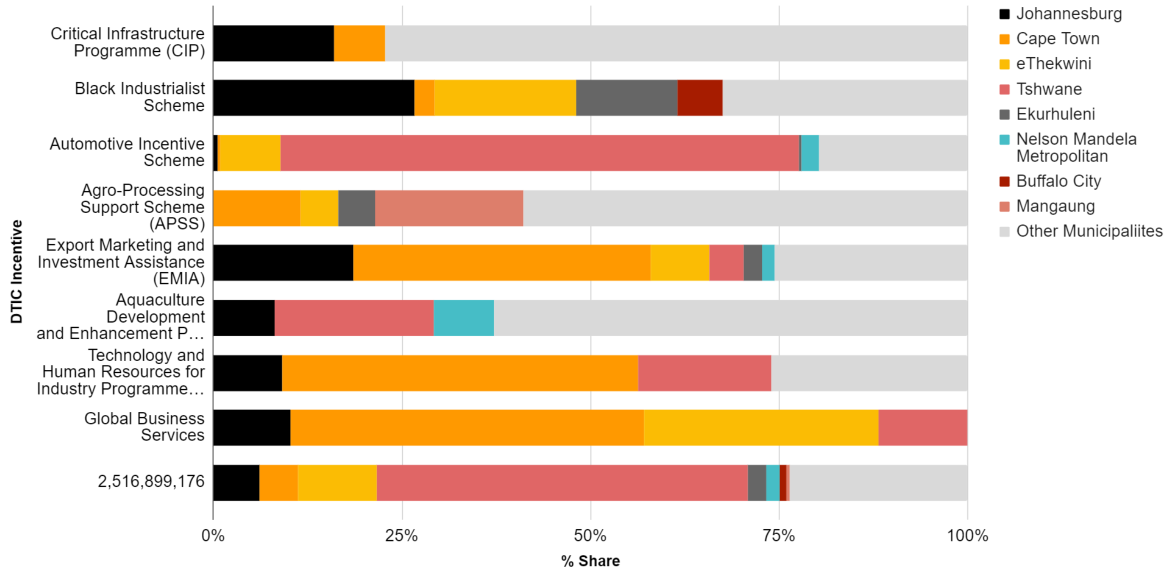
Spatially, as shown in the figure below, the majority of the investments took place in metros (76%), specifically Tshwane (49%), eThekwini (10%), and Johannesburg (6%). Furthermore, Johannesburg and the City of Cape Town apply the most diverse range of incentives compared to the other cities.

Figure 24. DTIC incentive by spatial destination of investment values



Source: DTIC Annual Incentives Report, 2020.

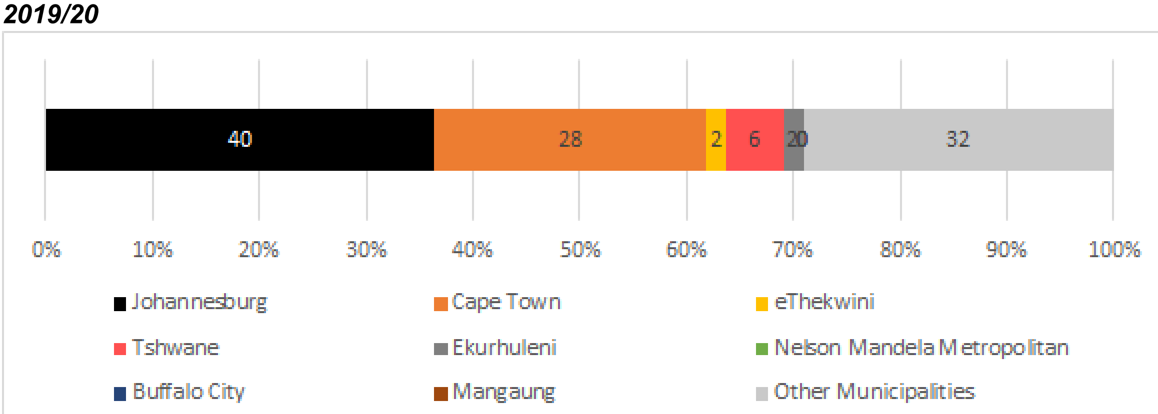
Figure 25. DTIC incentives by spatial destination of investment values, percentages



Source: PwC based on DTIC Annual Incentives Report, 2020.

We were unable to access data on where within the cities these investments took place and it does not appear that DTIC or the cities maintain this information. With regard to the foreign film incentives, while no data was presented on investment amounts in DTICS's annual investment report, we were able to obtain data on the number of approvals. Out of 110 projects approved for the incentive, over 60% were in Johannesburg and Cape Town and another 10% in other metros. Approximately 30% of projects went to municipalities outside of the metros.

Figure 26. Percentage of approvals for Film and Television Production Incentive by destination, 2019/20



Source: PwC based on DTIC annual incentives report, 2020

In addition to its objective of catalysing growth, DTIC aims to use its eligibility criteria in the incentives to contribute to *inclusiveness* of economic growth. A total of R4,8 billion of DTIC's incentives spending was approved to broad-based black economic empowerment (B-BBEE) compliant companies, of which R550 million was approved to support black industrialists. For all its incentives, compliance with the B-BBEE Codes of Good Practice is mandatory. However, for five schemes a particularly high minimum B-BBEE level is required:

- **Black Industrialists Scheme** (BIS): Level 4 and owned by black South Africans as defined in the B-BBEE Act 46 of 2013
- **Agro-Processing Support Scheme** (APSS): Level 4
- **Aquaculture Development Programme** (ADEP): Level 4
- **Critical Infrastructure Programme** (CIP): Level 4
- **Foreign Film and SA Film Incentives** holding company: Level 3 and the Special Purpose Vehicle Company (SPVC): Level 4. (The holding company and SPV for the Emerging Black Filmmakers Incentive can be Level 2).

Impact, M&E: DTIC issues an annual report on its incentives, with grant amount, project investment and total jobs created and retained for most of the incentives. For example film sector incentives, for example, only the number of projects approved was reported. The spatial location of the investment is reported down to the municipal level but not further to understand where within the municipality the investment took place. The table below summarises DTIC data on grants approved, projected investment and jobs created in CCT and eTH. As shown above, DTIC also monitors and reports on the B-BBEE status of the beneficiaries of the incentive.

The case study cities generally did not maintain, monitor or evaluate data on national level incentives, where these took place within their jurisdictions and the jobs created there.

Table 22. DTIC incentives

Scheme	CCT	eTH
Critical Infrastructure Programme	Grant approved: R5 245 500 Projected investment: R4 900 000 000 Projected direct jobs: 125 Projected construction jobs: 983	N/A
Agro-Processing Support Scheme (APSS)	Grant approval: R6 977 965 Projected investment: R29 889 825 Jobs to be retained: 0 Projected new jobs: 30	Grant approval: R2 987 924 Projected investment: R9 959 748 Jobs to be retained: 0 Projected new jobs: 6
Export Marketing and Investment Assistance (EMIA)	Approvals: 84 Approval Amount: R7 636 155	Approvals: 18 Approval Amount: R1 502 664
Film and Television Production Incentive Scheme	Approvals: 28 Black FTE jobs: 1 448 Female FTE jobs: 916 Youth FTE jobs: 625 Disability FTE jobs: 1	Approvals: 2 Black FTE jobs: 23 Female FTE jobs: 18 Youth FTE jobs: 3 Disability FTE jobs: 0

Technology and Human Resources for Industry Programme (THRIP)	Approval: R43 535 594 Projected investment: R63 287 588	N/A
Global Business Services Incentive (GBS)	Approvals: 4 Grant amount: R84 657 500 Projected Investment: R2 333 297 254 Total jobs projected: 4265	Approvals: 4 Grant amount: R56 243 750 Projected Investment: R4 498 494 003 Total jobs projected: 7296
Black Industrialists Scheme (BIS)	Approval: R14 625 000 Investment: R32 500 000 Jobs to be created: 41 Jobs to be retained: 204	Approval: R99 535 490 Investment: R206 161 023 Jobs to be created: 159 Jobs to be retained: 292

Source:DTIC, 2020

6.2.2 IDC and DSBD incentives

Policy alignment - inclusive economic growth: The Industrial Development Corporation (IDC) and Department for Small Business Development (DBSD) also provide incentives that aim to boost economic growth. These tend to be smaller grant programmes targeted at entrepreneurs and small businesses (IDC, 2020). In line with inclusive economic growth goals, these incentives aim to address access to finance barriers to entry for SMMEs in order to contribute to diversified ownership in the economy, increased productivity and job creation.

The IDC funds entrepreneurs starting new enterprises or supporting companies that want to extend existing operations. For instance, the IDC provides the GRO-E Youth Scheme. The GRO-E Youth is a loan programme specifically targeted at boosting youth-owned businesses with the intention of increasing job creation. Start-up business and existing business wishing to expand both qualify for the funding. They also need to fall within the following sectors:

- Agro-processing and agriculture value chain
- Chemicals and pharmaceuticals value chain
- Industrial infrastructure
- Clothing, Textiles, Leather and Footwear
- Tourism, Media and ICT
- Other Manufacturing and related industries.

Another IDC funded incentive is the Manufacturing Competitiveness Enhancement Programme (MCEP). This incentive is specifically targeted towards Black industrialists and is geared towards assisting manufacturing companies to access affordable working capital and plant and equipment facilities.

Meanwhile, the DSBD offers schemes that are open to SMMEs and entrepreneurs and it aims to drive “the promotion and development of entrepreneurship, small businesses and co-operatives, and ensure an enabling legislative and policy environment to support their growth and sustainability” (DSBD, 2021).

These include, for example, the Black Business Supplier Development Programme (BBSDP) and the Co-operative Incentive Scheme (CIS). BBSDP is a grant incentive that assists black-owned small enterprises to improve their competitiveness and sustainability, and to ultimately improve job creation. CIS on the other hand, targets primary co-operative enterprises to assist them in improving their viability and competitiveness.

Policy alignment - spatial transformation: the IDC incentives do not include spatial criteria.

Uptake and additionality: Little information was found on these relatively smaller grant programmes over the course of the study. For the DSBD incentives, data on final appropriations and actual transfers for 2019/20 are shown in Table 20 below. For IDC, the value of funding dispersed is shown in Table 21.

Table 23. Transfers/Subsidies to Private Enterprises for DSBD Incentive Schemes

	Expenditure	
	2019/20 Actual Transfers (R'000)	2019/20 Final Appropriation (R'000)
Cooperative Incentives Scheme	31 124	87 984
Black Business Supplier Development Programme	27 573	126 126
Craft Customised Sector	-	4 700
National Informal Business Upliftment Scheme (NIBUS)	1 258	58 914
Informal Micro-Enterprise Development Programme (IMEDP) and the Shared Economic Infrastructure Facility (SEIF)	-	-
Total	**59,955**	**277,724**

Source: DSBD Annual Report 2020/2021

**Note: There was limited data on the Informal Micro-Enterprise Development Programme (IMEDP) and the Shared Economic Infrastructure Facility (SEIF) Scheme*

Table 24. Selected Performance Indicators for IDC

Indicators (Development impact)	FY 2020/21		FY 2019/20	FY 2018/19
	Target	Actual	Actual	Actual
Value of IDC own funding disbursed (R'bn)	8.4	6.3	12.1	11.4

Value of funding disbursed from managed programmes, third party funds and guarantees issued (R'bn)	1.1	1.1	N/A	N/A
Aggregate support for Covid-19 for emergency support and distressed funds	3.0	1.4	N/A	N/A
Funding to targeted groups (Black Industrialists, women-entrepreneurs and youth-entrepreneurs) (R'bn)	1.8	1.6	N/A	N/A
Funding to Black Industrialists (R'bn)	1.5	1.4	2.7	4.7
Expected direct jobs created and saved (number)	8 500	13 354	10 205	17 887

Source: IDC integrated report 2021

Impact and M&E: Little information was found on the impact of the DSBD incentives. While DTIC issues an annual incentives report with impact data, we were unable to find an equivalent for DSBD incentives. The IDC does report funding to targeted groups in line with inclusive economic growth (e.g. black industrialists and women-entrepreneurs) as well as direct job numbers created or sustained, as shown in table 21 above. The IDC estimates that in 2019/20 its funding created or sustained 13,354 jobs.

Cities do not maintain information on where the firms benefiting from these incentives are located spatially and what the impact of the incentives has been within their jurisdictions.

6.2.3 Assessment of a potential spatial focus

The incentives described above have no spatially focused specifications. However, they could work to support spatial transformation if applied strategically. The incentives described above are tools to enhance inclusive economic growth and if applied in a more spatially aware manner, they could be effective tools for spatial transformation. This could potentially be done by greater increased packaging of national incentives at the city level and increased coordination around their approvals or by introducing spatial requirements for national level incentives. The merits of these different options are discussed in stakeholder interviews.

Stakeholders were asked whether these national level incentives should include a spatial focus in order to become more spatially aware. DTIC stakeholders interviewed made the point that there are few incentives available to attract businesses, especially foreign investors. It was mentioned that there is little by way of incentives available to offer foreign investors since Section 12I of the Income Tax Act expired and since B-BBEE are often more difficult for new foreign entrants to comply with. There are concerns that without being able to offer incentives as a developing country, South Africa may not be able to compete with other developing economies. In their view, incentives that can be used to attract investors, especially foreign investors, should not see any spatial restrictions; it is important to get the investments into South Africa first no matter where in the country the investor chooses to locate, rather than losing investment opportunities to competing countries.

DTIC staff also noted that as incentives are made more targeted over time, they tend to be associated with an increased compliance burden. For example, additional eligibility requirements generally require firms to demonstrate additional evidence and certificates and they require the government officials to monitor, report on, and seek approvals for additional criteria. Adding spatial eligibility criteria would require additional processes and approvals from the municipal level for a national level incentive.

This appears a crucial point as various private sector stakeholders noted that delays and uncertainty in the process of applying for and claiming DTIC incentives was an issue. They noted that while policy rhetoric may encourage growth and investment, the experience on the ground often differed. While some had positive experiences of well-coordinated investor services, investors elsewhere experienced severe delays in approvals (at all spheres of government), onerous regulations, and perceived lack of interest in or attention to investor concerns by public officials.

According to academics consulted, this is a consequence of the wider public sector system. Based on this view, the current punitive compliance-focused culture is such that appraisal of public officials is too heavily focused on preventing even immaterial deviations from set processes, making it difficult for public officials to address situations as soon as there are slight deviations or new situations. When a decision is unclear, this system leads public officials to rather delay decisions and keep investors waiting than to make a decision that deviates from the set playbook.

Another option to make national level incentives more “spatially aware”, is for cities to take a more proactive approach in advertising national level incentives to be applied in their spatial priority areas. They can seek out investors that they are trying to target and, through a combination of investor support services, national level services, and municipal services and incentives, the incentive can be applied more strategically.

Based on stakeholder interviews conducted as part of this study, the metros communicate national level incentives to investors to varying degrees. There are cases where metros have taken a highly proactive approach in reaching out to desired potential investors, advertising and facilitating the uptake of the available incentives. In other cases, there is little knowledge or communication. For example, few metro level investment promotion officials were aware of the range of national level incentives available, especially the DSBD and IDC incentives. In other cases still, there have been instances of wrong communication about national level incentives. Business representatives interviewed recounted that investors have expressed frustration with being assured access to a national level incentive by municipal officials only to find later that they do not qualify.

Private sector stakeholders noted that businesses require assistance in the processes of identifying and claiming incentives. While it was noted that the DTIC website is transparent and makes the rules accessible on its website, navigation through and interpretation of those rules is not always clear. In addition, other institutions provide other incentives not listed on DTIC’s websites.

Poor experiences around support from the government around these processes were recounted, including an unfriendly service culture and lack of responsiveness to potential investors. It was noted that attempts to apply for incentives through specialised outsourced service providers have been met with resistance by government officials.

SMMEs face particular difficulties in navigating the application process incentives (national level and city level) especially as incentives they are eligible for are administered across various institutions. SMMEs are generally eligible for DTIC incentives but also for incentives provided by DBSA and IDC, each of which advertise on separate websites. Compliance and reporting requirements are relatively higher for smaller firms, taking up proportionately more time away from business management time, compared to large firms who may have specialised staff or business associations that assist with incentive applications and claims.

There is a strong perception among private sector stakeholders that the government is not aligned as different incentives work towards different goals and departmental priorities in silos. Incentives and opportunities across spheres are rarely packaged together. Better prioritisation, cooperation, and more consistency in communication to the private sector could create more certainty and opportunities for mutual benefits.

Instances in which there was strong coordination between spheres of government and strong coordination with private sector clusters were very successful. This has therefore been identified as a critical success factor. An example of this in our case studies is around the Global Business Services (GBS) incentives (see Box 7 below). According to DTIC staff, the level of cooperation and proactive involvement from cities around national level incentives is currently the exception rather than the norm.

Another key success factor identified is strong engagement with the private sector to ensure that government initiatives respond effectively to obstacles of the firms sought and, if incentives are identified as being able to help, that these are the correct incentives with the appropriate design.

According to business representatives that work with cluster networks,[11] engagement by government at all spheres currently often stops at the sector level without engaging the entire cluster or firms further up and down in the value chain from the type of firms that the government is trying to support. This means that obstacles are not holistically identified, meaning that efforts fail or opportunities are missed, particularly to successfully form backward and forward linkages with SMMEs. It is critical that the government, in its strategy to attract firms from a sector and in the design of incentives, ensures that it engages not only the sector but also engages further firms and role players in the value change of the targeted firms. Taking a cluster approach and tapping cluster networks may be more effective than engaging the targeted sector alone.

Box 7. Example of an incentive with successful outcomes: Global Business Processes (GBP incentive)

Global Business Services (GBS) incentives were deemed successful in bringing the business processes and outsourcing sector to South Africa and creating almost 60,000 jobs since its inception around 2007 until now. It has also proven to be effective for youth employment in lower income areas (in 2020 a requirement to hire a high percentage of youths was introduced) and getting unemployed

[11] Clusters are geographic concentrations of interconnected companies and institutions in a particular field. They encompass an array of linked industries such as suppliers of specialised inputs such as components, machinery, and services, and providers of specialised infrastructure and other entities including universities and public sector (Porter, 1998).

youths into the job market, thus working towards inclusive economic growth. In Cape Town, they have also been a major engine of growth and employment during the COVID-19 pandemic while other sectors have declined.

Financial stimulus was required for firms starting up in South Africa in the new sector to be cost competitive, particularly given South Africa's high telecommunications costs. An incentive was needed to bring down costs. The incentive has effectively brought South Africa on par with competitors in India and the Philippines. In most cases, the firms have required the assistance only in the startup phase and have tended to stay beyond the expiration of the incentive.

The incentive has been deemed particularly successful in Cape Town because the city government proactively supported the growth of the sector through complementary means. These included meeting the investors, understanding their requirements, and ensuring that transport networks and broadband/fibre were in place. SPVs also played a key role in this process.

6.3 Issues raised

This subsection covers issues raised by stakeholders with regard to the national level incentives. They have been separated by topic into policy, design, and administration related issues.

Policy related issues:

- **National level incentives work better with proactive support from cities and complementary initiatives.** For example, as described in Box 7 above, CCT has been highly proactive to support the business process and outsourcing sector and has assisted with matching grants and skills development. According to DTIC staff, where the city "rolls out the red carpet" for investors and, for example, ensures the required infrastructure is there and assists with fibre and broadband, the national level incentive is far more likely to succeed. They also noted that this proactive stance was far from the norm and has only been noted in a few cases.
- **Investment attraction initiatives that target only a sector without attention to obstacles and potential solutions of the full cluster tend to be less effective**. Where bottlenecks to other firms in the cluster of the targeted sector are not addressed, incentives are more likely to fail to achieve their purpose. It also misses opportunities for backward and forward linkages to local SMMEs.
- **There is little by way of incentives available to offer foreign investors** since Section 12I of the Income Tax Act was removed and since B-BBEE are often more difficult for new foreign entrants to comply with. There are concerns that without being able to offer incentives as a developing country, South Africa may not be able to compete with other developing economies.

Further design related issues raised included the following:

- **A balance needs to be struck between effective targeting on one hand and, on the other hand, providing certainty and not making the incentive overly arduous/burdensome to comply with.** As incentives aim to be increasingly targeted, the documentary and reporting requirements may become more burdensome for businesses. Moving the goalposts as new requirements come in retrospectively disrupts firms' planning and creates uncertainty.

- **Different types of incentive design works better for different contexts.** For example, what is now the GBS incentive was originally designed as a capex incentive. However, while capex incentives work well for manufacturing businesses bringing in machinery, this is not the case for business services, whose operational expenditures such as telecommunications and electricity represent a significantly higher proportion of their costs. The incentive was subsequently reformed accordingly.

Administration related issues raised:

- **Delays in obtaining approvals have been a major issue with DTIC incentives.** According to stakeholders, these create costs that often negate the benefits of the incentive. In addition, uncertainty among investors increases risk and deters investment.
- **Disconnect between policy priorities and action** (operationalisation of those policies): While policy rhetoric may encourage growth and investment, the experience on the ground differed for some investors interviewed. While some had positive experiences of well coordinated investor services, investors elsewhere experienced severe delays in approvals (at all spheres of government), onerous compliance regulations, and perceived lack of interest in or attention to investor concerns by public officials.
- **Investors require assistance with arduous processes yet struggle to receive support.** It is difficult for firms to navigate the incentives and regulatory requirements associated with them. While the DTIC website is transparent and makes the rules accessible on its website, navigation through and interpretation of those rules is not always clear. In addition, other institutions provide other incentives listed on other websites. Support from the government around these processes is deemed insufficient.
- **SMMEs face particular difficulties in navigating the application process incentives** (national level and city level) especially as incentives they are eligible for are administered across various institutions. SMMEs are generally eligible for DTIC incentives but also for incentives provided by DBSA and IDC, each of which advertise on separate websites. Compliance and reporting requirements are relatively higher for smaller firms, taking up proportionately more time away from business management time, compared to large firms who may have specialised staff or business associations that assist with incentive applications and claims.

7. Conclusion

7.1 Assessment of incentives' use towards spatial goals

Based on the analysis, some metros are actively using incentives to help bring investment into catalytic areas in an aim to further spatial transformation and inclusive economic growth. This includes using their own metro level incentives as well as packaging, advertising, and coordinating around national level incentives. However, the extent to which this is done varies widely across the metros and there are several potential tools that are not yet (widely) used.

7.1.1 Use of city level incentives for spatial transformation goals

Different metros have made use of different incentives from a range of fiscal or other financial incentives, regulatory incentives and business support incentives available to them to further inclusive economic growth and some of these have added spatial elements to direct this into specific areas within the metro.

Fiscal and financial incentives

With regard to their own city level fiscal incentives, metros offer discounts or waivers to the taxes and fees owed to them by businesses in their jurisdiction, such as property taxes or service charges, land and building plan applications, and development contributions. Both of the case study metros examined have included spatial criteria to promote development into specific areas though they apply these differently:

- In Cape Town, the development needs to be in the specified priority investment area in order to qualify for different fiscal incentives (an exception is made for high growth-enhancing tertiary industries).
- In eThekwini, the formula for its incentive (property rates incentive) is such that the developer receives more of an incentive if the development is located in a spatial priority area.

Of the city level incentives applied, property rates and discounted electricity tariffs are deemed to have the potential to make a significant difference to investors' bottom line and investment decision. However, they do not benefit all developers equally. For example, the characteristics of this incentive benefit investors that hold on to the property more than those who build and sell or pass off utility and property rates to tenants. For the latter, incentives such as land use application fee waivers were deemed to be more attractive as they provide an upfront relief. The electricity tariff incentive was particularly effective in attracting firms with high energy usage, such as business process outsourcing and IT firms. The city level incentives all provide relief more immediately than, for example, the UDZ incentive which benefits firms only after the investment becomes profitable, typically several years down the line when they move from loss-making to profit-making and, again, if their business model involves them holding on to the property over those years.

Property rates and electricity tariffs, however, are also important own-source revenue sources for cities' already constrained budgets. According to metropolitan municipalities' budget data, electricity tariffs made up approximately 35% and property rates made up approximately 20% of metros' income in 2020.

Moreover, there is risk of “a race to the bottom” if cities compete against each other by undercutting each others’ lower rates, leading to a decline in revenue for all. This may bring about a trade-off between attracting investment but also being financially sustainable. The gains of an incentive must therefore be compared against the opportunity cost of local government expenditures.

There has been a debate around the introduction of a local business tax in South Africa. This would allow local governments to steer policy through incentives on such a tax but also faces the issues mentioned above of potentially leading to a “race to the bottom” in view of competition with other cities and the trade-off between attracting investment and being financially sustainable. This has been overcome in other countries by mandating bands, i.e. mandating a minimum tax rate (often in addition to a maximum tax rate) (see Ahmad, Brosio, Jimenez, 2019). In theory, a local business tax may have the advantage of adding impetus to local governments to see businesses in their jurisdictions grow over time and helping them to do so.

Analysis of the economic impact of the incentives in Cape Town demonstrated that the economic benefits of the investments being incentivised greatly outnumbered the foregone revenue for the city. However, it cannot be assumed that the incentive was causal to investments in all cases.

With regard to financial incentives, there is a more heterogeneous application across the municipalities. Ekurhuleni offers a Community Enterprise Development Fund to support the development of community enterprises in the form of individual entrepreneurs, small, micro and medium enterprises, cooperatives, informal traders and formal businesses for township economy, industrialisation, business services, environmental services, and human development initiatives. Buffalo City supports SMMEs with in kind support, such as paying for equipment they require to start their business. Mangaung offers subsidised land disposal: the City may sell land at below market price/valuation benchmark. Its brochure of investment opportunities also states that a capital grant may be considered to supplement business or industry investments made in prime nodes or corridors i.e. the CBD, N8 Corridor and Mangaung Activity Corridor (Mangaung, 2012).

Another form of financial incentive for municipalities to incentivise or direct private sector investments is to co-invest. This can be through setting up special purpose vehicles to develop projects that individually might not be viable by only the public or private sector; or, for example, through tenanting agreements - relocating public sector offices to areas in need of development, and thereby guaranteeing a market to a developer who’s investment requires de-risking. Examples of this from eThekwini include Bridge City and Midway Crossing.

Regulatory incentives and technical and business support incentives

Few metros currently make use of regulatory incentives to spur spatial transformation and inclusive economic growth. Only one metro (City of Johannesburg) has an inclusionary housing policy in place that offers regulatory incentives and it was implemented only recently.

Metros do make considerable use of technical and business support incentives and other investor services which their incentive policies group under the headings such as “other incentives”, “non-monetary incentives”, or “soft incentives”. This includes investor relationship management, making market studies or economic information available to investors, fast-tracking applications through a single point of contact, and investor aftercare services.

Based on interviews with investment promotion staff in several metros, these support services are very important and highly welcomed and can, in some circumstances, be more important than financial incentives. In particular, connecting and orienting investors is appreciated and making the process as smooth as possible. This can also have a strong signalling effect to investors that the city is open for business and willing to support rather than obstruct investors.

Developers interviewed highlighted that reliable timing of approvals are more important than financial incentives. With developers carrying a lot of risk in their projects, timing is important and unexpected delays are typically associated with high costs and project cancellations. Fast-tracking, but especially providing certainty on the timing of approvals, even if they take long, are likely to help encourage investment.

For several businesses, electricity outages or water supply shortages are also far costlier than what a financial incentive is likely to be able to compensate. One proposal from one of the metros was to introduce areas of improved services. Much like SEZs aim to ensure well running infrastructure and services in a specific area, cities could ring-fence spatial priority areas and provide reliable access to power, water, sewerage and other services as a form of “incentive”, at least in the interim economic recovery period until the general quality of services is is able to improve on a general level. As the government has raised the threshold for unlicensed distributed power generation to 100MW, this may offer an opportunity for independent power producers to supply these "areas of improved services". CCT has offered load curtailments as an incentive, i.e. 24 hour guaranteed uninterrupted access to electricity during power cuts (load shedding). This incentive was a decisive factor for a large manufacturing investor to locate in CCT rather than in alternative destinations.

7.1.2 Use of national level incentives with spatial elements

In addition to city level incentives, three national level incentives aim to catalyse private sector development in specific spaces: the Urban Development Zone (UDZ) incentive, Special Economic Zone (SEZ) incentives and the Critical Infrastructure Programme (CIP).

Both the uptake and perceived effectiveness of the UDZ incentive has been mixed. In the case study cities, the uptake of the UDZ incentive is far higher compared to the city level incentives (i.e. more firms benefited from the UDZ than on average per year from 2015-2020, as shown in the comparative table below.

In Johannesburg and Mangaung metros, the UDZ incentive is deemed to have been highly successful in developing and revitalising some parts of the inner city. In other metros, such as Buffalo City, however, the UDZ was discontinued following ten years of little uptake. The incentive was not sufficient to sway investment decisions in most areas. In the City of Cape Town, by contrast, some parts of the city that rapidly developed became “over-incentivised” with investors making use of the incentive that would have invested anyway. While an incentive was no longer needed in some areas but still needed in others, it wasn’t possible to easily change the demarcation of the UDZ. A proposal by Buffalo City suggests a differentiated property incentive by area so that areas that require more of an incentive to sway investor decisions will obtain a larger benefit.

In some parts of CCT, the UDZ was also deemed to have contributed to pushing original lower income residents out of parts of the city through rapidly rising property prices, thereby contradicting spatial transformation goals. The importance of incentivising low-income housing alongside development was emphasised as a way to alleviate such affects and ensure mixed income households. However, the UDZ was not deemed effective in incentivising low-income housing, despite the erection, extension or improvement of or addition to low-cost housing features among the categories eligible for the incentive. The uptake for low-income housing has been poor (only 0.01% of the investment value) In eThekwini, there were no cases of the incentive being used for low income housing.

Table 25. Comparative table of incentives

Incentive	Metro	Sphere	No. of firms benefiting (annual average)	Investment value per year	Foregone revenue per year
Discounted property rate eTH	eTH	Local	3	R307 million	R6 million
Building plan incentive	CCT	Local	5	R99 million	R861,000
Development contribution waiver	CCT	Local	0.5	R10.6 million	R43,498
Land use application incentive	CCT	Local	3	57 million	R4,867
Discounted electricity tariff	CCT	Local	1	2,822 million	R17 million
UDZ incentive	eTH	National (administratio n local)	8	R117 million	Data not held at city level
UDZ incentive	CCT	National (administratio n local)	190	R670 million	Data not held at city level

Note: Values are annual averages over the period 2015-2020
Sources: eThekwiniand CCT data

7.1.3 Use of other non-spatial national level incentives for city spatial transformation goals

There are various further national incentives available that do not have spatially focused specifications. However, they could work to support spatial transformation if applied strategically. They are tools to enhance inclusive economic growth and if applied in a more spatially aware manner, they could be effective tools for spatial transformation.

Stakeholders were asked whether these national level incentives should include a spatial focus in order to become more spatially aware. In the view of DTIC stakeholders, the answer was generally no; particularly with regard to incentives that determine location decisions and in view of international competition, it was important to secure the investments into South Africa first no matter where in the country the investor chose to locate. Additionally, adding spatial eligibility criteria would add additional processes and approvals from an additional sphere of government, potentially making already slow claims processes additionally onerous.

However, cities can take a more proactive approach in advertising national level incentives to be applied in their spatial priority areas. They can seek out investors that they are trying to target and, through a combination of investor support services, national level services, and municipal services and incentives, the incentive can be applied more strategically.

Based on stakeholder interviews conducted as part of this study, the metros communicate national level incentives to investors to varying degrees. There are cases where metros have taken a highly proactive approach in reaching out to desired potential investors, advertising and facilitating the uptake of the available incentives. In other cases, there is little knowledge or communication. For example, few metro level investment promotion officials were aware of the range of national level incentives available, especially the DSBD and IDC incentives. In other cases still, there have been instances of wrong communication about national level incentives. Business representatives interviewed recounted that investors have expressed frustration with being assured access to a national level incentive by municipal officials only to find later that they do not qualify. Instances in which there was strong coordination between spheres of government and strong coordination with private sector clusters were very successful.

7.2 Summary of key issues

7.2.1 Policy fragmentation/mismatch

A key issue raised by both public and private sector stakeholders was that government policies appear fragmented, uncoordinated and without a clear direction. Different government departments and spheres are perceived to work in silos following different policy goals (with incentives supporting these) without coordinating. It is unclear to private sector stakeholders that there is a prioritised vision and plan for economic recovery.

There are instances where different policies followed by different agencies appear to be contradictory and do not follow a clear prioritisation. For example, the SEZ incentives aim to draw investment into areas that are often located at a considerable distance to the urban centres. This contradicts urban regeneration policies and the use of incentives to support this, such as the UDZ incentive, as it draws economic activity away from urban centres. This dilutes the concentration of economic activity and takes away from the important role that cities can play in driving national competitiveness and economic growth with their higher growth rates, higher job creation rates and dynamism that drives entrepreneurship, innovation, and enhanced productivity (Farole and Sharp, 2017; World Bank, 2015; Glaesar and Kerr, 2009). The SEZ incentives may therefore draw firms and funding out of urban centres, where they could have had higher rates of return on investment and where they could have benefitted from agglomeration economies. As another example, there are contradictions between cities' incentives and goals of revenue enhancement for service delivery, cross-subsidisation of under-served communities and land-value capture models (SACN SOCR, 2016).

There are also instances where some departments' policies have negative impacts on the economy and on investment. For example, while Cities and DTIC are making efforts to attract skills, business interaction and investors from abroad, the Department of Home Affairs has had policies in place that prevent or obstruct this, such as through stringent and arduous visa requirements.

National level incentives work better with proactive support from cities and complementary initiatives. For example, CCT has been highly proactive to support the business process and outsourcing sector and has assisted with matching grants and skills development. According to DTIC staff, where the city "rolls out the red carpet" for investors and, for example, ensures the required infrastructure is there and assists with fibre and broadband, the national level incentive is far more likely to succeed. They also noted that this proactive stance was far from the norm and has only been noted in a few cases. Similarly, where the UDZ incentive does not go hand-in-hand with hands-on urban management and other initiatives to make the area attractive for investors, the UDZ tends to have little uptake.

According to both private sector stakeholders and city officials interviewed, even city incentives with high potential incentive values, such as property rate reductions/exemptions and service charge reductions/exemptions, are unable to attract investment if fundamental aspects of the business environment are not in place, such as reliable access to basic services or provision of efficient transport. According to private sector stakeholders, the incentives in isolation will not make a difference as various other factors influence business decision-making. Stakeholders claimed that providing reliable access to power would have a greater impact on growth and attracting investment than any incentives.

The general view collected, based on stakeholder interviews with city investment promotion officials in five metros, was that cities were in favour of a continuation of the UDZ incentive. Stakeholders in Johannesburg and Mangaung particularly credited the UDZ for being a decisive tool to help catalyse investment and revitalise certain areas of the city. In other cities, such as in Cape Town, the general view was that the UDZ was creating unnecessary lost revenue for the city as it was over-incentivising investment into some areas (i.e. those investments would have happened without the incentive). Several suggestions were made to improve the design of the incentive such as making the delineation of the zones more flexible or differentiate discount rates based on property values of given areas.

Non-financial business support incentives and investor support services are very important to attract investment and create a favourable business environment and can, in some instances, be more important than fiscal or financial incentives. According to private sector stakeholders interviewed, investor support services have an important signalling effect to firms that a locality is open for business and that the government welcomes and supports investors. Developers interviewed also highlighted that fast-tracking applications and creating certainty around timing of approvals in the investment process in particular can save more costs to developers than the benefits from a fiscal incentive can make up for. However, it was also cautioned that removing a fiscal and financial incentive can be "the straw that breaks the camel's back" if difficult economic conditions are already putting pressure on businesses or if it leads to businesses perceiving an anti-business policy direction.

7.2.2 The design of the incentives

It was noted by private sector stakeholders that the incentives on offer were not always appropriately designed to address the specific needs of the businesses the government was purportedly trying to attract. It is thus important to be clear on exactly what should be incentivised, what the profiles and business models of the firms to be incentivised are, and what would constitute a sufficient benefit to them to tilt an investment decision.

For example, the UDZ incentive has not been effective in incentivising low income housing. It also does not provide a benefit to those firms that need relief upfront or where the business model is to develop and sell as the benefit mainly accrues to those who then continue to own the property over the subsequent years.

As another example, capex incentives work well for manufacturing businesses bringing in machinery but not for business services or data centres, whose operational expenditures (such as telecommunications and electricity) represent a far higher proportion of their costs. Incentives that bring down opex such as utility tariff reductions are more effective to attract tertiary services.

Similarly, there is currently little by way of incentives available to offer foreign investors. Since Section 12I of the Income Tax Act was removed and since B-BBEE rules are often more difficult for new foreign entrants to comply with, there are almost no incentives which DTIC can advertise to foreign investors while competing developing countries do. There are concerns among DTIC staff that as a developing country, South Africa may therefore lose out to competition from other developing economies.

In an attempt to ensure effective targeting, some incentives have become burdensome to comply with. As incentives aim to include additional criteria to align to show alignment with new policies, the requirements have often become arduous, rendering them irrelevant or leading to high percentages of failed applications. Additionally, moving the goalposts as new requirements come in retrospectively is found to be costly and disruptive to firms' planning. For example, in order to promote youth employment, age elements were added to employment requirements with additional unanticipated data gathering and reporting requirements.

A balance needs to be struck between effective targeting on one hand and transparency and ease of administration on the other. Fiscal incentives were granted either automatically or on a case-by-case basis, with the latter normally requiring a process that included Council approval among other approvals. Waivers/discounts to land and building approval incentives can easily be automated, reducing processing time and creating certainty for the investor. In CCT, for example, the incentive is automatically granted through its Development Application Management System (DAMS). For electricity charge incentives, however, a more bespoke approach was negotiated as different firms may use power differently at different times of day (with rates changing according to the time of day). The expected usage is modelled and the incentive worked out accordingly in a way that it constitutes a sufficient benefit without creating excessive lost revenue for the City.

City of Tshwane's investment incentive policy document proposes a capital productivity model that estimates the socioeconomic impact (GDP effect, sectoral effects, job creation, and wage effects) of the investment made before the incentive is approved. However, this capital productivity model was never implemented and applied. Such a model could be combined with a financial model to understand the recoverability of the foregone revenue by way of municipal income (e.g. through a rise in the property value or property rate base in a way that property rates revenue rises for the municipality) over a given time period. Having a pre-set model in place would save time and would "automate" the decision if criteria set in the model are set ahead of time in a transparent way.

7.2.3 Administration

While policies may prioritise growth, investment, and spatial transformation, **the experience on the ground is often of delays** in approvals and processes at all spheres, onerous regulations, and perceived lack of interest in or attention to investor concerns. Delays and uncertainty created by the Government are a serious concern and can reverse any benefits of the incentive. Developers in particular carry a lot of risk in their projects. Timing is important and unexpected delays are typically associated with high costs and project cancellations. Faster processing and increased certainty would reduce risk and encourage more investment. With regard to national level incentives, poor experiences around support from the government around these processes were recounted, including experiences of an unfriendly service culture and lack of responsiveness to potential investors. It was noted that attempts to apply for incentives through specialised, outsourced service providers was also met with resistance by government officials.

SMMEs face particular difficulties in navigating the application process incentives (national level and city level) especially as incentives they are eligible for are administered across various institutions. SMMEs are generally eligible for DTIC incentives but also for incentives provided by DBSA and IDC, each of which advertise on separate websites. Compliance and reporting requirements are relatively higher for smaller firms, taking up proportionately more time away from business management time, compared to large firms who may have specialised staff or business associations that assist with incentive applications and claims.

There is sometimes insufficient communication with the private sector to understand what is required by specific investors that the city is targeting, how an incentive would be beneficial to them, and how proposed policies will affect them. An example is around how the incentives that are to incentivise low-cost housing development (e.g. property rates incentive or UDZ incentive) are not attractive to these types of developers. In finding solutions to obstacles to doing business and identifying appropriate incentives, taking a cluster approach and tapping cluster networks may be more effective than engaging the targeted sector alone.

SMMEs face particular difficulties in navigating the application process incentives (national level and city level) especially as incentives they are eligible for are administered across various institutions. SMMEs are generally eligible for DTIC incentives but also for incentives provided by DBSA and IDC, each of which advertise on separate websites. Compliance and reporting requirements are relatively higher for smaller firms, taking up proportionately more time away from business management time, compared to large firms who may have specialised staff or business associations that assist with incentive applications and claims.

There is a strong perception among private sector stakeholders that the government is not aligned as different incentives work towards different goals and departmental priorities in silos. Incentives and opportunities across spheres are rarely packaged together. Better prioritisation, cooperation, and more consistency in communication to the private sector could create more certainty and opportunities for mutual benefits.

Instances in which there was strong coordination between spheres of government and strong coordination with private sector clusters were very successful. This has therefore been identified as a critical success factor. An example of this in our case studies is around the Global Business Services

(GBS) incentives. According to DTIC staff, the level of cooperation and proactive involvement from cities around national level incentives is currently the exception rather than the norm.

7.2.4 Monitoring and evaluation and data management

In undertaking the assignment, the Project team came across major weaknesses with regard to data management and monitoring and evaluation of incentives.

Data for monitoring and evaluation (M&E) of incentives with a spatial lens is largely missing or dispersed across institutions. This was true at the city level as well as at the national level. For example, while the CCT applies its city level incentives to catalyse job-creation as a primary objective, it does not collect data on job numbers created or retained through the investments benefitting from the incentives. M&E is geared towards reporting to the mayoral committee on compliance with requirements but not for examining impact and effectiveness in reaching the desired policy outcomes. Similarly, in eThekwini, the city was only in the process of mapping investments benefiting from incentives visually using GIS coordinates to be able to monitor where these are taking place.

With regard to national incentives, while it was possible to obtain data on grant amounts and investment amounts of the different DTIC incentives by municipality, it was not possible to obtain this data on where within the city the investments that benefit from incentives are taking place. The city also did not track this information. It was therefore not possible to map the distribution of the take up within the city. The DTIC's annual incentives report does provide the number of jobs retained and new jobs created as the result of its incentives for each municipality, for most incentives.

Metros are missing a M&E framework with a feedback loop to evaluate the effectiveness of incentives in terms of inclusive economic growth and spatial transformation goals. Information is collected to check compliance with the eligibility requirements and for oversight but not evaluate the effectiveness and feed learnings into policymaking in a feedback loop.

Little data was held by cities on national level incentives. Information systems were not integrated with the city, so the city holds part of the data relevant for evaluations while the national level holds other parts. The table below outlines which data was held with regard to city incentives.

Table 26. Data held on city incentives in eThekwiniand CCT

City incentives	eTH	CCT
Investment value	Y	Y
Incentive amount (foregone revenue)	Y	Y
Benefiting firm	Y	Y
Property rates received from benefiting firm	Y	N

Percentage brownfield	Y	N
Spatial location of the investment	Y (no GIS coordinates)	Y (GIS coordinates)
Jobs created	N	N
Investment type (beyond commercial vs residential), e.g. warehouse extension	N	N
Economic activity coming from the investment, e.g. agro-processing	N	N
Data on application processing times	N	N

Another key issue raised with regard to monitoring and evaluation is that this is largely conducted *ad hoc*. For example, there did not seem to be structures in place to regularly review and evaluate the UDZ incentive and feed evaluation results into future policy. Similarly, with DTIC incentives, the DTIC's Industrial Financing Unit has a Monitoring and Evaluation department that conducts M&E across all the incentives. Together with the Inspectorate Unit, it aims to ensure that no jobs are displaced or other negative side effects result from the incentives. However, there is little monitoring of impact beyond direct jobs created and investment value. There are no data collection requirements for this. Instead, ad hoc evaluations are conducted where investors are retrospectively required to produce data and evidence.

Box 8. International Lesson Learnt: Project Score Matrix to evaluate fiscal impact of incentives

The City of Austin, in the US State of Texas has leveraged the State's Local Government Code to become one of the fastest growing cities in the United States. The Code allows municipalities throughout the State to provide financial incentives to investors who meet a wide array of criteria.

Austin's robust fiscal and financial incentives are credited with attracting numerous tech start-ups, along with industry leaders like Tesla. For example, the Emerging Technology Fund awards grants that help product development, public-private partnerships, and the recruitment of research talent.

To refine how incentives are offered, the City has created a 'firm-based incentive scorecard' (Project Scoring Matrix) which evaluates the merits of each potential incentive transaction. It evaluates the potential fiscal impact of the transaction using an outsourced fiscal impact tool as well as a range of economic, fiscal and social criteria. Projects must meet all minimum criteria and score at least 60 points in order to receive approval.

Based on the Austin Case the lessons learned are:

- It's important to measure the size of net profit to the city and the level of desirable public benefits rather than a blanket offering to all investors.
- Factoring the impact of the investment on the city's current infrastructure is important to

understanding eventual costs to the municipality

In addition to incentives, Austin has arranged an ecosystem that welcomes early-stage companies in particular. The Austin Technology Incubator, and Capital Factory, welcome and nourish young tech companies. In addition to a favourable funding, tax, regulatory and legal environment for businesses, Austin also has local universities from which it can draw talent, research and development, and it has the advantage of lower housing costs and utility expenses compared to the rest of the country.

Source: Brookings Institute, 2018

8. Recommendations

In this section we propose recommendations. These are categorised as follows:

- Policy
- Design and targeting
- Administration
- Data management
- Monitoring and evaluation

The level of priority of the recommendations is marked with coloured shading in the left column (the darker the shading, the higher the priority). We have also indicated which institutions the recommendation addresses and distinguished short-term and long-term recommendations.

8.1 Policy

Table 27. Recommendations on policy coordination

No.	Recommendation	Institution
1	**Develop and clearly communicate a vision for the city to attract/catalyse economic growth and investment** that considers its specific endowments and comparative advantage, and what the city wants to be known for. This should consider how the attracted businesses will link into the existing endowments (people, skills, resources) as well as which industries are most likely to contribute to the ideal distributional patterns in terms of the space economy (inclusive growth - i.e. direct job creation, and requiring land uses that can be supported by the city's spatial restructuring objectives).	Lead: Cities Support: Provincial Government, DDM, private sector Timeframe: short term

	Several cities have listed priority sectors, priority areas, and long lists of areas they would like to see addressed to improve the business environment and spur economic growth and development, such as in IDPs, economic growth strategies, BEPPs, and incentive policies. These have been helpful in identifying priority sectors, priority areas, and identifying various areas that need to be addressed. Yet the feedback from private sector stakeholders is that there is a gap on several fronts: (1) There is no credible way forward to achieve an economic turnaround with the required urgency, prioritisation, and coordination. Instead, stakeholders perceive different departments at different levels of government to be chasing different own goals and priorities and it is unclear that these will work together towards a broader turnaround plan. Representatives of businesses associations in eThekwini, for example, noted that various projects were being prioritised over economic recovery projects; (2) There is uncertainty of the policy direction of the government. Private sector actors seek clarity on, for example, whether labour costs will continue to rise with further restrictions and regulations, or whether there is real commitment to helping to make it easier to do business in South Africa, including for smaller and mid-sized companies. Where there may be such a vision, it is not clearly articulated to the private sector and is not backed up by action; (3) There is no clear long-term vision of a future state and path to get there in terms of which developments are to be undertaken where and when.	
2	**Develop a clear investment attraction strategy to achieve the vision that links into the plans for spatial development and inclusive economic growth.** The metros have already identified the sectors it is trying to attract and the spatial areas into which it aims to attract investment. It is important that these strategies are based on strong engagement with the private sector to identify bottlenecks, solutions, and opportunities. It is also important that they take a cluster view and identify issues currently affecting firms in the entire value chain of the sectors to be attracted. Incentive policies need to sit within a wider investment strategy. They should be used/designed to target the specific firms that the strategy aims to attract.	Lead: Cities Support: Private sector, DTIC, DSBD, DDM Timeframe: short term
3	**Ensure that the city has operationalised how spatial transformation is to be achieved in practice, with clear steps and timeframes**. While there is widespread agreement on the outcome of spatial transformation, policies fail to provide a concrete plan to operationalise it with a clear path (see Rabe, 2018). While metros have plans, such as the IDP, BEPPs, and SDFs, they fail to operationalise these for implementation. A concrete implementation strategy that operationalises spatial transformation with clear steps, assigned targets and KPIs in a set	Lead: Cities spatial planning departments Support: Related departments, e.g. transport, economic development,

	timeframe can help achieve the common goal. Incentives can then be used to work towards the implementation of the plans.	housing, revenue/finance. Timeframe: short-term
4	In parallel, to feed into the strategy, **obtain a clear understanding of the obstacles that are preventing the desired investment and the (combination of) potential incentives that could help overcome these obstacles.** There is evidence that this has not been done sufficiently in the case study countries. For example, while inclusionary housing is seen as a strategy to reach spatial transformation, developers of low-cost housing have not been engaged to identify the constraints they face or to develop incentives that speak to their specific business models. Also, property developers have not been engaged to jointly plan infrastructure and understand ways forward. It is again important to engage not only with firms in the desired industries but also with those in the entire value chain.	Lead: Investment promotion agencies Short term (and ongoing)
5	**Spatial targeting could be improved by "stacking" incentives and other initiatives together for a spatial area through coordinated efforts at all spheres.** Cities as 'agents of places' can have an influence on spatial outcomes that goes beyond planning by proactively seeking investment into specific spaces. This can be through regulatory powers, zoning, land, infrastructure spend, training programmes, precinct management, national level incentives etc. While this has been done very successfully in some cases, there are many missed opportunities. For examples, while some cities have proactively reached out to potential investors and advertised the national level GBS scheme to draw business services firms into their cities and provided metro level investor services and incentives, in other metros there are many missed opportunities to package and advertise national level incentives and to proactively reach out to potential investors or provided added support to national level efforts at attracting investment. According to DTIC staff, the proactive municipal support received around the GBS in one or two cities was far from the norm in their experience.	City in coordination with all other institutions with relevant levers; the lead/ convenor should be the organisation with the most levers for the particular initiative Short term
6	Once the vision and strategy has been defined, **take a proactive role in partnering with developers to communicate the vision, particularly around infrastructure plans, with firm commitment on timing for those plans.** Even in eThekwini, where coordination among role players in the investment promotion ecosystem and business associations is deemed to work very well, developers noted that there was no clear vision and plan around infrastructure to be developed in the city. While studies were done and plans made, these were often not followed	Cities Medium term

	through. They highlighted that credible lists, time plans and guarantees around upcoming public sector investment would attract private sector investment. This would allow the private sector to plug into and complement public sector infrastructure projects with their own projects, thus raising the likelihood of successful outcomes for the development of a given node.	
7	**Proactively engage with desired investors to communicate the (local and national level) incentives and initiatives deemed helpful for them.** Where an incentive is deemed appropriate, ensure that the desired firms become aware of the incentive and are guided in how to apply. As mentioned above, while this has been done very successfully in some cases, it is far from the norm.	Lead: Investment facilitation body Support: Cities Medium term
8	**Where this doesn't exist already, establish an inter-agency working group in charge of policy coordination around investment promotion.** City, province, and national government need to come together to make a compelling case for investors. Together they can examine how the respective incentives and initiatives support in different ways and what needs to take priority. Cities, for example, can ensure competitive pricing of services for priority investors and support non-financial investment services. For example, InvestSA One Stop Shop Western Cape has successfully achieved close coordination between local, provincial and national spheres of government around investment promotion. Such a model could be replicated in other cities.	Lead: DTIC or CEO Forum of IPAs Support: Cities/DDMs, provincial, DTIC, DSBD city, investment promotion agency, SEZ management Short to medium-term
9	**Integrate municipal SDFs (and city investment strategies) into investment promotion at all levels.** Align focus of national level incentives with cities' strategies and spatial priority areas. According to SPLUMA, the local government is to identify priority areas for investment. Currently other incentives may detract investment away from spatial priority areas. If national level incentives, such as the UDZ or SEZ incentives were to be aligned with the city's incentives and other initiatives in the city's identified spatial priority areas for investment, this could increase the chances of success of the initiatives of each.	Cities, DTIC and Investment promotion agencies, SEZs Medium-term
10	**Actively engage the private sector using a cluster approach.** It is important to go beyond the sector to understand the needs of the entire value chain and ecosystem, as well as incorporating relevant think	Lead: Investment promotion agency

	tanks, universities, and civil society organisations. According to business representatives that work with cluster networks, engagement currently often stops at the sector level without engaging the entire cluster or firms further up and down in the value chain from the type of firms that the government is trying to support. This means that obstacles are not holistically identified, meaning that efforts fail or opportunities are missed, particularly to successfully form backward and forward linkages with SMMEs.	Medium term
11	**A critical success factor for SEZs to work is a very concerted/coordinated approach across role players through a coordinating body.** ● City, province, and national government need to come together to make a compelling case for investors. Together they can examine what relevant sectors require, including their entire value chains and each support in different ways. A multi-agency coordination body that works across spheres has been set up in some cities, such as InvestSA One Stop Shop in Western Cape. This model could be replicated in more metros. ● Metros can ensure competitive pricing of services to attract investors into the SEZ but also ensure that comparative advantages of the city are reaped, and that the city sees a positive return from investment. One suggestion for greater influence of metros was to bring the metro in as shareholder of the SEZ or onto the SEZ Board in order to improve coordination. ● SEZ data should also be integrated in Cities' modelling (such as on water demand, impact on tariffs etc) as this is often managed separately within SEZs without metros' having input or insight.	COGTA and/or already established SEZ agencies and boards. A key principle should also be leading with the actor with the most levers - e.g. if Metro-owned land is being used, they should lead the establishment; if Provincial infrastructure is catalytic/key dependency, they should lead Medium-term
12	**National government should further examine the issue of SEZs creating obstacles and distortions to local producers and improving beneficial linkages to the local economy.** Academic work has already been done in this regard, such as by the South African City Network.	National government Long-term
13	**SEZs should continue to put programmes in place to encourage SMME integration and improve backward and forward linkages to local SMMEs.** This can help ensure that, for example, foreign investors become aware of and make use of local suppliers rather than relying on imports, something that had been noted as an issue in the past. Some programmes are already underway in this regard, such as training and enterprise development programmes for adjacent communities in	SEZs Medium-term

	Atlantis. While this recommendation came out of stakeholder discussions on SEZs, such programmes could also be applied in other industrial parks or cluster networks.	
14	**Broaden the use of incentives for inclusionary housing.** The City of Johannesburg is the only metro to have inclusionary housing incentives in place. Based on our engagements with stakeholders, there is a notion that the UDZ, designed to spur urban regeneration in areas of historic blight, has contributed to gentrification in some areas, such the Salt River and Woodstock neighbourhoods in CCT. There should be a concerted effort to support urban renewal without displacing existing residents.	Cities; Department of Human Settlements
15	**Local governments can support local businesses through increased purchases of local goods** such as purchasing uniforms for local government staff from local textile companies even if these are at higher prices than imported ones. This would constitute a financial incentive.	Cities
16	**Make more use of technical and business support incentives** that are not associated with high foregone revenue but are able to make a big difference to investors. This includes investor aftercare and ensuring key businesses and investors have reliable access to services such as through load curtailments or introducing zones within the city with undisrupted access to power, water or wifi.	Cities
17	**Prioritisation of investment promotion and business growth needs to be driven at a senior level.** Executive leadership in metros and nationally need to buy in to the prioritisation of attracting investors, retaining businesses and growing the economy and drive this at a senior level. Practical training should be conducted in all city departments as well as national level departments to ensure wider understanding of investment promotion imperative and how policies in different departments can hinder or support this priority in order to ensure that policies do not contradict this imperative. This will also help to encourage cooperation around these joint objectives and eliminate the currently perceived zero-sum mentality and policy fragmentation among government departments.	

8.2 Incentives design and targeting

Table 28. Recommendations on incentives design and targeting

No.	Recommendation	Institution
1	**Review/redesign incentives based on the business model, size, and other characteristics of firms that the strategy tries to attract.** If an incentive can help to overcome the bottlenecks faced by the firms, understand the business models and characteristics of the firms that this is trying to attract and what would constitute a benefit for those specific firms. For example, if small businesses are to be attracted by the incentive, then there should not be limiting criteria for these such as minimum employee numbers or disproportionately burdensome reporting requirements. Or for example, If the strategy aims to attract developers that typically build and sell, then an upfront incentive is more effective than an incentive that provides relief only several years down the line such as through a depreciation allowance. Similarly, if the type of firm to be attracted has high operational costs but low capital costs, then an incentive for utilities is likely to be more effective than capital allowances. The design of the incentive needs to be attractive to the type of firm that the city aims to attract. This requires engagement with the private sector.	**Lead:** Cities **Cooperation:** DTIC, CSP & other economic research partners Timeframe: medium-term
4	**Consider designing incentives to attract foreign investors.** According to DTIC staff, since removal of the Section 12I tax incentive, there are few incentives for which foreign investors are likely to be eligible, particularly as local ownership or BB-EEE rules are likely to disqualify foreign investors who are new to the market. Meanwhile other countries who are competing with South Africa for investment do have incentives in place to lure investors. A redesign of some incentives could be considered to ensure that foreign investors are able to qualify.	DTIC Medium term
5	**Design incentives to attract low-income housing development.** The current incentives do not go far enough to attract low-income or gap housing development. Municipalities should consider targeted inclusionary approaches (including mandates for certain areas). Considering an adjustment of the UDZ to include an inclusionary housing component, and incorporating greater use of the Social Housing Restructuring Zones. Aligning low-income housing and social housing along TOD corridors can ensure greater accessibility to marginalised communities.	CSP and/or suitable partner e.g. SALGA - develop a model incentive framework **Cities** - incentive framework (in some cases e.g., WCG provincial level policy processes are in place) National Department of Human Settlements

		Medium term

8.3 Administration of incentives

Table 29: Recommendations on administration of incentives

No.	Recommendations	Institution
1	**Ensure a customer-friendly service culture among investor-facing staff and introduce key account managers to deal with (potential) investors.** Several metros have already introduced a single point of contact to facilitate the flow of information and decision-making for local government requests and are giving investors assurances via meetings with high-ranking officials up to the premier. This way dealing with larger investments or growth-enhancing investments is prioritised over smaller requests, such as planning permissions for a residential building extension, and investors are given the assurances required to make investment decisions.	Cities, DTIC Timeframe: short to medium-term
2	**Where not already in place, single ticket-tracking should be put in place throughout the entire multi-agency system.** This could help investors better understand where in the process their application stands and facilitate the overall investor experience, thus addressing concerns with regard to unexpected delays and perceived lack of attention to investors' applications and incentive claims.	All investment promotion agencies
3	**Consider staff rotations to build staff understanding of what is required of them by staff in other departments and vice versa with regard to incentives that require multi-agency approvals and documentation.** As delays and frictions are sometimes caused by insufficient understanding of what is required by other officials for the next steps of the claims or approval process, leading to rejections and the need for resubmissions, this could be a way to help accelerate such processes. This is a method that has been applied in other countries (see Box 9) to improve processes as it helps staff to understand what the person on the other side receiving their information requires of them. It also helps to build contacts between them so that if there are deviations or issues, they will have contacts to reach out to and better address these.	Cities, DTIC, OneStopShops Short to medium-term

4	**SEZ data should be more integrated in Cities' modelling** (such as on water demand, impact on tariffs etc). SEZs often operate in silos and municipalities need to be able to respond to future needs in terms of municipal service provision and integrate this into their planning. While the revised SEZ strategic framework (DTIC, 2019) provides for equal ownership of an SEZ by the different spheres of government, operations of the SEZs are still often conducted without sufficient integration.	SEZ administrations and Cities Short-term
5	**Improve data management to simplify and speed up approvals and reporting requirements for the private sector and to ease M&E of incentives.** For example, digitising documents and making documents and information accessible across government while maintaining data protection and privacy would reduce paperwork and processing times for all parties involved. Data for monitoring could be integrated between institutions that jointly administer incentives (e.g. UDZ incentive). More data could also be made public for use and analysis by 3rd parties, such as evaluations and cross-city comparisons through open data portals.	Municipalities Short-term
6	**Introduce KPIs and performance measures for government staff dealing with approvals to cut delays** (of incentives, development applications, and other processes required by investors). These should include performance measures on processing times for applications, and responsiveness to clients communication as well as KPIs related to spatial targeting or sector alignment.	DTIC, municipalities Medium term
7	**Public sector reform is required to move towards a more outcomes-oriented approach.** The current punitive compliance based culture is an obstacle to positive outcomes. With appraisal of public officials focused too heavily on preventing even immaterial deviations from set processes, it is difficult for public officials to address situations as soon as there are slight deviations or new situations. In view of this, public officials resist decision-making to prevent punitive actions with negative consequences for the investor. Meanwhile lack of or delayed decision-making and lack of advancing outcomes goes unpunished.	Government-wide, cities Medium to long-term
8	Improve assistance to navigate incentive applications and claims. Private sector stakeholders interviewed highlighted that they struggle to receive in navigating the incentives and regulatory requirements associated with them. support. While it was noted that the DTIC website is transparent and makes the rules accessible on its website, navigation through and interpretation of those rules is not always clear. This is especially the case where incentives are administered across various institutions. In addition, other institutions provide other incentives listed on other websites. Support from the government around these processes is deemed insufficient and using outsourced private services to assist investors in such processes has been	DTIC, DSBD, cities, other institutions offering incentives Medium to long-term

	met with obstruction by government officials, according to stakeholder interviews.	
9	UDZ applications could be linked to cities' management systems, streamlined, digitised and automated to speed up processes, reduce processing times and to make decisions more predictable. This would also make it easier to monitor, manage data, and evaluate the incentive. This would also give investors more certainty to make their investments.	National Treasury/SARS and Municipalities Short-term

Box 9. Building functional understanding across departments

Research of successful one stop shops in the US revealed that a critical success factor is increasing the understanding of different functions as this lays a foundation for cooperation. Organisations build this relationship by having customer service representatives serve in rotational assignments in different functional areas. Staff are seconded from one functional area to serve in another. In so doing, they not only build an understanding of other parts of the process and how they fit into it but build relationships to better connect with one another over issues in future.

Cross-functional teamwork can also be promoted by inviting different functions or agencies to strategic planning sessions and changing organisational culture to take a customer focus.

The decision to move to one-stop operations and staff rotations at first met with resistance. Staff reactions ranged from impatience with the pace of change, to fear of job loss and distrust, to concern that the change would undermine the effectiveness of their organisation's work. This resistance could finally be overcome with demonstrated results. Functional areas had to see that customer service improved when units were complementing, not competing, and that the integrity of organisational programs could be maintained.

8.5 Recommendations on monitoring and evaluation

Table 30. Recommendations on monitoring, evaluation

No.	Recommendations	Institution
1	Data for government evaluations of the incentive should be defined and requested at the outset to avoid retrospective *ad hoc* requirements.	All institutions that provide incentives

		Short-term
2	Incentive implementing departments should attempt to quantify the additional economic activity generated by the introduction of the incentives relative to costs. A sound M&E framework is to be established that collects and examines impact data, sets targets, and includes a feedback loop mechanism for all incentives. Key data on costs and benefits of the incentives need to be tracked, going beyond the amounts of incentives disbursed and investment value to include jobs created, investment value, type of investment and production, sales revenues, and turnover. In addition to this, the spatial location of initiatives at all levels should be recorded through GIS coordinates.	Cities, in coordination with DTIC, NT/SARS Medium-term
3	Cities should map and monitor data on not only their own city level incentives but also UDZ and other national level incentives to understand how they are being applied within their jurisdictions.	Cities in cooperation with DTIC, DSBD, IDC, SARS/NT
4	DTIC should collect and report data on where within municipalities the investments they are supporting are located, rather than reporting only the name of the municipality.	DTIC
5	Integrated systems should also allow information sharing across spheres on incentives applied in the metro's jurisdiction. This would facilitate monitoring and evaluation as well as reduce processing times of incentives where investors are required to provide reporting for approvals.	All spheres of government Long-term
6	Incentives should be given time to gain traction. Information on the incentive and on realised benefits of the incentive may be delayed. In addition to this, the design of incentives have often been adjusted over time to improve short-comings.	All spheres of government Long-term

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