

Investment Incentives Policy & Strategic Framework



TABLE OF CONTENTS

PART A: SITUATIONAL ANALYSIS	4
1 INTRODUCTION	4
1.1 BACKGROUND AND PURPOSE	4
1.2 METHODOLOGY	4
1.3 REPORT OUTLINE	5
2 REVIEW OF INVESTMENT INCENTIVES PRACTICES	6
2.1 AN OVERVIEW OF INVESTMENT INCENTIVES	6
2.2 INTERNATIONAL EXPERIENCE OF INVESTMENT INCENTIVES	6
2.3 INVESTMENT SUPPORT BY SOUTH AFRICAN GOVERNMENT	11
2.4 INVESTMENT SUPPORT IN THE EASTERN CAPE	26
2.5 INVESTMENT INCENTIVES BY LOCAL MUNICIPALITIES IN SOUTH AFRICA	30
2.6 SYNOPSIS	40
3 EXTERNAL BUSINESS AND INVESTMENT CLIMATE	41
3.1 INTERNATIONAL INVESTMENT CLIMATE	41
3.2 INVESTMENT CLIMATE IN SOUTH AFRICA	44
4 INVESTMENT CLIMATE IN NELSON MANDELA BAY	49
4.1 NELSON MANDELA BAY ECONOMIC PROFILE	49
4.2 INVESTMENT COMPETITIVENESS OF NELSON MANDELA BAY	55
4.3 GROWTH AND DEVELOPMENT STRATEGIES IN NMBM	57
4.4 ASSESSMENT OF EXISTING INVESTMENT SERVICES IN NELSON MANDELA BAY	58
4.5 INCENTIVE POLICY	63
PART B: INCENTIVE POLICY	65
5 INCENTIVE POLICY FRAMEWORK	65
5.1 AIM OF THE INCENTIVE POLICY	65
5.2 FOCUS AND SCOPE OF THE INCENTIVE POLICY	65
5.3 GUIDING PRINCIPLES	66
5.4 INCENTIVES OFFERED	67

5.5	INCENTIVE FUND	74
6	MANAGEMENT OF INCENTIVE POLICY	74
6.1	MANAGEMENT PRINCIPLES	74
6.2	MAINTENANCE OF THE INCENTIVE POLICY	75
6.3	INSTITUTIONAL ARRANGEMENTS	76
6.4	EVALUATION OF INVESTMENT APPLICATIONS	79
6.5	ESTIMATED COSTS OF INCENTIVES	80
	REFERENCES	84
	ANNEXURE A: LIST OF PERSONS INTERVIEWED	85
	ANNEXURE B: REZONING APPLICATION PROCESS	86
	ANNEXURE C: SECRET INVESTOR ENQUIRY	87
	ANNEXURE D: CLASSIFICATION OF SMMES IN THE NATIONAL SMALL BUSINESS AMENDMENT ACT OF 2003	88

PART A: SITUATIONAL ANALYSIS

1 INTRODUCTION

1.1 Background and Purpose

The purpose of this document is to develop an Investment Retention Strategy to retain and expand investments in the NMBM through an effective use of the one stop shop office to create an ease of doing business and a culture of maintaining good stakeholder relationships with all investors in the NMBM region, in order to attain the NMBM vision as contained in the NMBM IDP.

The specific objectives of the retention project are the following:

- To speedily assist investors with business related enquiries;
- To create and maintain good relationships with investor in the NMBM region;
- To identify the best bail out options and assess their respective costs and benefits;
- To develop an Retention Strategy for the NMBM region;
- To develop detailed guidelines for the municipality to implement the Retention Strategy.

1.2 Methodology

The approach followed in this study is illustrated in the Figure 1-1. This Situational Analysis Report is the outcome of Steps 1 to 4.

Figure 1.1: Methodology followed in this project



1.3 Report Outline

The next section in this report provides an overview of investment retention knowledge and experiences elsewhere in world. It also lists the investment retention support, including incentives, offered by the various government agencies. Section 3 is a short analysis of the past investment trends in the world and in South Africa. Section 4 gives a more detailed assessment of the investment climate in the Nelson Mandela Bay area.

2 REVIEW OF INVESTMENT INCENTIVES PRACTICES

2.1 An Overview Of Investment Incentives

Globalisation has increased the competition for investments, with UNCTAD (2003) reporting that between 1991 and 2002, more than 1,600 policy changes were made by national governments to create a more favourable climate for investment in the respective host countries. This includes the considerable proliferation of investment incentives. Incentives are one of the many policy tools used by governments to encourage investments in a particular area or sector. Incentives range from broad assistance offered by a government to virtually any investor, to narrow assistance that targets only specific sectors and investors.

There are few specific definitions of what incentives are. In 1996, the United Nations Conference on Trade and Development (UNCTAD) defined incentives *as any measurable economic advantage afforded to specific enterprises or categories of enterprise by (or at the direction of) a government, in order to encourage them to behave in a certain manner (UNCTAD, 1996)*. The OECD recently presented a more specific definition of investment incentives as *the granting of a specific advantage arising from public expenditure [a financial contribution] in connection with the establishment, acquisition, expansion, management, operation, or conduct of an investment of a Contracting Party or a non-Contracting Party in its territory (as in UNCTAD 2003)*. In essence, incentives include measures specifically designed to increase the rate of return of a particular investment, or to reduce (or redistribute) its costs or risks.

In identifying and comparing best practices in incentives, it is important to remember that no single best practice can be identified as generally applicable to all localities. A good practice in one locality may be excessive or costly in another if it is not based upon the particular strengths and weaknesses of the locality. Moreover, as the attractiveness of underlying investment conditions increases, the need for certain types of investment incentives may decline. Some investment incentives may be important or even crucial for one investor, but completely irrelevant to another.

2.2 International Experience Of Investment Incentives

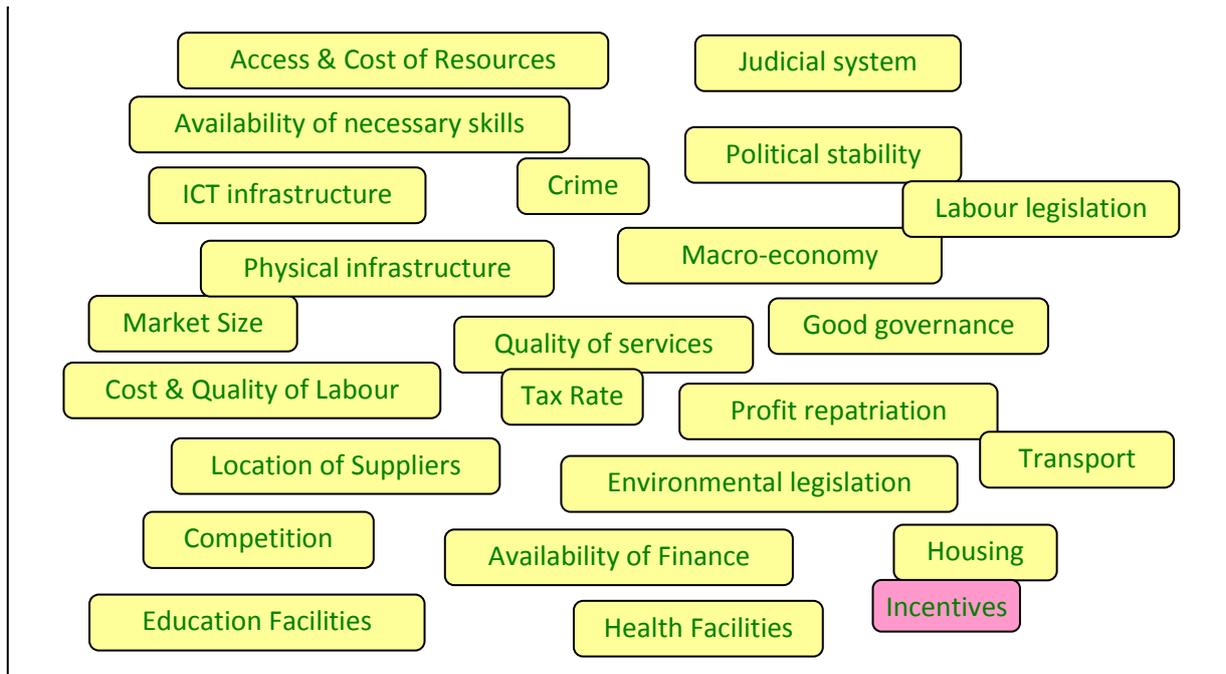
International experience has shown that incentives do not rank high among the determinants of foreign investment. The attraction of a specific locality for investment depends on the following:

- **Natural endowments** such as access and cost of resources, labour cost and quality, access to markets, market size, quality of services, availability of skills and technical know-how, adequacy of physical infrastructure, and many more.
- **Institutional structures and practices** such as the nature of the judicial system, the application of the rule of law, good governance, political stability, macroeconomic environment, and many more.

- **Policy environment and application** such as the right of establishment and entry requirements, implementing regulations, the rules, practices and procedures concerning the fiscal regime, repatriation of profits, dividends and capital, among others.

Figure 2-1 below lists just some of the factors that influence the investment decision. Incentives is but one of the factors influencing investment decisions.

Figure 2.1: Some factors influencing investment decisions



Source: UMDM (2007)

Improving these factors that influence investment will go a long way to improve the local business climate and increase both local and foreign investment in the area, often seen as the “soft” incentives. On the other hand, neglecting these factors could cause businesses to relocate to other areas that have a better investment and business climate.

Pulling Factors	Pushing Factors
<ul style="list-style-type: none"> • Political: stable, consistent and transparent government, minimum government regulation for businesses and less government interference in internal business decisions • Economic: low production costs, favourable economic conditions, growing local market, low interest rates, easily accessible and stable financial markets • Social: highly skilled workforce, healthy workers, low union influence, accessibility to education institutions, 	<ul style="list-style-type: none"> • Political: unrest, violence and crime, government interference in business operations and decisions, high regulation such as prices, environment, production and trade quotas. • Economic: high input costs such as energy, transport and labour, volatile exchange rates, stagnating/declining local economy • Social: poor skills in labour force, poor health in workers, high crime rate, highly unionised staff. • Other: Poor access to raw materials and

<ul style="list-style-type: none">• Other: Easy access to raw materials and markets, good logistics and transport network, good service utilities, low utility costs;	markets, poor quality/availability of utility services, e.g. electricity, gas, water
---	--

Improving these and other “soft” incentives that impact on the investment decision, such as the overall image of the locality as a favourable investment climate within the national and international investment community, safe and secure neighbourhoods, the ease and speed of facilitating investment applications of prospective and current investors, providing ‘aftercare’ to investors beyond the initial investment and the general protection of foreign investments, will assist in reducing the possibility that investments made earlier do not leave the area, but expands over time.

In addition, it is important that these investment factors must be complemented with measures to improve the learning capability within the local economy in order to maintain a competitive local business environment relative to other locations. Investments incentives should also encourage the transfer of high technology knowledge, and/or the creation of backward and forward linkages with other businesses, which is more desired and valued by host localities.

The impact of incentives offered by governments on investment location choices is not conclusive, as it is difficult to isolate the impact of incentives from the other factors of investment. It is therefore difficult to quantify the contribution of investment incentives per se. However, most international investors agree that incentives are only considered when the other investment factors are the same, i.e. incentives play a marginal role in investment decisions. It is important to note that investment incentives aiming to capitalise on the benefits of investment must be complemented with measures to improve the local learning capability and to maintain a competitive local business environment.

The majority of economic literature on incentives refers to the effects of investment incentives on the levels of foreign direct investment to a particular region or group of countries. However, the same concepts and theory can be applied at a local government level. UNCTAD (2003) has identified three main categories of incentives used by national and local governments across the world to attract foreign investment, namely:

- **Financial incentives**, such as outright investment grants to cover part of the investment costs; subsidized loans at special rates and loan guarantees; and provide venture capital and government insurance to partially cover high risks such as exchange rate volatility, expropriation, and many more.
- **Fiscal incentives** such as tax holidays; reduced tax rates; accelerated depreciation of investments and reinvestment allowances; reduction in labour regulatory costs such as social security; duty exemptions on capital goods, equipment, raw materials, parts and other inputs related to production; tax credits on imported or exported goods; preferential treatment of export income; reduction of taxes on foreign expatriates, to name but a few.
- **Other incentives**, including regulatory concessions such as exemptions from labour, health or environmental standards; guarantees that regulations will not be changed to the detriment of investors; subsidized infrastructure of services including electricity, water,

transportation, and telecommunication; subsidising assistance to find finance, conduct pre-investment studies, obtain market information, training assistance, etc.; market privileges, such as preference to government contracts, monopoly rights or import protection; and special treatment with respect to foreign exchange.

UNCTAD (2003) reported that financial and fiscal incentives are the most frequent types of incentives employed by national governments. Developing countries often prefer fiscal instruments, such as tax holidays, concessionary tax rates, accelerated depreciation allowances, duty drawbacks and exemptions, where the cost of the incentive is ex-post to its implementation. Developed countries mainly use financial incentives, including cash grants and interest-free or subsidized loans, where the cost of the incentive is often ex-ante to its implementation.

Incentives are internationally regulated by the WTO Agreement on Subsidies and Countervailing Measures (SCM), and a handful of International Investment Agreements (IIA). The SCM Agreement covers any kind of fiscal or financial incentive that relates to trade in goods and services, and is found to be “specific” at odds to the Agreement itself. It does not include regulatory incentives, like the lowering of environmental or social standards, nor does it include general infrastructure advantages. Thus, the SCM Agreement mainly applies to fiscal and financial incentives, but does not impose any obligations on governments concerning the granting of regulatory incentives or upon the provision of general assistance to businesses (UNCTAD, 2003).

International experience has shown that incentives can be both positive and negative for developing countries. On the one hand, incentives can be a tool for countries to pursue their development strategies. For example, incentives can reduce deficiencies in the local business environment, or they can help correct the failure of markets to capture wider benefits from externalities of production. At the sub-national levels, incentives are often seen as a means on industrial transformation, capable of bringing high-skilled employment, research capability and technology to new geographic areas.

On the other hand, incentives may increase competition between countries / localities and redirect scarce resources away from much needed development. Competition between investment locations could result in an “incentive race” where countries or localities develop incentives to “out compete” or trump the other country or locality’s incentives, to the detriment of the communities in these areas. Furthermore, incentives may distort market signals and thus promote uneconomic investment, which is perhaps the most difficult issue to deal with in the design of incentives and comparison of different countries' practices.

The fact is that the increasing competition for foreign investment gives rise to the question of whether a country which already has an attractive investment climate should seek to further enhance its competitive position and, if so, by what means and how far should it go. Furthermore, incentives should only promote those activities that create positive externalities emanating from investment.

It is often “soft” incentives that impact on the investment decision, such as the overall image of the locality as a favourable investment climate within the national and international investment community, safe and secure neighbourhoods, the ease and speed of facilitating investment

applications of prospective and current investors, providing ‘aftercare’ to investors beyond the initial investment and the general protection of foreign investments, thereby reducing the possibility that investments made earlier do not leave the area, but expands over time. Furthermore, the quality of the investment incentive is just as important as the size of the investment incentive. Investments incentives should encourage the transfer of high technology knowledge, and/or the creation of backward and forward linkages with other businesses, which is more desired and valued by host localities.

The high level of competition for investments requires that the investment potential and the associated incentives of a locality be actively promoted to potential investors, often requiring proactive targeting. Targeted investment promotion can be a crucial factor since potential investors may be locational indecisive, where some promotional ‘push’ is what is needed to tip the balance.

It is important to note that incentives will normally have a direct financial and/or economic cost, such as a loss in government revenues or direct cost to the relevant government. This is especially important for local government, since the financial burden of investment incentives lies with the respective sphere of government, which is hoped to be recouped over time. The use of incentives should therefore be restricted by accurate targeting of potential investments that would not otherwise be made in the country, and by the selection of incentives which have as low financial and economic costs as possible. Therefore, it is imperative that the full impacts and implications of the incentives be understood prior to being offered and should not compete with other countries’ or localities’ incentives. As such investment incentives should be:

- Generally available;
- In proportion to the expected benefits;
- Clearly causal or closely linked with the actual investment;
- Non-trade distorting;
- Oriented toward long-term investment;
- Of limited duration, i.e. temporary;
- Rooted in a coherent business model; and
- Non-discriminatory and transparent.

Important, transparency relates to the openness and impartiality of the decision-making process in the design, introduction and administration of incentives. A lack of transparency may be the single greatest cost of incentive programmes, because it creates significant possibilities for corruption and other types of rent-seeking behaviour. This in turn can be detrimental to the development of competitive markets and indeed to development itself.

Implications for NMBM:

- Improving the general investment climate and business environment in NMBM will have a much greater impact on investment attraction and retention than providing hard/direct financial incentives, which only have a marginal impact on the investment decision of foreign investors.
 - NMBM should beware of creating an “incentive race” to attract investment with other local municipalities in SA
-

- NMBM must be mindful of the fact that incentives will be a direct burden on the fiscus of the NMBM in either direct costs incurred to attract and secure the investment, or future income foregone.
- The incentives NMBM should offer must be aligned to incentives offered by other agencies in SA and encourage investment in strategic economic areas so as to avoid wasting precious resources on uneconomic investments.
- General principles of investment incentives are:
 - Non-discriminatory
 - Transparent to avoid corruption and other rent-seeking behaviour;
 - Generally available to everyone that meet the criteria;
 - Should focus on the long term economic vision of the area; and
 - Be of a limited duration to individual businesses.

2.3 Investment Support By South African Government

The Department of Trade and Industry (DTI) is the responsible government department for providing investment support to investors investing in South Africa. The DTI has developed various incentives to improve the investment climate in SA and attract investment to SA. In addition, it is supported by the other government institutions such as the IDC, Khula Enterprise Finance, SEDA and others in providing direct and in-direct support to investors. The following sections provide a brief description of these investment support initiatives.

2.3.1 DIRECT INVESTMENT INCENTIVES BY DTI

The DTI offered more than 90 incentives to a variety of investors in the early 2000s. The Department of Trade and Industry (DTI) undertook a comprehensive review of the investment incentives provided in South Africa between 2003 and 2006. As a result, it has withdrawn some incentives, collapsed some into new incentive programmes and continued a few. Table 2.1 below shows the current general and widely available incentives offered by the DTI specifically to reduce the costs of investing in South Africa.

Table 2.1: Investment incentives offered by the DTI

Name	Description	Qualifying criteria of the incentive scheme	Contact Details
Black Business Supplier Development Programme (BBSDP)	<p>It is an 80:20 cost-sharing grant which offers support to black-owned enterprises in SA. The scheme provides eligible companies with access to business development services that assist them to improve their core competencies, upgrade managerial capabilities and restructure their processes to become more competitive. The grant mount should not exceed 25% of the entity's previous year's turnover, with the maximum amount per enterprise being R100,000.</p>	<p>The enterprise must::</p> <ul style="list-style-type: none"> • Be majority black owned and have a significant representation of black managers on their management team • Have maximum annual turnover of R12 million per annum • Have a minimum trading history of one year • Comply with commercial regulatory requirements applicable to their areas of business including registration with CIPRO and SARS 	<p>BBSDP Secretariat: 012 394 1444 012 394 1426</p>
Critical Infrastructure Programme	<p>It is a non-refundable, cash grant available upon the completion of the infrastructure project. Qualifying infrastructure may be the structural foundations or permanent network facilities via which enterprises and society in general receive or supply basic services such as transport, electricity and water, sanitation, telecommunications etc. The infrastructure should be accessible to the general public and other investors.</p> <p>The CIP supports only the construction of the infrastructure that enables the investment project or the expansion of existing fixed investment. The scheme covers 10% - 30% of the total development costs of the qualifying infrastructure.</p>	<p>Infrastructure must be critical, i.e. the investment would not take place:</p> <ul style="list-style-type: none"> • without the CIP funding contribution • if the infrastructure projects would be executed without the CIP contribution • it can be proven that it would be of a smaller scale, or • lower quality, or • would be established at a later stage than the period than when it was intended. 	<p>CIP Secretariat: 012 394-1223 012 394 1424</p>
Business Process Outsourcing and Off-shoring (BPO&O)	<p>The objective of the incentive is to attract local and foreign BPO&O investment that primarily serve offshore clients.</p> <p>It comprises of:</p> <ul style="list-style-type: none"> • an investment grant ranging between R37 000 and R60 000 per seat and • a training support grant towards costs of company specific training up to a maximum of R12 000 per agent. <p>The training and skills support grant provides support in respect of company specific training requirements.</p>	<p>For Investment Incentive Grant:</p> <ul style="list-style-type: none"> • Must be starting a new or expanding an existing BPO&O operation • Must be approved prior to starting commercial operations • Must establish an operation of at least a 100 seats and create employment for at least 200 agents by the end of its 1st year in operation • Must commence its commercial operations within 1 year from the date of the BPO grant approval • Must generate at least 90% of its revenue from servicing offshore clients, except where operations existed in SA prior to March 2006, where 70% will apply 	<p>Secretariat 012 394 1425 012 394 1261</p>

NMBM Investment Incentive Policy: Situational Analysis & Strategic Framework

Name	Description	Qualifying criteria of the incentive scheme	Contact Details
	<p>It is effective from 6 Dec. 2006 to 31 Mar. 2011.</p>	<p>For training and skills support grant:</p> <ul style="list-style-type: none"> • Must prove that it has incurred expenditure on qualifying training and skills development activities. • Must qualify for an investment grant prior to accessing a training & skills support grant. <p>Projects not qualifying:</p> <ul style="list-style-type: none"> • Where it is expected to displace existing jobs within SA • Where it has received or approved to receive industrial incentive benefits under the SMEDP or its successors 	
<p>Sector Specific Assistance Scheme</p>	<p>It is a reimbursable cost-sharing grant scheme to:</p> <ul style="list-style-type: none"> • Develop an industry sector as a whole • Develop and grow exports • Stimulate the participation of SMEs • Promote BEE and Women Empowerment (WE) <p>It focuses on non-profit business organisations in sectors and sub-sectors of industries prioritised by the dti:</p> <ul style="list-style-type: none"> • Agro-processing • Chemical Allied Industries • Electronic Industries • Textile and Clothing • Metals and Allied Industries • Machinery, Allied and Electrical Industries • Motor Industry Components • Creative Industries • ICT 	<p>The following registered entities in DTI priority sectors can apply:</p> <ul style="list-style-type: none"> • Export Councils • Industry Associations • Joint Action Groups <p>Must be for developmental, not administrative projects.</p>	<p>Secretariat 012 394 1425 012 394 1261</p>
<p>Cooperative Incentive Scheme (CIS)</p>	<p>It is a 90:10 matching cash grant for registered co-operatives in the emerging economy to acquire competitive business development services, i.e. it provides up to R300,000 to a co-operative for:.</p> <ul style="list-style-type: none"> • Business development services 	<ul style="list-style-type: none"> • Must be a registered cooperative in SA • Must operate / will operate in the emerging sector • Adhere to co-operative principles • Be an emerging co-operative owned by HDIs • Biased towards rural and semi-urban areas, as well as 	<p>Secretariat 012 394 1425 012 394 1261</p>

NMBM Investment Incentive Policy: Situational Analysis & Strategic Framework

Name	Description	Qualifying criteria of the incentive scheme	Contact Details
	<ul style="list-style-type: none"> • Business profile development • Feasibility studies / market research • Production efficiency • Technological improvement projects • Plants and machinery • Start-up requirements • Working capital requirements 	<p>women, youth and people with disability</p>	
<p>Enterprise Investment Programme – Manufacturing Investment Programme</p>	<p>The primary objective of the MIP is to stimulate investment within manufacturing to enhance the sustainability of manufacturing investment projects by small enterprises and to support large-to-medium-sized investment projects in manufacturing that would otherwise not be established without the grant.</p> <p>It provides investment grant of up to 30% of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings, required for establishing a new production facility; expanding an existing production facility; or upgrading production capability in an existing clothing and textile production facility. The grant payment is subject to the approved project achieving the stipulated performance requirements of investment and employment creation.</p> <p>The effective date for receipt of applications under this programme is from 2008 till 2014.</p>	<ul style="list-style-type: none"> • Must be a registered legal entity in SA in good standing • The investment must constitute a new production facility; expansion of an existing production facility; or upgrading of production capability in an existing clothing and textile production facility. • Must be classified as a manufacturing enterprise as per SIC • Must apply and receive approval before acquiring the qualifying investment assets, and apply between 3 and 12 months before commencing production. • Proven financial sustainability of the project and the need for the incentive grant 	
<p>EIP – Tourism Support Programme</p>	<p>The targeted incentive programme supports the development of tourism enterprises that will stimulate job creation and encourage a geographic spread of tourism investment outside the highly concentrated tourist areas in Johannesburg, Cape Town and eThekweni.</p> <p>It offers a grant of up to 30% or R30 million towards qualifying investment costs for establishing and expanding existing operations in South Africa. The incentive is available qualifying</p>	<ul style="list-style-type: none"> • Must be a registered legal entity in SA in good standing • Must constitute a new investment or the expansion of an existing tourism project, with the cost of the qualifying investment in furniture and equipment, vehicles, land and buildings, eligible for the grant capped at R200m. • Must be classified as a tourism business and all business activities must be disclosed • Must create a minimum number of full-time employment 	

NMBM Investment Incentive Policy: Situational Analysis & Strategic Framework

Name	Description	Qualifying criteria of the incentive scheme	Contact Details
	<p>investment costs of furniture, equipment, vehicles, land and buildings of up to R200 million. It is subject to stipulated performance requirements of employment creation, Broad-Based Black Economic Empowerment (BB-BEE), location and investment.</p> <p>The effective date for receiving applications under this programme is from 2008 till 2014.</p>	<p>opportunities ranging from 8 new jobs for investments of less than R5million to over 85 jobs for investments over R150million.</p> <ul style="list-style-type: none"> • Must achieve a minimum score of 64 on the DTI’s BB-BEE Code of Good Practice scorecard. • Must be located outside the highly concentrated tourist areas in the Johannesburg, Cape Town and eThekweni metros. • Must apply and receive approval before acquiring the qualifying investment assets, and apply between 3 and 12 months before commencing production. • Proven financial sustainability of the project and the need for the incentive grant 	

Source: DTI (www.dti.gov.za)

The DTI reported that it has raised awareness of its new incentives amongst key public sector officials, including municipal and provincial trade and investment facilitators. Countrywide training of key municipal and provincial officials will be undertaken in early 2009 in order for them to assist investors in applying for DTI incentives. After this, the DTI will raise broader awareness of the new incentives amongst private sector businesses and investors. This is done to ensure that institutional expertise is in place to assist investors from the private sector when they approach the relevant officials for assistance.

2.3.2 OTHER INVESTMENT SUPPORT INITIATIVES BY DTI

In addition to the investment incentives presented above, Table 2.2 provides a list of other investment assistance offered to South African businesses wanting to invest in new opportunities, new technology or expand existing investments. These are mostly indirect assistance to investment including credit guarantees, development finance, export assistance and local production support.

Table 2.2: Other DTI investment support initiatives

Category	Name of Programme	Description	Contact Details
Small Business Development	<ul style="list-style-type: none"> Emerging Entrepreneur Credit Guarantee Scheme Empowerment Credit Guarantee Scheme Individual Credit Guarantee Scheme Institutional Credit Guarantee Scheme Standard Credit Guarantee Scheme Danida Business to Business Programme (Credit Guarantee Scheme) 	The credit guarantee schemes improves access to and reduces the cost of credit from existing financial institutions for investors with insufficient collateral by providing security and partly guaranteeing the debt incurred by these investors. These schemes are offered through Khula Enterprise Finance.	<p><u>National:</u> Tel: 0800 118815</p> <p><u>Eastern Cape (P.E.):</u> Tel: 041 363 2570 Fax: 041 363 2571</p> <p>Web: www.khula.org.za</p>
	• Micro Credit Outlets (KhulaStart)	Provide finance to micro businesses using group lending practices by establishing micro credit outlets in existing non-profit organisations.	
	• Retail Financial Intermediaries	Provide financing for investment by groups and entrepreneurs through registered retail finance institutions	
	• Regional Equity Funds	Provide equity finance for investment to emerging entrepreneurs that is below the threshold of existing venture capitalists / private equity.	
	• The Land Reform Credit Facility	Aim to stimulate and encourage private sector participation and involvement in the Land Reform process by provides incentives to commercial banks and private investors to support joint venture agriculture, agribusiness and ecotourism investments.	
	• Dutch funds available for investments in South Africa	Funds available for Dutch companies wanting to invest in SA through joint ventures with SA firms.	
Technology and Innovation Support	• Technology and Human Resources for Industry Programme (THRIP)	THRIP supports research and technology development by South African industry and to enhance the quality and quantity skills in SA. It brings together researchers, academics and industry players in funding partnerships to improve the quality of their products, services and people. THRIP funds a third of costs of eligible projects, with industry funding the rest. THRIP is managed by the National Research Foundation (NRF)	<p>Tel: (012) 481-4078 Fax: (012) 481-4197</p> <p>Web: http://www.nrf.ac.za/thrip/</p>
	• Support Programme for Industrial Innovation (SPII)	An innovation support programme, administered by the IDC, with three main support schemes:	<p>Tel: +27 (11) 269 3073 Fax: +27 (11) 269 3126 Web: www.spii.co.za</p>

NMBM Investment Incentive Policy: Situational Analysis & Strategic Framework

Category	Name of Programme	Description	Contact Details
		<ul style="list-style-type: none"> • Matching Scheme: Provides a 50% grant with no payback (maximum grant R1,5 million) only to SMEs for innovative development of new products and processes. • Partnership Scheme: Provides a 50% grant (larger than R1,5 million), and a payback mechanism based on sales from the new product or process to any company. • Product Process Development Scheme: Provide a taxable, non-repayable grant between 65% and 85% of the total qualifying costs incurred in pre-competitive development activity associated with specific development project by a small enterprise, up to a maximum grant amount of R500 000 per project. 	
	<ul style="list-style-type: none"> • National Fibre, Textile and Clothing Centre (NFTCC) 	Supports development and adoption of new technology and processes in South African textile and clothing businesses to become more globally competitive. It also established links with global institutions to incorporate fibre technologies and the transfer knowledge and skills; offer entrepreneurial training, guidance advice to the industry; and providing incubation facilities, advice, equipment and mentoring to increase the number and sustainability of new SMMEs.	Centre Manager Abisha Tembo CSIR – M & Mtek PO Box 1124 Port Elizabeth 6000 Tel: +27 (41) 508 3262
	<ul style="list-style-type: none"> • Venture Capital Fund (South African Intellectual Property (SAIP) Fund) 	Provides equity finance for risky, new technology-based firms unable to secure normal commercial funding. Funding is provided for the seed and start up stages of new businesses, with some investment in later stages. Investors in the SAIP Fund include the DTI, Sanlam Investment Management, the CSIR, University of Pretoria, and the IDC. The SAIP Fund is managed by Triumph Venture Capital.	Triumph VCM Tel: +27 (012) 349 2376 Fax: +27 (012) 349 2378 Web: www.triumphvc.co.za
	<ul style="list-style-type: none"> • Technology Linkages Programme 	Establishes partnerships between the DTI and key industries to identify the needs, develop sector strategies, and identify potential areas of innovation and support in key sectors. In particular, it aims to disperse information on global technology trends to key industry stakeholders through the Technology Advisory Centre.	Technology Linkages Tel: +27 (12) 394 1272 Fax: +27 (12) 394 2272
	<ul style="list-style-type: none"> • SEDA Technology Programme (stp) 	Consolidating govt support for technology development by SMMEs	More information at

NMBM Investment Incentive Policy: Situational Analysis & Strategic Framework

Category	Name of Programme	Description	Contact Details
		through merging the Godisa Trust, National Technology Transfer Centre, (NTTC) and technology incubators such as the Mpumalanga Stainless Steel Initiative, Furntech and Downstream Aluminium Centre for Technology, amongst others. It creates & supports technology business centres, incl. incubators and technology demonstration centres, that provide business support services and office infrastructure to small enterprises, in particular small enterprises in the 2 nd economy.	www.stp.org.za Tel: +27 12 441 1117 Fax: +27 12 441 2117
Export Assistance	<ul style="list-style-type: none"> Export Marketing and Investment Assistance Scheme (EMIA) 	<p>The EMIA scheme partially compensates exporters for costs incurred to develop export markets for South African products and services, and recruit FDI into South Africa. In particular, the EMIA provides support for:</p> <ul style="list-style-type: none"> Primary Export Market Research and Foreign Direct Investment Research Individual Inward Bound Mission National Pavilions Individual Exhibitions Outward Selling Trade Missions Outward Investment Recruitment Missions Inward Buying Trade Missions Inward Investment Missions Sector Specific Assistance 	
	<ul style="list-style-type: none"> Productive Asset Allowance 	<p>The purpose of this offering is to reduce the amount of vehicle platforms and models locally assembled coupled with increased investment and exports with increased local content. The offering will save the customer money by using the rebate certificate to off-set import duties on built up vehicle imports.</p>	<p>Tel: 0861 843 384 Fax: 0861 843 888</p>
Sector Specific Support Incentives	<ul style="list-style-type: none"> Renewable Energy Subsidy (DME) Steel rebates and concessions (DTI) Motor Industry Development Programme (DTI) 	<p>These are sector specific incentives to encourage local production for export markets, procure locally produced goods in the manufacture of export goods/services and/or improve the competitiveness of SA producers in the global market.</p>	<p>More info is available from the respective departments / organisations.</p>

Category	Name of Programme	Description	Contact Details
	<ul style="list-style-type: none"> Fuel levy rebate (National Treasury) Film Production Incentive (IDC) Duty Credit Certificate Scheme (DTI) 		
Trade Agreements	<ul style="list-style-type: none"> SA-EU Trade Agreement Africa Growth and Opportunity Act (AGOA) Southern African Development Community (SADC) Southern African Customs Union (SACU) 	Provides manufacturers of specific products and services in SA with preferential access to key regional and international markets.	More information at: www.sars.gov.za

Source: DTI 2008

2.3.3 INVESTMENT FINANCE

In addition to the indirect financial support provided through the various credit guarantee schemes identified above, the SA government also offers direct financial support for investments through the following institutions:

- Industrial Development Corporation (IDC);
- Khula Enterprise Finance;
- South African Micro-Finance Apex Fund (SAMAF);
- National Empowerment Fund (NEF); and
- Export Credit Insurance Corporation (ECIC).

INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

The IDC is a self financing national Development Finance Institution (DFI) focussing on funding commercially sustainable industrial development and innovation in South Africa and the rest of Africa. In particular, the mandate of the IDC is to:

- Facilitate, promote and assist in the financing of new industries and industrial undertakings;
- Facilitate, promote and assist in the establishment/expansion/modernisation of operations in existing industries or related projects;
- Promote economic empowerment;
- Promote the development of SMMEs / cooperatives.
- Promote employment-creating activities, particularly in underdeveloped areas.
- Encourage the establishment and growth of new technology-based organisations.
- Enhance corporate governance in order to promote business excellence.
- Consider investment proposals in large beneficiation projects in order to secure the viability of mid and downstream manufacturing activities.
- Develop and appraise large investment projects and secure co-investment from foreign partners.
- Promote viable investment projects in spatial development initiatives and industrial development zones.
- Support South African exporters and importers of capital goods and services by providing extended credit facilities.

The IDC has a number of specialised business units (SBUs) through which it provides investment finance and other business support to investors. This is identified in Table 2-3.

Table 2.3: Specialised Business Units of the IDC

Sector SBUs	Finance SBU	Other
<ul style="list-style-type: none">• Chemicals and Allied Industries• Metal, Transport and Machinery Products	<ul style="list-style-type: none">• Risk capital facility• Agency development & support	<ul style="list-style-type: none">• Africa Unit

Sector SBUs	Finance SBU	Other
<ul style="list-style-type: none"> • Wood and Paper Industries • 2010! and Construction • Techno - Industries • Textile and Clothing • Healthcare and Education • Transportation, Financial Services, Security and Catering • Food , Beverage and Agro Industries • Mining and Beneficiation • Public and Private Partnerships • Tourism • Franchising • Media and Motion Pictures 	<ul style="list-style-type: none"> • Support programme for industrial innovation • Fund for Research into Industrial Development Growth and Equity • Strategic High Impact Project • International Finance • Venture Capital 	

Source: IDC (2008)

The IDC evaluates each application on its own merits against specific criteria. More information about the IDC offerings is available on their website: www.idc.co.za.

KHULA ENTERPRISE FINANCE LTD (KHULA)¹

Khula, established in 1996 as an independent agency of the DTI, is a wholesale finance institution to the Small and Medium Enterprise (SME) sector of the South African economy. It has well-developed formal ties with commercial banks, retail financial institutions, specialist funds and joint ventures. It provides funding to SMEs through financial intermediaries such as commercial / retail banks. Its products include:

- Khula Credit Indemnity Scheme
- Khula Land Reform Empowerment Facility
- Khula Mentorship Programme
- The non-bank: Retail Financial Intermediaries
- Khula Joint Ventures
 - Business Partners-Khula Start-up Fund
 - Anglo-Khula Mining Fund
 - Regent Factors Ltd
 - Enablis-Khula Loan Fund

SOUTH AFRICAN MICRO-FINANCE APEX FUND (SAMAF)²

The SAMAF is a wholesale funding institution established in April 2006. It must facilitate the provision of affordable access to finance by micro small and survivalists business for purpose of growing their income and asset base – a function previously done by Khula. It must also act as

¹ Website: www.khula.org.za

² Website: www.samaf.org.za

catalyst in the development of a vibrant micro-finance industry in SA in order is to extend financial services into the rural areas, informal and peri-urban settlements of SA.

SAMAF works in partnership with community based partner organizations like financial services co-operatives (FSC), village banks and medium to large micro-finance institutions (MFI).

NATIONAL EMPOWERMENT FUND (NEF)³

The NEF was established in 1998 for the purposes of promoting and facilitating economic equality and transformation to redress the economic inequalities bequeathed by apartheid to historically disadvantaged persons (HDPs), i.e. to support Broad-Base Black Economic Empowerment. Its main goals are to:

- Provide HDPs with an opportunity to acquire shares in both restructured state-owned assets and private business enterprises;
- Encourage a culture of savings and investment among HDPs;
- Foster a culture of entrepreneurship;
- Promote and support business ventures pioneered and run by HDPs; and
- Promote a better universal understanding of equity ownership.

EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA (ECIC)⁴

The ECIC facilitates and encourages South African exports by underwriting bank loans and investments outside SA in order to enable foreign buyers to purchase capital goods and services from SA. The ECIC evaluates export credit and foreign investment risks and provides export credit and foreign investment insurance cover on behalf of government.

2.3.4 INDUSTRIAL DEVELOPMENT ZONES (IDZS)

An IDZ is a purpose-built industrial estate linked to an international sea or air port that leverages fixed direct investments in value added and export-oriented manufacturing industries. Of the existing four IDZs in South Africa, two are situated in the Eastern Cape, namely the East London IDZ and the Coega IDZ near Port Elizabeth. The IDZs encourages beneficiation of locally available resources by:

- Attracting foreign direct investment (FDI);
- Attracting advanced foreign production and technology methods in order to gain experience in global manufacturing and production networks;
- Developing linkages between domestic and zone-based industries;
- Providing world-class industrial infrastructure.

The existing benefits of these IDZs include:

³ Website: www.nefcorp.co.za

⁴ Website: <http://www.dti.gov.za/thedti/ecic.htm>

- A Customs Controlled Area (CCA) with dedicated South African Revenue Services (SARS) officials to provide support for customs and VAT requirements;
- World-class industrial support infrastructure in a secure manufacturing environment;
- Links to an international port of entry;
- Duty suspension on imports for production-related raw materials, including machinery and assets used in production with the aim of exporting the finished products;
- VAT exemptions under specific conditions for supplies procured in South Africa, in particular 0% VAT on inputs from SA used in the manufacturing of products for the export market;
- Exporting from SA to developed markets such as the US and EU within existing trade agreements (AGOA and SA-EU Free Trade Agreement);
- One-Stop investment service;
- Clustering of industries in one location;
- Relatively low land costs;
- Reduced utility costs achieved through preferential agreements;
- Quick implementation and construction to reduce time to market
- Compliant in international quality standards (ISO 14001) to assist manufacturers in accessing developed markets in EU and US;

Both the Coega IDZ and East London IDZ have been operational for a few years, but take up of industrial space within the IDZs has been slower than expected. There are currently just less than 20 investors in the Coega IDZ, consisting mostly of small to medium enterprises. Possible reasons for the slow take up of space in the Coega IDZ were identified as (CDC, 2005):

- High level of competition between the plentiful IDZs and export processing zones (EPZs) worldwide offering a variety of incentives to industry, with preferred IDZ destinations for FDI being India, China and Thailand;
- Lack of Coega IDZ specific incentives is a disadvantage over other global IDZ competitors;
- India have the cheapest property, labour and utilities costs amongst the IDZs studied;
- Comparatively low industrial rentals in SA; and
- Offer medium to long-term, build-to-order factories & offices (top structure leases) and less focus on freehold land, in line with international trends.

The CDC (2005) report found Coega's service infrastructure and deepwater port facilities compared favourably with the best on offer anywhere in the world. In addition, Coega's web portal was found to be one of the most accessible, informative and up to date amongst the IDZ locations studied.

2.3.5 URBAN-DEVELOPMENT ZONES

The National Treasury launched the urban renewal tax incentive to encourage the refurbishment and construction of commercial and residential properties in South Africa's 16 major cities. There are two financial incentives for investors, i.e.:

- Companies that redevelop buildings in the country's inner cities will get a 20% tax deduction from all income earned in the first five years after a building has been refurbished; and
- Companies that develop new buildings will get a 20% tax deduction in the first year the building earns an income, plus an annual depreciation of 5% for the next 16 years.

This incentive supports other initiatives, such as policies to write off existing bad debt from inner city buildings in order to allow for these buildings to be sold, restored and refurbished. The incentive also aim to encourage investment in affordable inner city rental housing, as well as being a catalyst for public-private partnerships in mixed-used developments that provide social facilities integrated into new commercial and residential developments.

The municipalities identified for participating in the UDZ incentive scheme is listed in Table 2-4.

Table 2.4: List of municipalities targeted for UDZ

Province	Municipality
Eastern Cape	Buffalo City (East London) Nelson Mandela (Port Elizabeth)
Gauteng	Ekurhuleni (East Rand) Johannesburg Tshwane (Pretoria)
Western Cape	Cape Town
Mpumalanga	Emalaheni (Witbank) Mbombela (Nelspruit)
Free State	Emfuleni (Vaal Triangle) Mangaung (Bloemfontein) Matjhabeng (Welkom)
KwaZulu-Natal	eThekwini (Durban) Msunduzi (Pietermaritzburg)
North West	Mafikeng
Northern Cape	Sol Plaatje (Kimberley)
Limpopo	Polokwane

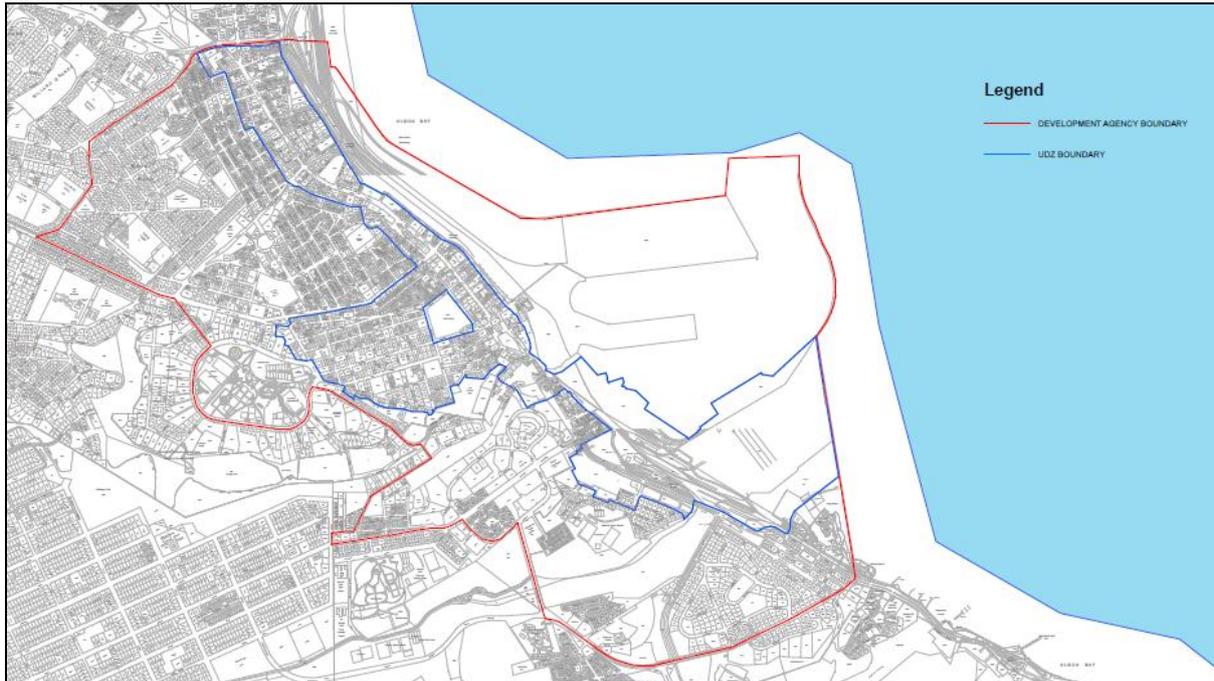
Source: National Treasury

The following conditions are applicable to investors to be eligible for UDZ incentive:

- A building in the UDZ must be refurbished, improved, erected
- This building must be solely used for the investor's trade
- The investor must receive a certificate of occupancy for the building from the relevant municipality.

The UDZ incentive scheme in Nelson Mandela Bay is administered by the Mandela Bay Development Agency (MBDA) on behalf of the NMBM. The delineation of the UDZ area in NMBM is presented in Figure 2.2.

Figure 2.2: Map of UDZ area in NMBM



Source: MBDA (www.mbda.co.za)

Implications for NMBM:

- There are various investment incentives and other financial and non-financial support for investment offered by the SA government. NMBM incentives should be aligned to these national incentives and support initiatives.
- Many companies do not access national investment incentives and other support due to the complicated and time consuming nature of applications. The refinement of investment incentives by the DTI and planned training of municipal officials should enable the NMBM to assist local investors in accessing these national incentives and other support initiatives.
- The DTI will be moving their Eastern Cape office from Port Elizabeth to East London, which will impact on local investors' access to DTI support. It is important for the NMBM to maintain close ties with the DTI to reduce this impact.
- The NMBM should establish working relations with other organisations listed above in order to facilitate greater investment in the Nelson Mandela Bay area.
- Take up of industrial space at Coega is expected to rapidly increase once the Port of Ngqura becomes operational in 2009.
- The Coega IDZ presents NMBM with a valuable asset to attract industrial / manufacturing investment to the area.
- Developers and investors in NMBM CBD should be encouraged to apply for the UDZ Incentives.

2.4 Investment Support In The Eastern Cape

There are no provincial specific costs to investment in South Africa, i.e. no investments costs that are directly attributable to the specific provincial government. As such, no direct/hard investment incentives are offered to investors by provincial governments in South Africa. However, most provinces do provide investment facilitation services and other soft incentives, with the Eastern

Cape Development Corporation (ECDC) responsible for this in the Eastern Cape. In addition, there are two Industrial Development Zones (IDZs), located within the Eastern Cape.

2.4.1 EASTERN CAPE DEVELOPMENT CORPORATION (ECDC)

The ECDC is the official economic development and investment agency of the Eastern Cape Government established in 1996. It is mandated to plan, finance, co-ordinate, market, promote and implement the development of the Eastern Cape Province and its people in the fields of industry, commerce, agriculture, transport and finance. It works with provincial and national ministries, municipalities, chambers, private business, communities and other development agencies to implement the economic development policies of the Eastern Cape provincial government, as contained in the Eastern Cape PGDP.

The ECDC aims to:

- Attract new investors and position the Eastern Cape as the investment target of choice;
- Stimulate exports;
- Facilitate economic development;
- Derive value from our assets, including our large property portfolio;
- Build existing businesses and create opportunities for new business;
- Facilitate start-up businesses;
- Grow and sustain existing markets and developing new markets;
- Improve access to enterprise finance for SMEs in the Eastern Cape

In order to achieve this, the ECDC has established the following programmes and business units:

Table 2.5: Business units of the ECDC

Development Finance Unit	Offers short- and long-term debt and/or equity financing at competitive rates to small and medium enterprises lacking the standard collateral to obtain loan financing by employing more progressive methods of risk evaluation of management capacity and business viability. The businesses must have their headquarters in the EC or the major developmental impact of the investment must be in the province.
Investment Promotion Programme	<p>The programme assists investors in:</p> <ul style="list-style-type: none"> • Identifying and accessing business opportunities within key sectors in the EC • Facilitate and finance joint ventures with local partners; • Access investment incentive schemes and local business service networks; • Access a diverse portfolio of available land and buildings; • Plan Corporate relocations and access aftercare services and • Lobby provincial and national government for relevant interventions. <p>This programme is organised around several sectors, i.e.:</p>

	<ul style="list-style-type: none"> • Agriculture and agro-processing; • General manufacturing, automotives and energy; • Business Process and Outsourcing; ICT and Film; Tourism and Cultural Industries and • Aquaculture, Fisheries and Environmental Management.
<p>Trade Promotion Unit</p>	<p>The unit, which is located in Port Elizabeth and East London, aims to grow the value of exports and providing access to foreign markets for Eastern Cape products. It assists small to medium sized Eastern Cape exporters to access offshore markets, in particular Africa, the mid-East and Asia. The unit has wide ranging access to these foreign markets through preferential trade agreements at regional and bilateral level. The unit helps potential exporters to:</p> <ul style="list-style-type: none"> • Evaluate their export potential and readiness; • Access potential markets by organizing trade missions to key international markets; • Gain access to the national government's export incentive programme; • Gain insight into new markets by providing basic country and market data; • Access global networks by registering on ECDC's e-platform which enables manufacturers to market their products online to international buyers; • Match the exporter to overseas agents, distributors, JV partner buyers; • Gain opportunities through a trade-lead information service; • Understand complex export issues through export workshops and seminars; • Organise and prepare businesses for participation in trade fairs/ exhibitions.
<p>Enterprise Development Services</p>	<p>The Programme aims to assist businesses with a range of sector-specific and demand-led non-financial services (skills development support, business advice, information technology support, and product and market development) and business linkages and networks that strengthen the SME sector. The programme provides development and support to all businesses with a focus on:</p> <ul style="list-style-type: none"> • Arts and culture; • Emerging contractors in the construction industry; and • Service providers who assist with skills development. <p>The programme develops custom made solutions to the specific business, with the type of support depending on the life stage of the business. It collaborates with and acts as an intermediary for other institutions that are active in SME development, including:</p> <ul style="list-style-type: none"> • The Business Referral and Information Network; • SEDA; • Department of Trade and Industry;

	<ul style="list-style-type: none"> • The Centre for Intellectual Property and Registrations Office; • KHULA; • COMSEC and Mdantsane Local Business service centres; and • Business chambers: PERCCI, BKCOB, NAFCOB, AHI.
<p>Project Development Unit</p>	<p>The helps businesses establish pilot projects that are of a strategic nature, are sustainable and which will serve to generate economic activity. It provides advice on how to go about establishing projects, assist in funding business-related studies such as business plans, feasibility studies and environmental impact assessments, and assist with the implementation of the project by linking entrepreneurs with other service providers, funders, government departments and municipalities. Its priority sectors include:</p> <ul style="list-style-type: none"> • Agriculture; • Agro processing; • Tourism and • Property Development.
<p>Property Management and Development</p>	<p>Unit offers SMEs suitable premises at affordable rates through its diverse and substantial property portfolio. It currently manages over 2,000 properties which include over 120 factories, making the ECDC one of the biggest property owners in the province. It has significant residential, manufacturing and warehousing space in:</p> <p>Dimbaza and Fort Jackson; Butterworth; Mthatha; and Queenstown.</p> <p>In addition, ECDC also has a range of industrial and commercial properties in rural towns that are situated in the former Transkei and Ciskei. ECDC's property rates currently range from R3.50 to R15.00 / m² for factory space, and from R15.00 to R70.00 /m² for commercial premises.</p>
<p>Spatial and Rural Projects Unit</p>	<p>The unit's objective is to unlock the investment opportunities in the former Transkei and Ciskei, fast-track government decision making, provide planning advice to municipalities and provincial government departments, project scoping and planning, facilitate active participation of communities, and co-ordinate development efforts in those areas.</p> <p>It assists initiatives or projects that focus on strategic economic development clusters in key nodal points in the province, such as Mthatha, Butterworth and Port St. Johns. The priority focus areas are:</p> <ul style="list-style-type: none"> • The tourism cluster in Port St Johns;

- Timber processing;
- IPD support programme;
- Rural development programme;
- The coastal programme; and
- Critical infrastructure planning.

Source: ECDC (2008)

The head office of the ECDC is in East London, with regional offices in Port Elizabeth, King William's Town, Queenstown, Butterworth and Mthatha. More information is available on the ECDC website (www.ecdc.co.za).

Implications for NMBM

- The ECDC had the necessary resources and expertise in offering financial and non-financial support to investments in NMB, which NMBM could promote and facilitate
- The location of a large ECDC office in the NMB area provides firms in the NMB area easy access to the services and products of the ECDC.
- A stronger relationship between the ECDC and NMBM would promote the interests of the city in terms of attracting investment and participate in ECDC activities, incl. trade and investment missions abroad.

2.5 Investment Incentives By Local Municipalities In South Africa

The Department of Provincial and Local Government (2003) has warned that incentive schemes can have a negative impact on local economic development. For example, incentives may have little impact on job creation; it may lead to the destruction of existing businesses in a local area by favouring new competition; it may divert attention and resources away from other critical areas, including supporting local business and improving the local business climate; and it could easily result in a situation where municipalities compete with one another to attract investment. Despite these possible negative aspects of incentives, many believe that opportunities may be lost by those municipalities that do not offer incentives. It is therefore important to determine what incentives are actually needed to encourage firms to locate in a community, i.e. to overcome the existing investment constraints.

Incentives should be seen as part of the overall economic development policy, and be transparent and available on equal terms to all investors. It should focus on those activities that create the strongest potential for spillovers. Given the marginal role of incentives in investment decisions, it is important that incentives form part of a larger package of investment tools which can be used by the municipality to positively influence the local economy, and enhance the development potential of the area. Investment tools are utilised as a means of achieving specific development objectives and investment targets. Among these targets are the following:

- **Geographic targets:** This is when an area within the municipality is demarcated as a location for further development and investment, such as urban renewal, township development, development corridors, etc.
- **Entrepreneurial targets:** This entails focusing on specific types of enterprises as a means of encouraging certain kinds of investment to an area, such as high-tech companies in a techno park, SMMEs, informal enterprises, etc.
- **Business targets:** This involves identifying the most relevant sectors of the economy and addressing both the flow and maintenance of business activity within a community. Examples include business attraction, retention and expansion; industry diversification, etc.
- **Occupational targets:** This concerns economic development within the context of employment. This does not involve the targeting of a specific area, enterprise or sector. Examples are entrepreneurship, internal research and development, and administration processes.

Municipal investment tools aimed at achieving the targets above can take various forms. The Department of Provincial and Local Government (2003) has identified three general types of investment tools used by municipalities to influence the local economy, namely:

- **Cost reduction tools** are designed to encourage investment by reducing the costs to potential investors and are often utilised by municipalities to assist investors in lowering the costs of relocation, or the establishment of new plant facilities. Examples include: lower rate payments, donation of land or unused property to developers.
- **Capacity improvement tools** aim at streamlining the development application process by addressing inefficiencies, which is a strong disincentive for investors. These are some of the least costly measures that municipalities can adopt. Examples include: collecting market information, institutional restructuring, local economic development agencies, one-stop business centre.
- **Market expansion tools** are designed to assist municipalities in promoting those attributes of a particular area that are attractive for investment. Examples include: advertising, marketing strategies, export assistance, promotional missions, strong local brand.

The specific combination of investment tools a municipality uses depends on a number of factors, including:

- **Municipal population size:** The size of the population has implications for local economic demand. In general, larger cities use more tools more extensively than smaller towns or rural areas;
- **Type of municipality:** The use of investment tools differs significantly between different types of municipal authorities, i.e. district, local or metropolitan. Urban and rural locations also differ with regards to the investment tools offered.
- **Local economic structure:** Certain investment strategies are more conducive to particular conditions than others. For example, cities with economies largely based on manufacturing tend to focus on the diversification of their industrial mix. Cities largely based on retail tend to use investment tools mainly for infrastructure improvements, and marketing.

Most of the fiscal and financial incentives discussed above, such as tax rate reduction, import duty exemptions, loan guarantees, and so on, falls within the sphere of national government. Municipal governance legislation in South Africa limits municipalities' ability to provide fiscal and financial incentives. Municipalities are however, able to provide other types of incentives, such as exemptions from municipal by-laws, subsidized infrastructure of services including electricity, water, transportation, and telecommunication; subsidising assistance to acquire finance, conduct pre-investment studies, obtain market information, training assistance, to name but a few.

Implications for NMBM:

- Investment incentives should not create unhealthy competition between municipalities to attract investment, i.e. the NMBM should avoid incentives that would lead to disinvestment in other municipalities in South Africa
- Investment incentives should be only one of the many tools the NMBM should use to attract and retain investment
- The incentives should be aligned to the economic development strategy and objectives of the NMBM
- The NMBM is restricted by the MFMA and similar municipal legislation in offering direct (hard) financial incentives for investment such as selling / leasing land and buildings at market rates

2.5.1 CASE STUDY: CITY OF CAPE TOWN

Very few municipalities in South Africa have a clear incentive policy to attract investment. The City of Cape Town (CCT) has developed an incentive policy in 2005/6 and planned to pilot it to determine the cost-effectiveness of the incentive. This policy has not yet been implemented. The policy is simple in that it offers only one incentive, a total exemption from property tax for one year as from the date that an occupation certificate was issued for the constructed building to prospective investors in specific geographical areas identified as disadvantaged areas, such as Mitchell's Plain, Khayelitsha, Phillipi and Atlantis. The policy aims at inducing companies that have already decided to invest in Cape Town to set up their facilities in the identified disadvantaged areas of the city. The specific objective is to achieve the construction of additional economic facilities and opportunities in these disadvantaged areas. In addition, the incentive does not aim at making an unsustainable business viable.

The Cape Town Incentive Policy has six guiding principles, namely:

- **Affordability:** The introduction of the incentive should not create a cost to the City and the income forgone should not have a severe effect on the revenue stream of the City.
- **Transparency and Uniformity:** The granting of an investment incentive will be done according to a set of predetermined criteria and information on the actual incentive granted will be open for public knowledge.
- **Targeted:** The investment incentive will only be applicable in specific areas, i.e. areas identified for incentivised economic growth in the IDP.

- **Simplicity:** The structure and administration of the investment incentive have to be easily understandable and should not require a complex administration so as to minimize staff and financial impacts. This will ensure quick turnaround times for applications (urgency and speed is essential to attract and retain investment).
- **Cooperative governance:** The incentive is intentionally modest so as to avoid an incentive and relocation war with other investment locations in South Africa.
- **Continuous review:** The investment incentive will be regularly reviewed to ensure relevance and effectiveness.

It was recommended that the Investment Incentive Policy not be implemented in a “big bang” approach, but rather piloted to determine its cost-effectiveness and to resolve any problems that may arise. This policy has not yet been adopted and implemented by the City of Cape Town. The main reason has been the political and administrative changes in the Cape Town Municipality since then.⁵ At present, the CCT do not offer any financial incentives to investors in addition to the lower rates / tariffs available to all bulk users of the city’s utility services as per the existing rates policies.

The CCT is currently using the same approach as Johannesburg and Durban in focusing on improving the business and investment environment in Cape Town. This approach addresses the main constraints to investment in the CCT as identified by businesses (Wesgro, 2007) listed in Table 2-5.

Table 2.6: Constraints to investment in Cape Town

Broad Constraints to start a business	Specific constraints to start a business
<ul style="list-style-type: none"> • Lack of business support services • Obtaining land and buildings • Crime • Government regulations for starting a new business • Bureaucratic burden • Service delivery reliability • Inadequate quality of infrastructure • Utility service prices • Missing infrastructure 	<ul style="list-style-type: none"> • Red tape (local government) • Labour regulations (starting a businesses) • Red tape (national government) • Telecommunications cost • Electricity reliability • Crime against property • Building regulations • Inadequate roads • Telecommunications reliability • Violent crime

Source: Wesgro (2007)

The existing investment attraction strategy of the CCT is through the formal partnership it has with Wesgro, the trade and investment agency of the Western Cape Provincial Government. The CCT provides financial support for investment promotion to Wesgro who promotes both the Western Cape and Cape Town. CCT also participate in Wesgro events and activities. The main advantages of this approach are the following:

- It avoids duplication of investment promotion services offered by the provincial government at local municipal level.

⁵ As per interview with Mr Visser of the City of Cape Town.

- It increases the budget and resources of Wesgro to more effectively market and promote the Western Cape and Cape Town as an investment destination.
- There is no competition for investment promotion expertise and skills between provincial and local government, ensuring that the best expertise and skills are available for both Cape Town and the Western Cape.
- Integrated investment promotion, with the surrounding areas of the Western Cape promoted as integral of the investment attraction of Cape Town.
- It addresses the main constraints to investment in the CCT as identified by businesses in a Wesgro Research study in 2007.

The main disadvantage of this approach is that Wesgro must also promote investment in other localities in the Western Cape, not only Cape Town, with investment that could have gone to the CCT may go to another municipality with limited impact on Cape Town. Another disadvantage is that internal departments of the CCT may not be conscientious of the impact of their actions and decisions on investment in advance. Problems may arise when the CCT and Wesgro have opposing goals and objectives with regards to investment.

Lessons for the NMBM:

- Piloting an incentive policy will enable the NMBM to monitor and evaluate the effectiveness of and the cost to the NMBM in terms of income foregone and/or direct expenditure incurred to attract investment.
- The NMBM should explore the benefits that a partnership with the ECDC will bring in attracting investment to the city, but be mindful of the potential costs and risks of such a partnership.
- The principles of an incentive policy should be:
 - Affordability to the NMBM
 - Transparency and uniformity
 - Targeted to enhance the economic development of the NMB area
 - Simplicity, making the administration of incentive simple
 - Cooperative governance to avoid an incentive race between municipalities in SA

2.5.2 CASE STUDY: CITY OF TSHWANE

The City of Tshwane developed an Incentives Policy in 2005. It aims to:

- Attract and grow investment
- Focus investment into preferred geographical zones of development;
- Steer investment into desired economic activity as pronounced by clusters;
- Enhance the competitiveness of enterprises within the economic boundaries of the city
- Enable a retention policy to prevent a business from leaving
- In special cases, prevent a facility shutting down and going out of business.

The Incentive Policy distinguishes between short-term and long-term incentives. The aim of the short-term incentives is to draw business to a certain geographical zone or an identified economic cluster. They are offered for a definite time period and/or until a business reaches an a priori level of

maturity based on turnover. The following short-term incentives are included in the Tshwane Incentive Policy:

Table 2.7: Short term incentives offered by City of Tshwane

Type of Incentive	Description
Land Acquisition Discounts	It is a once-off price discount on the purchase of a unit of land and applies to major developments in the city's zones of choice to attract the right type of business to these areas. The city could use municipal land or purchase private land for this purpose. The size of the incentives is dependent on the long term impact of the development.
Tax or levy rebates	Apply to new businesses in the preferred clusters and increased if the businesses are established in the preferred development zones in the city. It is offered for a definite time period and/or until a business reaches an a priori level of maturity based on turnover. It is not used for the purposes of business survival or sustainability of competition.
Subsidise Rent	It is subsidised rent offered to start up or cluster businesses that do not own their own buildings, but are located in buildings provided by the developers.
Discounted / Free Services	Incentive applies to services rendered to businesses by the municipality, incl. water and electricity, and focuses on businesses in the prioritised clusters and/or development zones. It is offered for a predetermined time period, but could be extended longer in special cases.
Accelerated depreciation	Designed to promote refurbishment and new construction of plant and buildings in the designated Urban Development Zone.
Personal Rate reduction	Reducing the personal levies and taxes on municipal services for persons / businesses situated in the economic development zones.

Source: City of Tshwane (2005)

Long term incentives aim to create business environments that will be sustainable, connected and accessible. It is linked to short term incentives in that the latter could be enhanced if the investment makes use of the long term incentives. The City of Tshwane does not necessarily provide these incentives themselves, but facilitate provincial and national incentives focussed on creating businesses attractions in selected geographical areas or economic sectors.

Table 2.8: Long term incentives offered by City of Tshwane

Type of Incentive	Description
Business or industrial parks	Secured areas specifically developed and equipped with road, rail, ICT and service infrastructure, with residential and business services in close proximity and/or linked with effective transport services / connections.
Modern Logistics Systems	A critical element to attract any industrial or commercial investment is an effective logistics management system that include door-to-door delivery, just in time warehousing, etc.
Transport and built environment infrastructure	These are critical infrastructure for any long term investment to take place.

Type of Incentive	Description
Freight and passenger airport	This allows for very quick delivery of imports from and exports to the rest of the world of components and manufactured goods, and provides a short travelling route for business people into an industrial area.
Secure living and business environments	Safety and security is a major determinant of the competitiveness of a business environment and for attracting investment. People have to feel secure at home, at work and while moving around.
Ubiquitous broadband connectivity and access to the internet	Businesses in the modern economy, especially knowledge intensive service industries rely extensively on instant communication with other offices, clients and suppliers. Developing the necessary ICT infrastructure as part of the offering will increase the attractiveness of the investment location.
Convention and meeting centres	Workshops, conferences and exhibitions are part of the modern business world. Creating specific / dedicated facilities for this will increase the attractiveness of the investment location.
Access to financial services	This relates not only access to financial institutions, but also access to the right type of financial services such as start-up loan financing, venture capital financing, export /import financing, etc.
Access to markets	Key to accessing markets is not only infrastructure, but also the relevant business services such as logistics, advisory services, marketing and advertising to name but a few. Providing such services in a specific location will increase the attractiveness of that location to investment.
Alignment of knowledge cluster and industrial clusters	The competitive economy of today requires continuous investment in knowledge development, innovation and human resources. It is important to ensure that education and training institutions are incentivised to develop the appropriate knowledge capital to support the industrial or business clusters being promoted.

Source: City of Tshwane (2005)

The awarding of incentives are based on pre-selected criteria and using a point scoring system. The criteria applied include:

- Spatial: fits with geographic regions identified in the City Economic Development Strategy
- Clusters/Sectors: those listed in the City Economic Development Strategy
- Jobs: Number of jobs that could potentially be created
- Broad-based Black Economic Empowerment
- SMME Development
- Capital Intensity
- Ability to attract global business
- Ability to link the city with businesses in Africa
- Investment to effect long term incentives

The City of Tshwane has not yet fully implemented this incentive policy. Instead it is focussing on investment promotion and business development.

Lessons for the NMBM:

- The implementation of a scorecard approach to awarding incentives to investors will serve multiple goals of the municipality, incl. a more balanced approach to economic development in the city.
- The municipality could offer financial (short-term) incentives such as rebates and discounts to enhance the attractiveness of long term incentives and other economic development projects of the NMBM.

2.5.3 CASE STUDY: ETHEKWINI MUNICIPALITY

At present, eThekwini Municipality do not offer any financial incentives to investment beyond the existing low rates and tariffs for large users of electricity or water. However, the eThekwini Municipality does promote and facilitate investment in eThekwini through the Durban Investment Promotion Agency (DIPA). DIPA is an independent unit of the eThekwini Municipality acting as a one-stop centre for new and existing investment support such as:

- General economic information of the region;
- Research on specific sectors;
- Introduction to key suppliers, financiers & customers;
- local market analysis;
- Opportunity identification & development;
- Site evaluation & selection;
- Business establishment assistance;
- Foreign Investor Support & Marketing
- Identifying, developing and promoting high growth business opportunities in Durban;
- Lobbying and support service for existing business in the region; and
- Investment aftercare services.

DIPA works closely with the DTI, Trade and Investment South Africa (TISA), Trade and Investment KZN (TIKZN), as well as with Durban's existing businesses and key public and private stakeholders. It works closely with the other economic development units within the municipality. DIPA follows a selective targeting approach to market the investment opportunities in eThekwini to right investors. DIPA has been successful in securing investment in the Durban Automotive Supplier Park, Durban Point development and Bridge City, to name but a few. Through experience, DIPA has learned to employ persons with a thorough understanding of the private sector and is able to “speak business”.

DIPA focuses on investments worth R30 million or higher, with smaller investments dealt with by other entities in eThekwini Municipality. As part of their investment facilitation, DIPA provide office space in Durban rent free to potential investors while they are evaluating and/or planning an investment in the municipality.

DIPA reported that they had many enquiries in the past from potential investors about investment incentives offered by the eThekwini Municipality. They are in the process of developing a municipal incentive policy package for eThekwini Municipality to augment the current services it offers to

investors.⁶ As part of this process, DIPA is reviewing the administrative constraints (i.e. bureaucratic red-tape) to investment in eThekweni and developing strategies to address these.

Lessons for the NMBM:

- There is duplication of services between DIPA and TIKZN with both focusing on investment promotion and retention.
- DIPA and TIKZN do work together, but disagreements arise when better investment locations are identified by TIKZN that are situated outside eThekweni.
- Focusing on reducing administrative constraints to investing may prove more effective and less costly to eThekweni Municipality than offering incentives.
- It is important for the investment facilitation unit to employ persons that “speak business”, i.e. persons that are motivated and have a private sector mindset

2.5.4 CASE STUDY: OTHER KWAZULU-NATAL MUNICIPALITIES

A study of municipal investment incentives in KwaZulu-Natal in 2004 showed that less than 15% of the 60 municipalities in KZN (1 district municipality and 9 local municipalities) have clear investment incentive policies, with the rest, including the eThekweni Municipality, not offering an a priori set of incentives.⁷ Most of these municipalities in KwaZulu-Natal offer incentives on an ad-hoc basis through negotiation with investors. The following are a description of the different types of incentives offered by those municipalities in KwaZulu-Natal that do have a clear set of investment incentives:

Table 2.9: Description of municipal incentives offered in KZN

Type of Incentive	Description
Water	Water incentives/discounts are generally offered in a phased out manner over five years. In addition, it is generally the case that the municipality does not charge for the connections for this service. This is usually applicable to new and expanding businesses. Expanding businesses have to generally prove that their consumption has increased by a certain percentage to qualify.
Sewerage	Sewerage discounts/incentives are generally offered in a phased out manner over five years. In addition, it is generally the case that the Municipality does not charge for the connections for this service. However, it is expected that the developer or the operator is liable for the industrial effluent costs. This applies to both new and expanding businesses.
Electricity	Electricity incentives are generally offered in a phased out manner over five years. Generally the discounts are between 80% and 100% in the first year. No cost for the connection. However, the investor is to carry the cost of providing and installing the cables and the Council-owned equipment on the premises. This refers to new and expanding businesses.

⁶ DIPA delayed the development of a municipal incentive package because they waited for the release of the new manufacturing incentives offered by the DTI that was released in July 2008.

⁷ KZN Department of Economic Development (2004). *Benchmarking of Municipal Incentive Schemes in KwaZulu-Natal*. Pietermaritzburg.

Type of Incentive	Description
Refuse Removal	The refuse removal incentives are generally offered in a phased out manner over a five-year period. The discount is generally between 80% and 100%. In some Municipalities the monthly tariff for this service is waived for the period of the incentive for new businesses, while they offer free removal of a 1,75m ³ container of inert industrial waste once a week for the period of the incentive for expanding businesses.
Land Price	Some Municipalities give a once off discount on the price of land for investment, but this is becoming more difficult due to the implementation of the MFMA. The Umhlatuze Municipality offered a 40% discount on the purchase of serviced industrial land prior to 2005.
Rates Rebate	Rates rebates are offered in a phased out manner. A 100% rebate is offered to businesses in the first year, thereafter decreases by 33.3% per annum thereafter. This is applicable to new and expanding businesses.
Building Plans	The incentive regarding building plans involves the refunding of the building plan approval fee to the investor. This applies to new and expanding businesses.
Special Concessions	This refers to the Municipality/Council being willing to negotiate further concessions with investors under specific circumstances. For example, the Emnambithi Municipality negotiates further when an investment is more than R100 million; or when more than 2000 new jobs are created; when the investment is regarded as a strategic project, which will broaden the economic base of the Municipality; and when the investment is a high-tech development of which there are no others in Ladysmith.

Source: KZN Department of Economic Development (2004)

It was found that larger municipalities in KZN offer a wider variety of incentives to investors while smaller municipalities offer fewer, less complicated incentives. This indicates that the capacity of the municipality and the financial status of the municipality play a role in determining how many and the type of incentives that a municipality offers.

The uMngeni Municipality Industrial Development Incentive has, in addition to the incentives mentioned above, identified the approval process within the municipality, such as re-zoning applications and building plan approvals, as critical areas of improvement. A slow approval process acts as a disincentive for investors, which require greater certainty on when operations would begin. Another possible incentive identified is regulatory reform with regards to municipal environmental, health and other regulations.

The uMlalazi Local Municipality (Eshowe) have developed an Industrial Incentive Policy similar to the municipal incentives provided elsewhere in KwaZulu-Natal.⁸ It was adopted in April 2006 by the Local Municipality and has been used in securing a R150 million yellow phosphate investment from China. In contrast, the uMhlathuze Local Municipality (Richards Bay) have cancelled their Investment Incentive Policy in 2005. The reasons provided were a shortage of municipal land

⁸ The uMlalazi Municipality Investment Incentive Policy is available at www.umlalazi.org.za

available for investment, the establishment of the Richards Bay IDZ, and the provision of municipal services at an unacceptable cost to the municipality.

2.6 Synopsis

Incentives are measures specifically designed to increase the rate of return of an investment and/or to reduce (or redistribute) its costs or risks. The international experiences on investment incentives have shown that incentives do not rank high among the determinants of securing investment. Other factors such as availability of natural resources, the existing institutional structures and practices, the policy environment and administrative processes have a greater impact on the investment decision. The guiding principles of investment incentives are:

- Transparency
- Simplicity
- Non-discriminatory / Uniformity
- Affordability
- Temporary
- Non-trade distorting (cooperative governance)

The South African national government offers incentives for direct investment through the DTI, as well as financial support for investment through the IDC, Khula Enterprise Finance and the South African Microfinance Apex Fund. The SA government also offers incentives for investment in demarcated areas through the IDZ and Udz schemes, with NMBM benefitting from both. In addition to the above, the ECDC provide financial and non-financial investment support investment in the Eastern Cape.

None of the metropolitans studied are currently offering specific investment incentives beyond the existing lower rates and tariffs applicable to large users. All rather focus on investment promotion and reducing administration constraints to investment. Nevertheless, valuable lessons could be learned from their approaches. It is worthwhile to pilot an incentive policy to determine its effectiveness and cost. Greater cooperation and integration with existing investment promotion agencies will reduce duplication of services, but a balance must be maintained between the interests of the city and interests of the province. A scorecard approach to awarding incentives will enable to NMBM to align the incentives more effectively with the economic development goals of the NMBM. And lastly, it is important to employ the right persons who understand the private sector and is able to “speak business”.

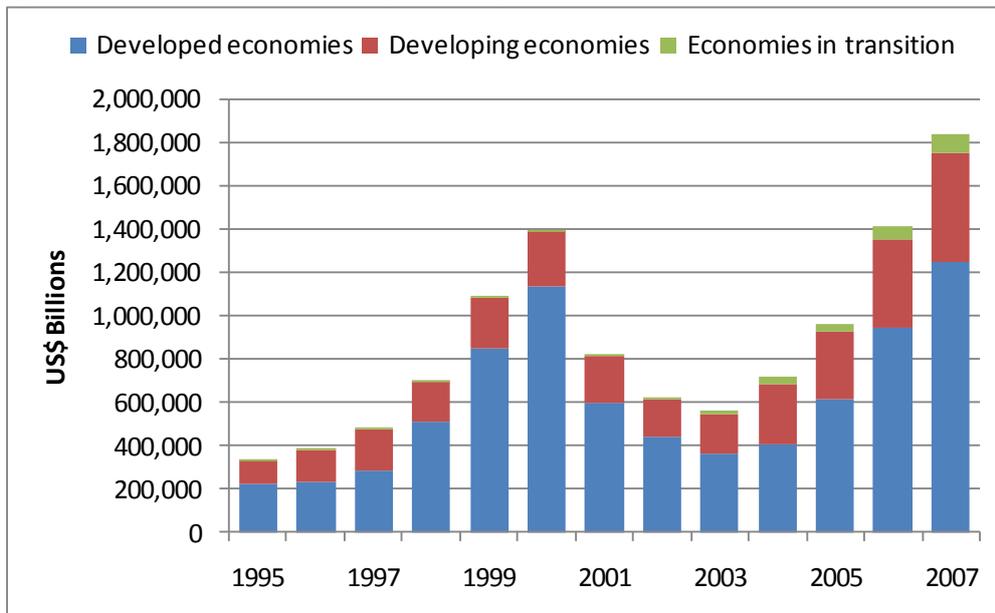
3 EXTERNAL BUSINESS AND INVESTMENT CLIMATE

This section briefly describes the existing global and South African business and investment climate, before presenting more detailed assessment of the current business and investment climate in Nelson Mandela Bay in the next section.

3.1 International Investment Climate

There has been a significant increase in investment globally over the past 6 years. As shown in Figure 3.1, global investment inflows grew rapidly from \$341 billion in 1995 to peak at \$1.4 trillion in 2000. Most investment occurred in developed countries. FDI decreased by nearly 60% between 2000 and 2003 to \$557.9 billion, before increasing again to over \$1.8 trillion in 2007. The share of FDI going to developing countries was 38% in 1996, 18% in 2000, 40% in 2004 and only 27% in 2007.

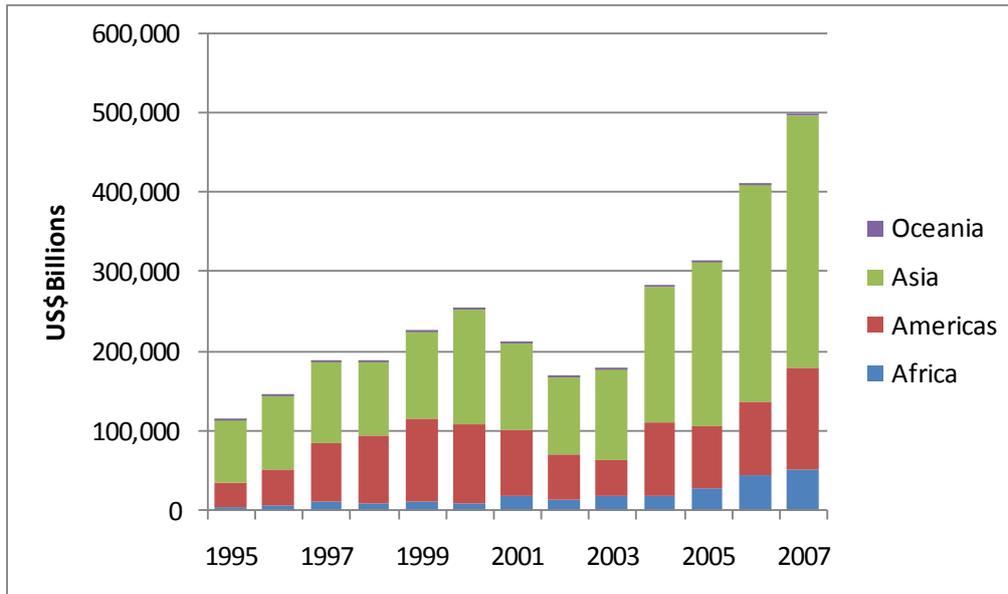
Figure 3.1: Global FDI Inflows: 1995 - 2007 (US\$ Billions)



Source: UNCTAD (2008)

Nearly two-thirds of FDI inflows into developing countries between 2005 and 2007 went to countries in Asia. FDI in Africa have increased from \$5.6 billion in 1995 to over \$53 billion in 2007, an 840% increase over this period. Africa's share of FDI inflows into developing countries increasing from about 4% in 1996 to about 11% in 2006 and 2007. This is illustrated in Figure 3.2.

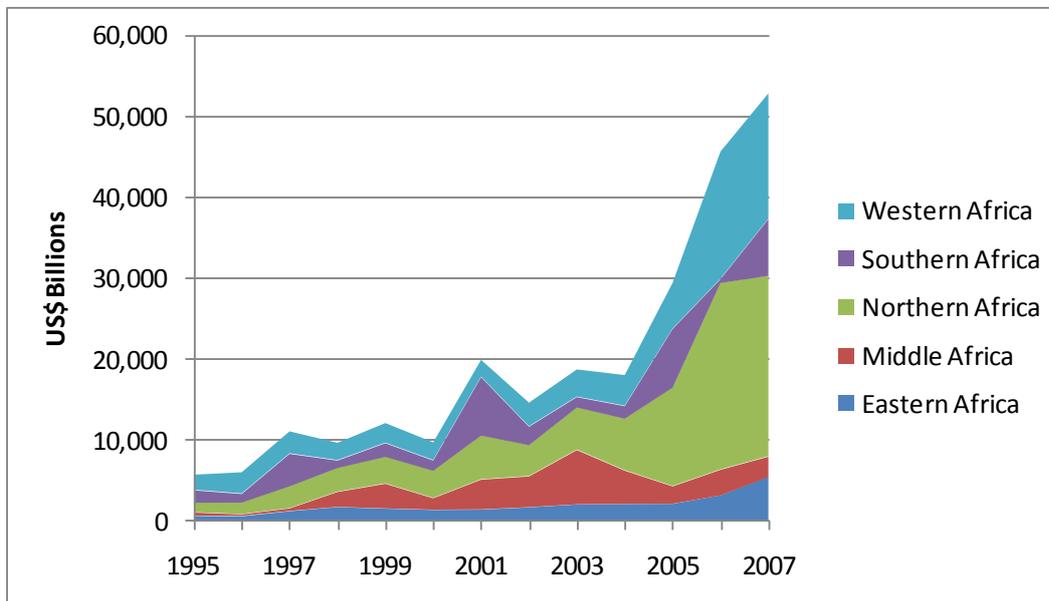
Figure 3.2: FDI Inflows for developing countries by region: 1995 - 2007 (US\$ Billions)



Source: UNCTAD (2008)

Within Africa, West and North Africa received nearly three out of every four dollars invested in Africa in 2006 and 2007. The major investments were in the resources sector, mostly the oil and gas industries. Leading recipient countries of FDI in Africa were South Africa, Egypt, Nigeria, and other leading oil producers such as Angola, Libya, Sudan, Equatorial Guinea, Algeria and Chad.

Figure 3.3: FDI Inflows into Africa between 1995 and 2007 (US\$ Billions)



Source: UNCTAD (2008)

More than half of all non-resources FDI into Africa come from France, the United Kingdom or South Africa (UNIDO, 2005). The UNIDO investor survey of 2005 found investments in Africa generally performed better than the investor expected, with many firms expanding their investments within 3 years of the initial investment. The survey found that nearly 50% of all inputs for these firms have been sourced from within the country they invested in, further supporting the impact of these

investments on the respective national economies through the economic multiplier. A more worrying aspect for investment in Africa is the lack of training and development being done by non-African investors into Africa, with only a small minority of firms actively promoting training and development amongst their staff.

The participants in the UNIDO investor survey were asked to assess the factors that influenced their investment decision for the original investment and future expansions. The table below show that economic and political stability ranked highest in the investment decision, while the presence of a specific incentive package ranked in the middle and other incentives such as tax treaties and export trade agreements near the bottom. Investors identified that political stability as a factor influencing investment improved significantly on the continent, while the general quality of life, physical security and incentive packages have actually worsened.

Table 3.1: Investment Location Factors in Africa in 2005

Rank	Factor	Score
1	Economic stability	4.11
2	Political stability	4.08
3	Physical security	3.96
4	Local market	3.93
5	Skilled labour	3.83
6	Quality of infrastructure	3.79
7	Legal framework	3.68
8	Presence of key clients	3.65
9	Labour costs	3.65
10	Transparency of investment climate	3.61
11	Quality of life	3.49
12	Raw materials	3.41
13	Incentive package	3.30
14	Local supplier	3.23
15	Existence of foreign investor	3.13
16	Government agency support services	3.12
17	Regional market	3.08
18	Double taxation treaties	2.99
19	Bilateral trade agreements	2.74
20	IPA assistance	2.72
21	Acquisition of existing assets	2.63
22	Availability of export processing zones	2.55
23	Specific investment project proposal	2.47
24	Presence of JV partner	2.23
25	Taking advantage of AGOA	2.03
26	Taking advantage of EBA	1.94

Note: The score reflects the mean value of the 5-point Likert scale (1=not important, 2=helpful, 3=important, 4=very important, 5=crucial)

Source: UNIDO (2005)

Implications for NMBM:

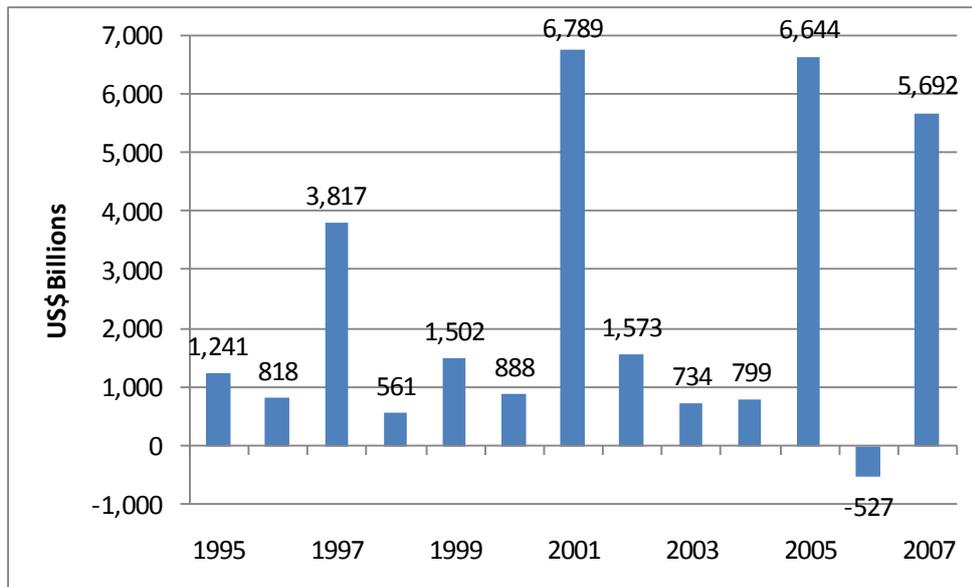
- The share of global investments coming to SA is quite small
- The significant investment boom in the world and Africa over the past decade has come to a sudden halt in the second half of 2008, with growth in the global economy expected to be low for the next two years at least. This will impact on new investments as well as existing investments in NMB.
- South Africa and NMB is able to offer relative economic and political stability, key factors influencing investment in Africa. However, the high crime rate and poor skills are deterring factors to investment in SA

3.2 Investment Climate In South Africa

3.2.1 INVESTMENT TRENDS IN SOUTH AFRICA

FDI Inflows in SA is relatively low and have mostly ranged between \$500 million and \$1.5 billion between 1995 and 2007, with the exception of large takeover deals by foreign entities of large SA firms in 1997, 2001, 2005 and 2007. This is shown in Figure 3.4.

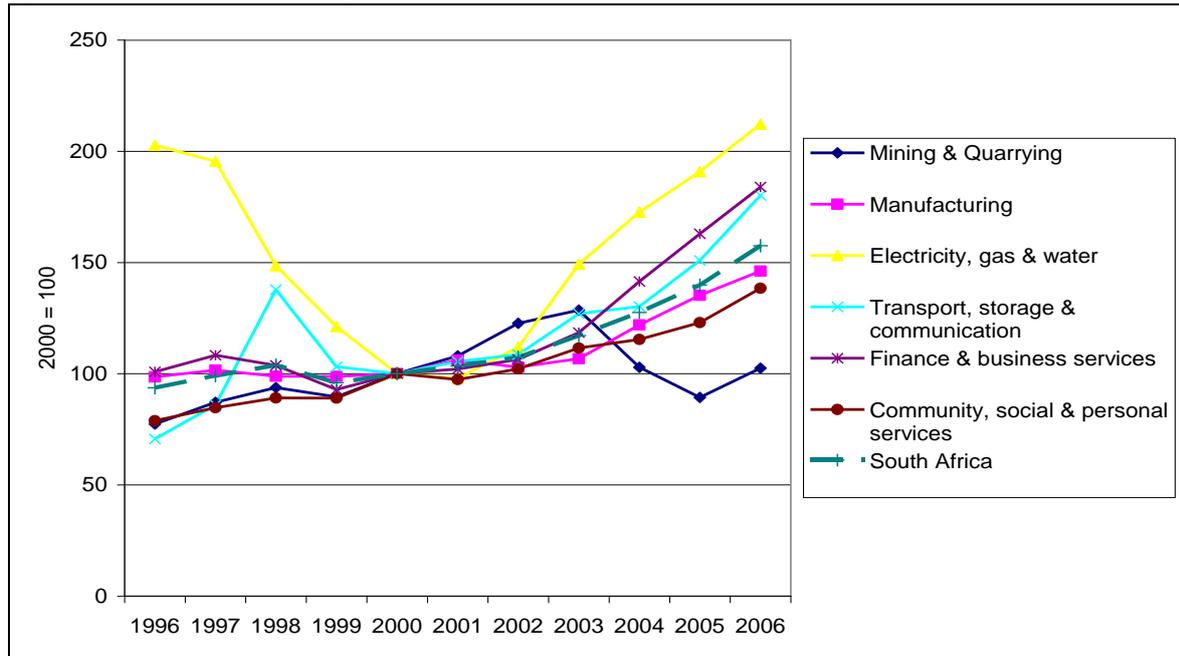
Figure 3.4: FDI Inflows into SA between 1995 and 2007 (US\$ billions)



Source: UNCTAD (2008)

Figure 3.5 shows relative real investment in South Africa per sector between 1996 and 2006, using 2000 as a base year. There have been significant differences between sectors. Investment in Water and Electricity has decreased by over 50% between 1996 and 2000, before it increased again by over 100% between 2000 and 2006, mostly due to uncertainty about electricity policy and a government moratorium on investment in electricity generation. Investment in the mining sector decreased by nearly 25% between 2003 and 2005, mostly due to the new mining legislation and uncertainty about the mining charter in 2004. On the other hand, investment in the Finance and Business Services sector, and the Transport and Communication sector has increased steadily, picking up pace in 2003.

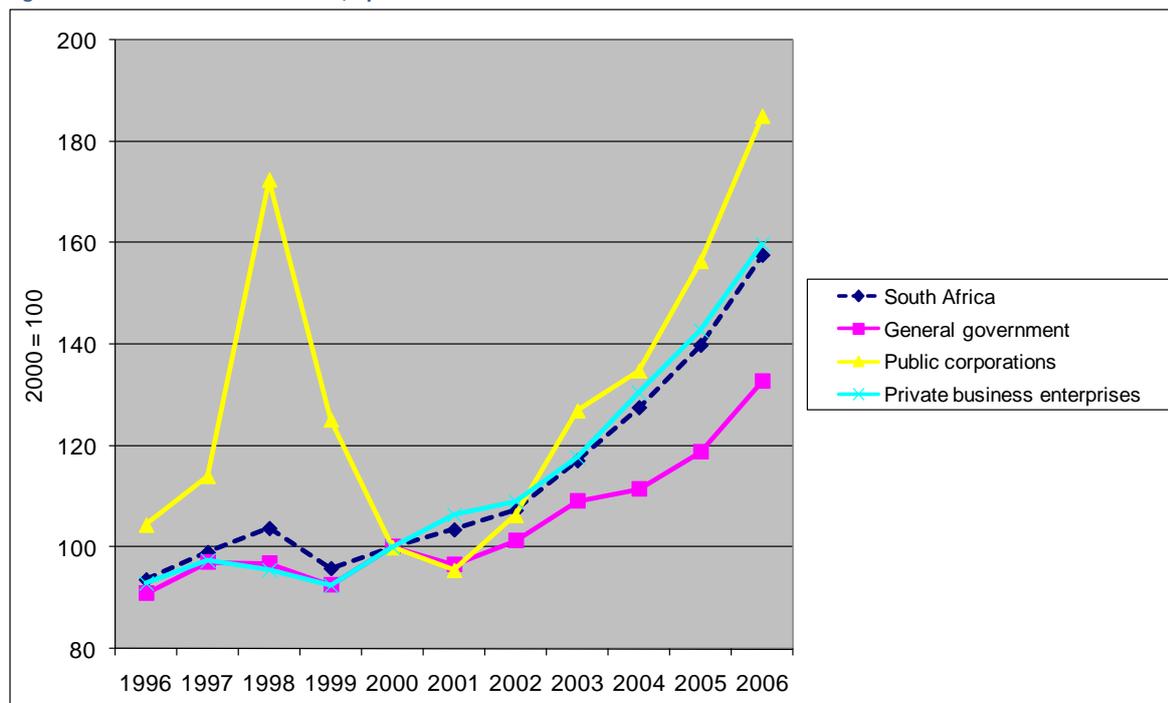
Figure 3.5: Investment in South Africa per sector: 1996 to 2006



Source: SA Reserve Bank (2007)

There has been a steady increase in investment into South Africa, with growth in government investment and private sector investment having increased over the past three years from about 15% of GDP to a more robust 21% of GDP in 2006. This is especially due to increase in investment by public corporations, which have increased their real investment by over 80% between 2001 and 2006.

Figure 3.6: Investment in South Africa, by institution: 1996 - 2006



Source: SA Reserve Bank (2007)

FDI into SA has been relatively low and is characterised by mergers or acquisitions of SA companies by foreign entities. Investment in SA is also highly influenced by policy actions and inactions as the poor investment performance in energy and minerals over the past 8 years have shown. Growth in government investment has been lower than that of the private sector, but is also less volatile to changes in the global economy.

Investments in SA have increased between 2002 and 2007, driven by the growing global economy and the growth in local consumption. While this growth has been driven by the private sector, private sector investments are expected to reduce significantly in the next few years due to global growth slowdown and financial crisis. Government investments are expected to show strong growth for the next 5 years due to infrastructure expansions of Transnet, Eskom and the preparations for the 2010 World Cup.

3.2.2 CONSTRAINTS TO INVESTMENT IN SOUTH AFRICA

The South African Investment Climate Assessment (ICA) by the World Bank and the Department of Trade and Industry (DTI) interviewed about 800 registered small, medium and large enterprises throughout South Africa. The majority of respondents were in the Manufacturing, Construction and Retail sectors. The survey reveals that South Africa compares favourably when compared to similar countries such as Brazil, Poland and Malaysia in terms of investment constraints for business, despite the negative perceptions about investment in South Africa by locals. The assessment has identified a number of investment constraints facing businesses in South Africa, which is provided in the following table.

Table 3.2: Percentage of firms identifying constraints as major constraints to investment in South Africa, by province and sector

	Province				Sector		
	Gauteng	KwaZulu-Natal	Western Cape	Eastern Cape	Manufacturing	Construction	Retail
Worker Skills	37%	44%	30%	19%	35%	45%	31%
Labour Regulations	32%	33%	39%	17%	33%	37%	33%
Crime	31%	41%	23%	6%	29%	28%	28%
Macroeconomic Instability	28%	44%	44%	36%	33%	21%	18%
Corruption	19%	21%	10%	6%	16%	17%	17%
Tax Rates	17%	33%	20%	8%	19%	23%	19%
Policy Uncertainty	17%	27%	22%	0%	18%	19%	15%
Anti-competitive practices	16%	25%	13%	8%	16%	15%	18%
Trade Regulation	14%	21%	20%	31%	17%	8%	11%
Cost of Financing	13%	24%	21%	19%	16%	18%	13%
Access to Financing	12%	21%	12%	11%	13%	26%	11%

	Province				Sector		
	Gauteng	KwaZulu-Natal	Western Cape	Eastern Cape	Manufacturing	Construction	Retail
Transportation	9%	19%	9%	14%	10%	8%	11%
Electricity	9%	13%	5%	14%	9%	9%	2%
Tax Administration	8%	16%	18%	6%	11%	17%	22%
Legal System	8%	11%	11%	8%	9%	8%	8%
Telecoms	3%	6%	2%	6%	3%	4%	8%
Business Licensing	3%	5%	4%	3%	3%	4%	7%
Access to Land	3%	8%	3%	8%	4%	10%	5%

Source: SA Investment Climate Survey (2005)

SA has a fairly long list of constraints considered fairly equal, with ranking differentiating between provinces and sectors where the responding business were located. The four constraints identified by most firms as major or severe investment constraints are:

- **Worker skills:** There is a huge gap between skilled and unskilled workers, which are reflected in the differences in earned income. The average wage gap between skilled and unskilled workers in South Africa is significantly larger than most other countries in the world.
- **Macroeconomic instability:** It is mostly the large volatility in the exchange rate that is constraining further investments, despite domestic inflation and interest rates being at its lowest levels in 25 years. This is especially relevant for the export industries.
- **Labour regulations:** It is more costly and more difficult to hire and fire workers in South Africa than in other comparable countries such as Malaysia, China, Poland and most OECD countries.
- **Crime:** Crime prevention costs are nearly two-thirds of the cost of crime for businesses in South Africa, with the direct losses making up the other third. The direct cost of crime for business in South Africa is estimated to be between 1% and 5% of sales. This is very high compared to OECD countries, but still lower than in most Latin American countries, where cost of crime is between 3% and 10%.

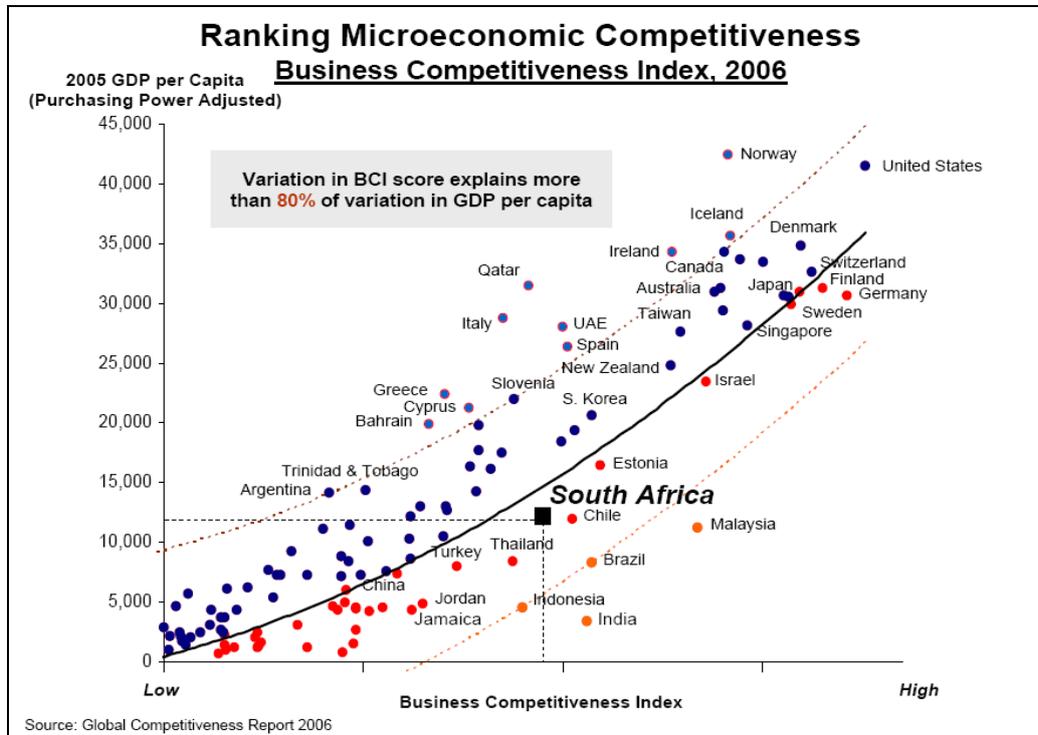
A number of firms in the ICA survey have reported HIV and AIDS as a further constraint to investment in South Africa, as there is still a lot of uncertainty about its impact on future productivity, market size and profitability. At present, its biggest impact on businesses is absenteeism from work.

3.2.3 SOUTH AFRICAN COMPETITIVENESS

The factors influencing investment listed in Figure 2.1 are used by World Economic Forum to compare competitiveness of countries. While South Africa ranks high in some categories, it performs

ranked low in other. Overall, SA is currently ranked 45th in the World Economic Forum's Business Competitiveness Index, down from 33rd in 2006, and 30th in 2001.

Figure 3.7: Business Competitiveness per country



Source: Porter (2007)

Implications of the SA investment climate for NMBM:

- There has been a significant increase in investment in SA over the past 5 years fuelled by global economic growth and growth in the SA economy. This has also impacted on the demand for industrial and commercial space in NMBM.
- The global economy has sharply deteriorated in the second half of 2008. This will have a negative impact on new and existing investments in South Africa and NMB
- The major constraints to investment in South Africa which impacts on investments in NMB were identified to be:
 - Shortage of skilled workers
 - Labour regulations
 - Crime and
 - Macroeconomic instability especially the large volatility of the exchange rate
 - Trade regulation (a key constraints identified by firms in the Eastern Cape).
- Most of these constraints require national government interventions and/or support and there is little NMBM could do to change these except to lobby national government.
- Overall, South Africa is less competitive compared to other countries than was the case a few years ago.

4 INVESTMENT CLIMATE IN NELSON MANDELA BAY

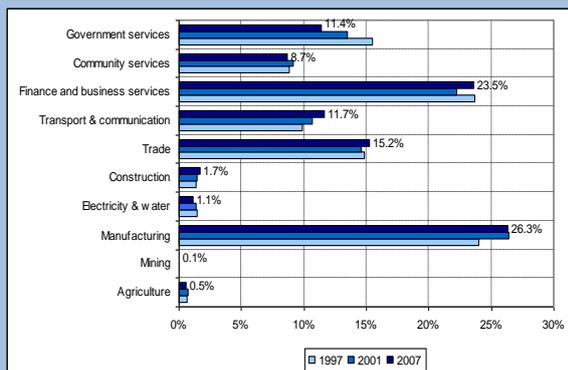
This section provides a more detailed assessment of the existing investment climate in Nelson Mandela Bay.

4.1 Nelson Mandela Bay Economic Profile

A desktop study by Urban-Econ Eastern Cape for the NMB in early 2008 found the Nelson Mandela Bay economy was nearly R40 billion in 2007, or 43% of the Eastern Cape economy. The main sectors within NMB economy are Manufacturing (26%), Trade (15%), Finance and Business Services (24%), and Transport and Communication (12%). The tables below summarise the findings of the Urban-Econ report on the NMB economy.

Economic Structure of Nelson Mandela Bay

Figure 4.1: NMB Sector Contribution to GGP



Source: Calculations based on Quantec, 2008

Value of GGP

R 36,2 bn

% of Provincial Economy

43.1%

GGP Growth Rate (1997-2007)

3.4%

GGP Growth Rate (2003 – 2007)

4.0%

GGP per Capita

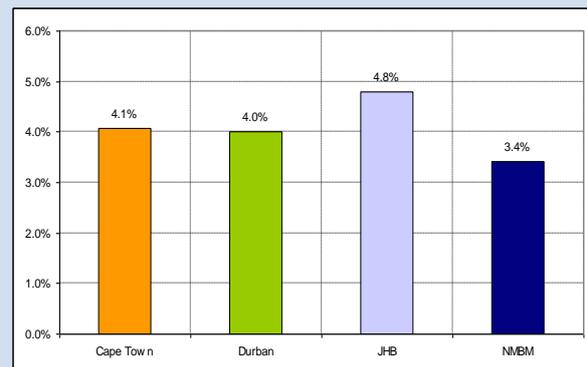
R 33,493

Figure 4.2: GGP per Capita



Source: Calculations based on Quantec, 2008

Figure 4.3: GGP Growth Rate (1997-2007)



Source: Calculations based on Quantec, 2008

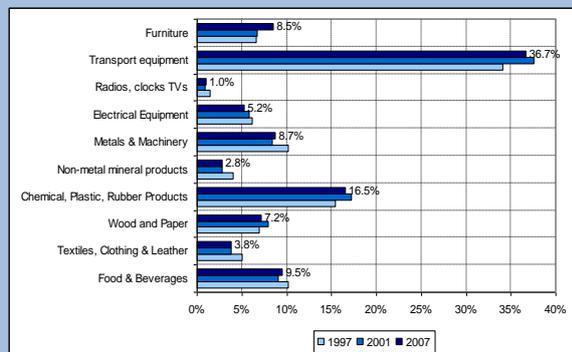
Key Findings:

- The main sectors in the NMB economy is manufacturing, Finance and Business Services, and Trade. The GGP contribution from Government has decreased between 1997 and 2007.
- NMB has a significantly lower GDP per a capita than the Johannesburg, somewhat lower than Cape Town, but only slightly lower than Durban.
- Economic growth in NMB was 3.4% p.a. between 1997 and 2007, significantly lower than

Johannesburg (4.8%), Cape Town (4.1%) and Durban (4%) over the same period.

Manufacturing Sector in Nelson Mandela Bay

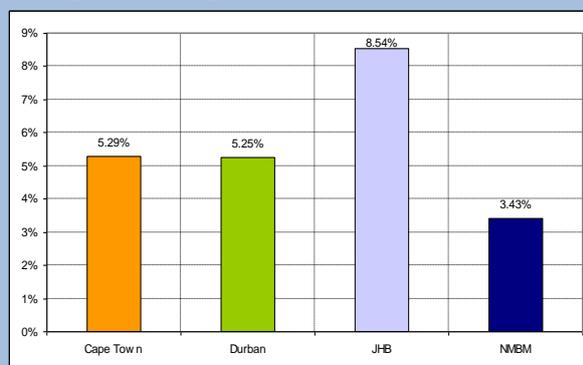
Figure 4.4: Sub-Sector Contribution to Manufacturing GGP



Source: Calculations based on Quantec, 2008

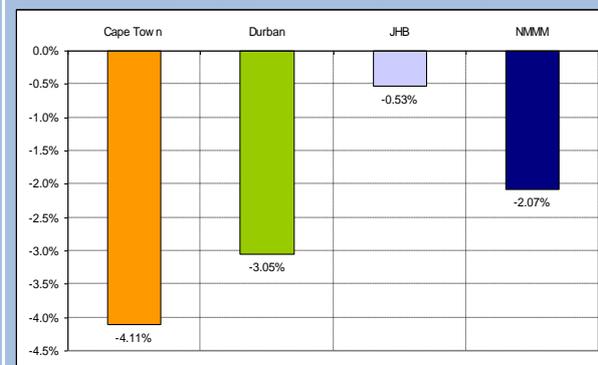
% of Total NMB Economy	26.3%
% of EC Manufacturing Sector	54.1%
Sector Growth Rate: 1997 – 2007	3.4%
Sector Growth Rate: 2003 – 2007	5.3%
Sector Employment	48,858
Employment Growth Rate: 2003 – 07	-0.53%

Figure 4.5: Average Growth Rate of Sector (1997-2007)



Source: Calculations based on Quantec, 2008

Figure 4.6: Average Employment Growth (1997-2007)



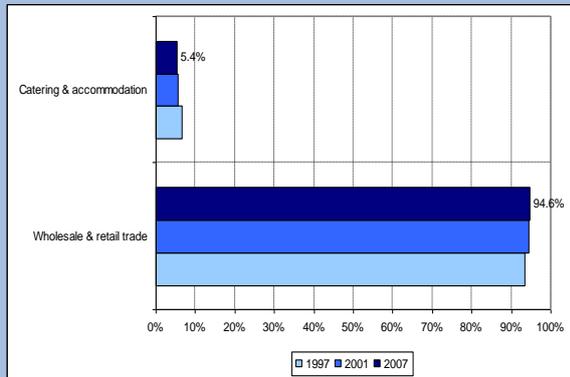
Source: Calculations based on Quantec, 2008

Key Findings:

- Growth in the manufacturing sector in NMB has been significantly lower than growth in other key metropolitan areas in SA
- The Manufacturing sector has experience jobless growth between 1997 and 2007, i.e. the GVA of the sector to the NMB economy has increased by 3.4% p.a., but formal employment has decreased by over 2% p.a.
- This jobless growth in NMB has been lower than the other metropolitan areas, especially Cape Town and Durban where growth in GVA was higher, but decline in formal employment has been significantly lower

Trade Sector in Nelson Mandela Bay

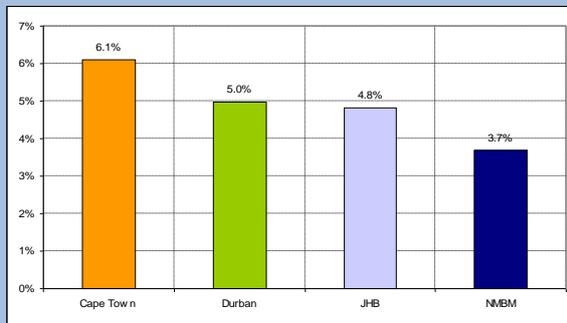
Figure 4.7: Sub-Sector Contribution to Trade GGP



Source: Calculations based on Quantec, 2008

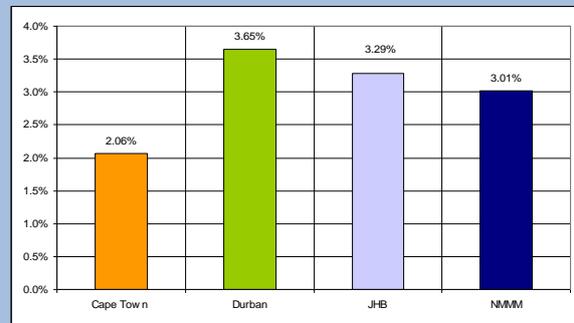
% of Total NMB Economy	15.2%
% of EC Trade Sector	41.8%
Sector Growth Rate: 1997 – 2007	3.7%
Sector Growth Rate: 2003 – 2007	4.4%
Sector Employment	33,650
Employment Growth Rate: 2003 – 07	3.3%

Figure 4.8: Average Growth Rate of Sector (1997-2007)



Source: Calculations based on Quantec, 2008

Figure 4.9: Average Employment Growth (1997-2007)



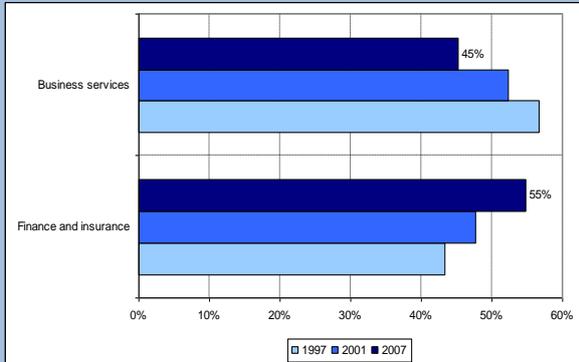
Source: Calculations based on Quantec, 2008

Key Findings:

- Growth in the Trade sector in NMB between 1997 and 2007 (3.7% p.a.) has been greater than the overall economic growth in NMB (3.4%)
- The growth in the NMB Trade Sector has been lower but the growth has been more labour intensive than the other metropolitan areas.

Business & Finance Sector in Nelson Mandela Bay

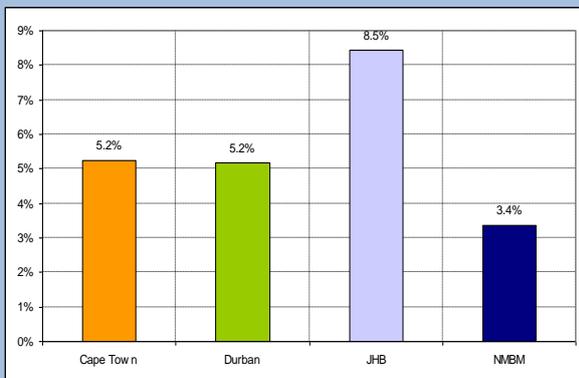
Figure 4.10: Sub- Sector Contribution to Business & Financial Services GGP



Source: Calculations based on Quantec, 2008

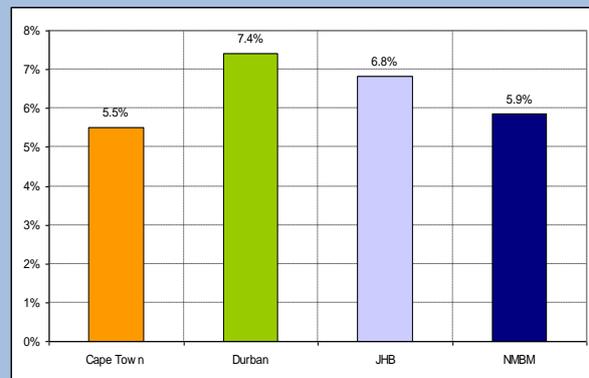
% of Total NMB Economy	23.5%
% of EC Business & Finance Sector	47.6%
Sector Growth Rate: 1997 – 2007	3.4%
Sector Growth Rate: 2003 – 2007	4.7%
Sector Employment	39,860
Employment Growth Rate: 2003 – 07	9.3%

Figure 4.11: Average Growth Rate of Sector (1997-2007)



Source: Calculations based on Quantec, 2008

Figure 4.12: Average Employment Growth (1997-2007)



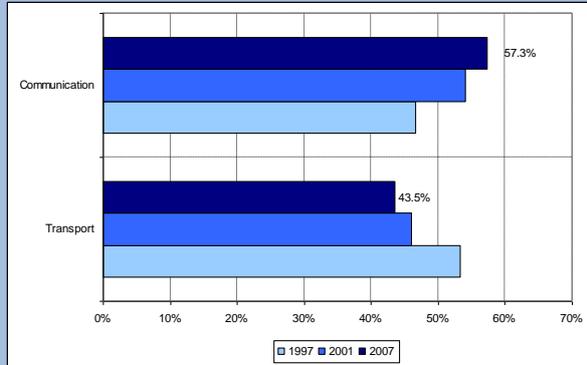
Source: Calculations based on Quantec, 2008

Key Findings:

- Growth in GVA of this sector in NMB has been slow compared to the growth of this sector in other metropolitan areas in SA, especially Johannesburg
- Growth in employment in NMB has been lower than either Durban or Johannesburg, but faster than Cape Town
- Overall, growth in this sector between 1997 and 2007 has been quite labour intensive, i.e. GVA grew only at 3.4% p.a. but employment growth has been 5.9% p.a.

Transport & Communication Sector in Nelson Mandela Bay

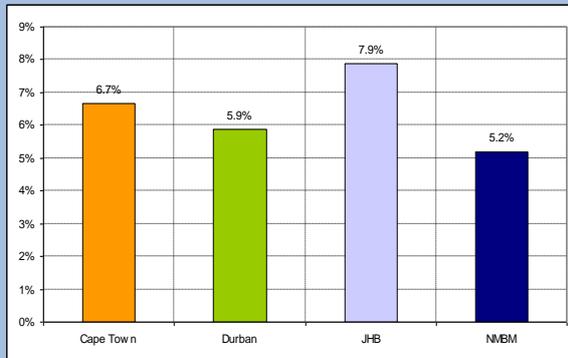
Figure 4.13: Sub-Sector Contribution to Transport & Communications GGP



Source: Calculations based on Quantec, 2008

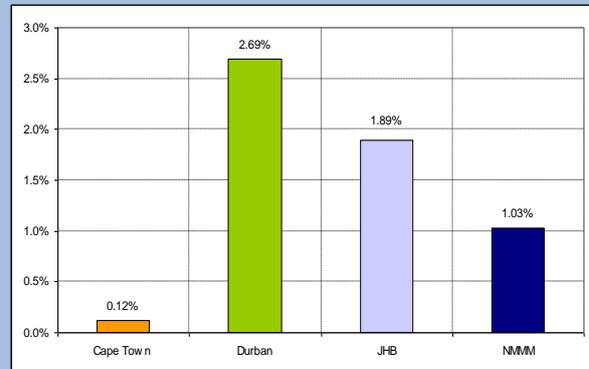
% of Total NMB Economy	11.6%
% of EC Transport & Communication Sector	50.2%
Sector Growth Rate: 1997 – 2007	5.2%
Sector Growth Rate: 2003 – 2007	4.2%
Sector Employment	8,955
Employment Growth Rate: 2003 – 07	10.2%

Figure 4.14: Average Growth Rate of Sector (1997-2007)



Source: Calculations based on Quantec, 2008

Figure 4.15: Average Employment Growth (1997-2007)



Source: Calculations based on Quantec, 2008

Key Findings:

- The growth in GVA in this sector between 1997 and 2007 (5.2%) has been significantly higher than the average growth for the NMB (3.4%), increasing its contribution to GGP
- The growth has not been labour intensive, i.e. between 1997 and 2007, employment grew at only 1% p.a. while GVA grew at 5.2% p.a.
- Sector GVA and employment growth in NMB has been slower than in Durban and Johannesburg.

The harbour in Port Elizabeth handles mostly bulk cargo, with Bulk imports and exports from PE over 360,000 metric tonnes per month in early 2008. Total bulk and break-bulk imports and exports from PE harbour has been more than 420,000 metric tonnes per month. However, this is significantly lower than either Richards Bay or Durban, but higher than Cape Town harbour. This is summarised in Table 4.1.

Table 4.1: Exports & Imports out of South African Ports (Metric Tons per Month)

	Richards Bay	Durban	Port Elizabeth**	Cape Town
Bulk Cargo Handled⁹				
Imports	666,016	2,473,261	31,562	175,209
Exports	6,710,123	398,078	333,162	79,816

⁵ Bulk is commodity cargo that is transported unpacked in large quantities.

	Richards Bay	Durban	Port Elizabeth**	Cape Town
Total Bulk Cargo Handled	7,376,139	2,871,339	364,724	255,025
Break-bulk Cargo Handled¹⁰				
Imports	10,130	368,935	30,908	3,923
Exports	285,381	197,080	25,104	7,283
Total Break-bulk Cargo Handled	295,511	566,015	56,012	11,206
Total Cargo Handled				
Imports	676,146	2,842,196	62,470	179,132
Exports	6,995,504	595,158	358,266	87,099
Total Cargo Handled	7,671,650	3,437,354	420,736	266,231

Source: National Ports Authority of South Africa, January 2008

The main economic development projects in NMB undertaken by the NMBM, as identified in the NMBM 2020 Economic Growth and Development Strategy, are listed in Table 4.2. Projects worth over a projected R100 million include the 2010 World Cup Stadium, International Convention Centre, Beachfront Upgrading and development.

Table 4.2: Main economic development projects in NMB

Project Name	Description	Total Budget
Beachfront Developments	Upgrading environmental and tourism potential of beachfront	R100 million
Bayworld Redevelopment	Upgrading of aquarium, dolphinarium, etc	R45 million
International Convention Centre	Construction of 900 seater conference centre	R250 million
2010 World Cup Stadium	Soccer stadium in North End	R350 million
Chatty and Swartkop River Development	Tourist, cultural and recreational sites (Provincial tourism showcase)	-
Freedom Statue	100 metre statue of Nelson Mandela	R68 million
N2 Development (Coega)		R342 million
Red Location Cultural Museum	Includes hotel	-
Community Services	Tourism village in Ibhayi	R27 million
Colchester Development	Tourism Attractions (not yet specified)	-
Van Der Klemp's Kloof	Hiking, picnics, etc	R20 million
Embizweni Bluewater Beach	Resort, cultural villages, residential, etc.	-
Gateway and Beautification	Improve image / aesthetics	R90 million
Madiba Bay Leisure Park	Wildlife based tourism development between NMMU and Schoenmakerskop	-
Mandela Bay Development Agency	Various projects linked to Urban Renewal of the Central Business District	-
Motherwell Urban	Presidential Node Project, various projects planned and	-

¹⁰ Break-bulk cargo is any loose material that must be loaded individually, and not in containers nor in bulk as with oil or grain.

** Excludes the Port of Ngqura, Coega IDZ

Renewal Programme	implemented	
Coega Industrial Development Zone (IDZ)	11,500 ha of industrial land and Port of Ngqura, attracting international & domestic investors	-

Source: *Growth and Development Summit, ECSECC (2007)*

4.2 Investment Competitiveness Of Nelson Mandela Bay

NMBM assessed the competitiveness of Nelson Mandela Bay. The key findings of that study are presented in Table 4.3 in terms of the strengths and weaknesses of investment in NMBM.

Table 4.3: Strengths and Weakness of Investment Climate in NMBM and South Africa

Strengths	Weaknesses
<ul style="list-style-type: none"> • Political and macro-economic stabilisation have been achieved and structural reform has resulted in fiscal discipline and reduction in external vulnerability • A high degree of policy consistency and predictability • Relatively equal treatment of foreign and local firms • SA's entry and exit barriers are approaching world-class standards, e.g. the ease of starting or closing a business in SA compares favourably with that of developing nations • The singular most prominent strength in SA is that it has the lowest electricity cost in the world, and world-class reliability. The port operation in Port Elizabeth is also perceived to be a positive factor • The cost of land in SA is a definite competitive strength, specifically so in the Eastern Cape. Protection of property rights is one of the strengths of SA. • Corruption in SA, and the Eastern Cape is not seen as constraint to do business, and very few companies report that bribes need to be paid • SA has a competitive advantage compared to most developing countries in terms of the effectiveness of its judicial system • SA has a well developed financial service industry, and it is relatively easy to obtain credit. This represents a competitive 	<ul style="list-style-type: none"> • High volatility of the currency exchange rate • Crime is a major negative factor impacting investment decisions • Administrative work associated with opening a business is complex and time consuming, with SMME's typically not having the expertise to complete it properly and/or resource to acquire the expertise. • Companies are by-and-large unaware of business incentives offered by the NMBM, and those that are aware of them regard their impact to be minimal when making investment decisions • Poor or unclear regulations in key sectors, such as telecommunications, are disincentives to investment • SA's cost of telecommunications is considered relatively high, and coupled with relatively low broadband penetration, is regarded to be a competitive disadvantage. • SA's technology readiness is hampered by poor ICT accessibility as well as low levels of R&D, with the latter being addressed by government by increasing incentives offered to companies to invest more in R&D • The percentage of companies in SA perceiving worker skills as a major constraint is one of the highest in the world • SA's labour market leans towards some of the more rigid ones in the world, which are typically the Asian countries • SMME's and high risk projects of established

Strengths	Weaknesses
<p>advantage to the NMBM and is especially important to SMME's</p> <ul style="list-style-type: none"> SA's custom operations compare well with that of other developing nations, but could improve further to levels achieved by developed nations 	<p>companies regard access to venture capital as a constraint</p> <ul style="list-style-type: none"> Clustering can improve, and supportive industries are under-developed The primary research indicated that South African trade agreements are not viewed as being overly positive, except for AGOA.

Source: NMBM Investment Competitiveness Study (2008)

The recommendations of the Investment Competitiveness Report to improve the investment climate in NMB are summarised in Table 4.4

Table 4.4: Recommendations to improve the competitiveness of NMB

Strategic Objective	Specific Actions
Accelerated development of key industry clusters and vertical integration	<ul style="list-style-type: none"> NMBM should accelerate efforts to develop downstream industries around existing industries The Nelson Mandela Bay Business Centre (NMBBC) should embark on an aggressive marketing campaign to promote DTI incentives to inventors NMBM should identify and develop supply industries in the complete value chain of key industries Increase local production to reduce dependency on imports to the region and increase the local economic multiplier Emphasis should be placed on increasing through-put via the harbours linking into the international shipping routes
Improve the investment climate	<ul style="list-style-type: none"> NMBM should lobby national level policy makers to reduce volatility of the exchange rate and labour market rigidity The NMBBC should include assist SMME's with matters such as the process of registering a business, completing tax returns, etc NMBM should continuously interact with Eskom and the DME to ensure that NMBM are fully informed on plans and developments in order to factually engage investors regarding uncertainty of electricity supply The effectiveness and efficiency of customs and other critical activities in the PE harbour be benchmarked against other ports in SA and improvements be made where necessary for PE harbour to become a world class harbour and "best in SA" NMBM should aggressively promote the fact that actual levels of corruption in NMBM and SA is of the lowest in the world Current incentive programmes be adapted to facilitate specific HR needs of companies wanting to invest in the NMBM, and the recommendations of JIPSA should be implemented and not duplicated

Strategic Objective	Specific Actions
	<ul style="list-style-type: none"> • Make security an inherent part of infrastructure development and services provision in the development of industrial areas, • A feasibility study be conducted for NMBM to establish a regional broadband infrastructure • NMBM conduct research in road and rail infrastructure and review the long term road development strategy • NMBM should conduct a feasibility study for NMBM specific incentives to encourage R&D in the Metro • NMBM should pursue the establishment of Centres of Excellence for key industries such as textiles, electronics, chemicals etc. as part of both the DTI and DST centre of excellence programmes
Dedicated SMME support	<ul style="list-style-type: none"> • The activities, skills, processes and mechanisms of the NMBC be reviewed to ensure that it can provide comprehensive support to SMME's on the above
Influence national level policies and programmes	<ul style="list-style-type: none"> • The NMBM identify specific functions and resources (officials) and make it an explicit part of their responsibilities to engage with policy makers in all spheres of government

Source: NMBM Investment Competitiveness Study (2008)

4.3 GROWTH AND DEVELOPMENT STRATEGIES IN NMBM

4.3.1 NMBM INTEGRATED DEVELOPMENT PLAN (IDP)

The vision for the NMBM as stated in the IDP is to be a globally competitive and preferred Metropole that works together with the people. Local Economic Development is one of the key pillars of the NMBM in achieving the vision of the IDP. The IDP has the following stated strategic objectives for LED:

- a) Promoting investment and maximising the economic potential of Nelson Mandela Bay and the region by supporting priority economic sectors with job creation potential.
- b) Providing basic services and poverty relief to the most needy.
- c) Creating an enabling environment for economic development and growth by:
 - i. Providing the required infrastructure for growth and development;
 - ii. Streamlining administrative processes and procedures;
 - iii. Providing one point of entry and support for investors and business; and
 - iv. Providing a forum for business interaction and consultation.
- d) Prioritising community empowerment and skills development, focusing on scarce skills.
- e) Supporting the Second Economy through –
 - i. Supporting and increasing the business and entrepreneurial activities of emerging businesses and informal traders;
 - ii. SMME development and co-operative support; and
 - iii. Procurement management.

The IDP acknowledges the need to ensure sufficient infrastructure and effective services, including water, electricity and telecoms, are in place for economic growth and development to take place within NMBM.

4.3.2 2020 ECONOMIC GROWTH AND DEVELOPMENT STRATEGY (EGDS)

The NMBM has developed a long term Economic Growth and Development Strategy in 2004, which is to be reviewed and updated in the 2008/9 financial year. The EGDS states the economic vision for NMB to be a world-class, well-diversified and integrated competitive global economy that prides itself in its excellent business environment to create sustainable livelihood for its inhabitants. The key objectives to the EGDS are:

- To achieve and maintain an economic growth rate of between 3.5% to 8% per annum
- To obtain an annual job growth of 3,5% in order to half the current unemployment.
- To reduce by 60% the number of households living below the poverty line
- Assist SMME and co-operatives to access at least 30% of the NMMM opportunities.

In order to achieve these objectives, the NMBM has identified the following key development thrusts to drive and direct its economic programmes to address growth and development challenges of the metro:

- Sector Diversification and Development
- Human Resource Development (HIV/AIDS alignment)
- Infrastructure Development and Investment
- Investment, Trade and Tourism Promotion
- Aggressive promotion of Black Economic Empowerment and co-operative policy

Key sectors in NMB identified in the EGDS for development include:

- Manufacturing sub-sectors: fuel, petroleum, rubber products, wood and related products
- Automotive manufacturing sub-sector
- Tourism and hospitality
- Agriculture
- Construction
- Logistics
- Other knowledge and information sectors

4.4 Assessment of Existing Investment Services in Nelson Mandela Bay

This section presents the assessment of the existing investment services in the NMBM. A process of stakeholder engagements through workshops and personal interviews with public and private sector

officials was undertaken by Masikane Employment Consultants as part of this project.¹¹ The following key issues were discussed in these engagements:

- What can the NMBM do to improve the investment climate of Nelson Mandela Bay?
- What do you consider to be the biggest areas of opportunity for attracting investment ?
- What are the major obstacles to realising the opportunities and how can they be addressed?
- Can you suggest any specific practical investment incentives that can be offered by NMBM ?
- What can the NMBM do to retain and expand investments within the Nelson Mandela Bay?

4.4.1 EXISTING INSTITUTIONAL STRUCTURE

There are currently a number of organisations facilitating investment and providing support services to investors in NMB, summarised in Table

Table 4.5: Institutional support to investment in NMB

Organisation	Comments
NMBM	<ul style="list-style-type: none"> • Established a Trade and Investment office in the Economic Development Directorate. The unit is currently staffed by 1 manager and an assistant with a Trade Facilitation Officer to join the unit in early 2009. • General contact details for the Economic Development directorate is easily available on the NMBM website, but it lacks more specific contact details for the Trade and Investment unit • Other units and directorates within NMBM lack awareness of the roles and responsibilities of the Trade and Investment Unit • There is no integrated approach to facilitating large investments in NMBM, in particular getting planning and approval documents speedily through the bureaucratic red-tape
CDC	<ul style="list-style-type: none"> • Large organisation with significant resources and expertise in investment promotion, employing sector specific investment facilitators. • It focuses only on investments in the Coega IDZ • There is no formal, structured and proactive relationship between the CDC and NMBM in terms of investment promotion and facilitation (such as regular meetings) though an informal and more reactive relationship does exist. • It has taken on management of construction and implementation projects in the rest of the province in order to create additional sources of revenue. However, this dilutes its focus from developing and populating the Coega IDZ. • The CDC has taken over management responsibility for the Logistics Park in Uitenhage and incorporated it under the Coega IDZ.
MBDA	<ul style="list-style-type: none"> • Has expertise and institutional knowledge in property development and urban development but little expertise and resources in investment facilitation • It follows a more reaction approach to investment attraction and facilitation enquiries.

¹¹ See Annexure A for list of persons interviewed thus far.

	<ul style="list-style-type: none"> • Is responsible to facilitate and encourage investors to apply for UDZ incentives in its mandated area
UDDI	<ul style="list-style-type: none"> • It lacks a dedicated budget for investment marketing and promotion in the UDDI area, i.e. it follows a more reactive approach to investment enquiries • It main focus is on facilitating development of infrastructure for economic and business growth to take place
PERCCI	<ul style="list-style-type: none"> • It refers all investment inquiries it receives to the CDC, NMBM or a respective member of the organisation, depending on the requirements of the investor • It has limited budget and capacity to provide its services and resources in promoting investment into NMB • It meeting regularly on an informal basis with the NMBM and formally in established forums such as the LED forum and advisory council to the mayor.
ECDC	<ul style="list-style-type: none"> • It has an established Investment Facilitation unit with the necessary expertise and resources • It has an established regional office in Port Elizabeth providing business finance and trade promotion services to local businesses. • Provide developmental investment finance to potential entrepreneurs with a strong business case • Undertakes numerous trade and investment missions abroad and does invite local private sector on these missions, but the ECDC lacks a strategic approach in selecting businesses for participating in outward missions • ECDC also facilitates in-bound trade and investment missions, but NMBM has commented that there is often not enough advance notice of inbound missions.

Source: Interviews with local stakeholders

In summary, the existing investment support services are fragmented, more reactive to investment enquiries with limited proactive engagements with local and foreign investors.

4.4.2 ADMINISTRATION OF INVESTMENT ENQUIRIES AND APPLICATIONS

The findings of the stakeholder engagements with regards to the administration of municipal services directly impacting on investment in NMB are summarised in Table 4.6.

Table 4.6: Summary of the Administration of investment services

	Comments
Land availability	<ul style="list-style-type: none"> • Many parcels of vacant land in the municipality in strategic locations are cannot be developed due to environmental characteristics of the land • The municipality has identified that sufficient land is available to meet the demand for industrial and commercial space, but there is currently an oversupply of retail space, which corroborates a finding by Rode & Associates earlier in 2008 • The MFMA requires that municipal land be sold/leased at market related rates, which often constrain investments on those parcels of land by emerging entrepreneurs

	<ul style="list-style-type: none"> • The NMBM is in the process of developing and updating the NMBM Spatial Development Framework (SDF) • Existing land disposal process not encouraging to investment by small businesses due to complexity and high administrative requirement of process, as well as prohibitive prices.
<p>Building Plans and Rezoning Applications</p>	<ul style="list-style-type: none"> • The current processes of applying for rezoning and plans depends entirely on the municipality unlike the EIAs. • The municipal approval process for building plans and rezoning is extremely long, with some local businesses reporting that the average waiting time for rezoning increased from 9 months in 2007 to over 12 months in 2008. • The NMBM acknowledged the backlog in applications caused by staff resignations in the past 12 months • NMBM maintains that the processes and procedures remain efficient¹², but acknowledged that it could make them even more efficient • NMBM has recently employed new staff to fill vacant positions and reduce the backlog in applications. However, many are young and inexperienced so it may take some time to reduce the backlog • Rezoning applications take normally between 6 and 8 months¹³ • Building plan approvals should take about a week.
<p>EIA applications</p>	<ul style="list-style-type: none"> • Depending on the size of the investment, internal NMBM EIA committees/task teams are established to oversee the application, but it often lacks the necessary expertise from Economic Development • The DEADEA is the authority responsible for approval of EIAs. There is a significantly backlog of EIA applications at the provincial DEDEA office • The responsibility of the NMBM is minimal and their processes are geared to process applications timeously. • The portion of applications fees paid to NMBM is very minimal and therefore cannot be prohibitive to investment. • The involvement of Trade and Investment Directorate in the NMBM/DEDEA committee dealing with EIA applications can assist in enhancing communication with investors
<p>Water Services</p>	<ul style="list-style-type: none"> • High connection fees that must be paid upfront by client as per new MFMA regulations • Large deposits are required that is based on estimated water usage • Information on actual water tariffs / rates are not freely available
<p>Electricity Services</p>	<ul style="list-style-type: none"> • Long lead time for connections within NMBM for medium to large power users, often over 12 months • High connection fees that must be paid upfront by client as per new MFMA regulations • Information on actual electricity tariffs / rates are not freely available

¹² Some NMBM officials identified that NMBM is sometimes identified as best practice to other municipalities in SA in processing of building plan and rezoning applications

¹³ A process plan for building plan approvals are attached in Annexure B.

**Urban
Development**

- The MBDA is offering UDZ incentives for the improvement of the CBD.
- The incentives have assisted to some extent in drawing investors to the CBD however they had to be supplemented with the improvement of the environment in the area, i.e safety & security and cleansing.

In summary, the skills shortage in South Africa has contributed to creating a backlog of building plan and rezoning applications in the municipality and EIA applications at provincial DEDEA office. High connection fees and MFMA requirements has increased the upfront costs of investment. There is a general lack of information about the existing application procedures and service costs from the municipality.

4.4.3 RESPONSE TO INVESTMENT ENQUIRIES

A secret investment enquiry was sent to PERCCI, NMBM, ECDC and CDC to assess their response to investment enquiries.¹⁴ The enquiries were sent directly to the respective investment facilitation offices. Respondents were given a week to respond to the enquiry. Only PERCCI and NMBM responded positively to the enquiry and within the specified time. In both cases, face to face meetings were requested and were arranged to take place in the following week.

No responses were received from the ECDC and the CDC, even though the enquiry was forwarded to the CDC by PERCCI in addition to the original enquiry. It is disappointing that the CDC and ECDC, which have specific investment facilitation units with the resources and institutional expertise, did not respond to the investment enquiry.

4.4.4 PRIVATE SECTOR COMMENTS ON INVESTMENT SUPPORT BY THE NMBM

The following general comments have been received from the various business leaders and organisations with regards to existing and future support for investment by the NMBM:

- The NMBM needs to focus on and package its potential investment areas such as the Logistics Park, Coega IDZ, and UDZ, amongst others
- NMBM needs a one stop shop for investors in order to deal with potential investors in a co-ordinated manner
- NMBM needs a marketing strategy which clearly communicates what it can offer investors
- The NMBM needs to be pro-active and identify available land in the area and package it properly for investors
- The Spatial Development Framework of the city needs to be marketed to existing and potential investors to minimise the number of proposals that are rejected due to the fact that they do not conform to the framework
- Existing investors need to be assisted, especially in these times of economic distress
- Investors who have shown confidence in the region have to be recognised and rewarded for it

¹⁴ See Annexure C for a copy of the investment enquiry.

- Land not accessible to PDIs hence local PDIs are not in the property development space
- Transport and logistics industry needs to included as one the focus areas
- There is a need for education through seminars and workshops in order to facilitate participation of local PDIs in the various sectors that NMBM is focusing on

4.5 INCENTIVE POLICY

The NMBM has developed a Incentive Policy. The aim of the policy is:

To provide the necessary principles, processes, approval procedure, roles and responsibilities to enable a professional, consistent and transparent incentive management dispensation

The Policy focuses on areas that are not covered by existing incentives schemes such at the Coega IDZ and PE CBD UDZ. However, it does not identify what other specific incentives from other spheres of government are available to investors within NMBM.

From the vision above it is clear that the policy does not specify the incentives the NMBM were to offer but focuses on the administration and management of the incentive policy. However, it did state what incentives the NMBM should consider, which is summarised in Table 4.7.

Table 4.7: List of incentives offered in draft NMBM Incentive Policy

Main Category	Description
Service Related	<ul style="list-style-type: none"> • Subsidised rezoning applications • Assistance with EIAs • Subsidised fees for building plan approvals • Prioritised treatment of application processes
Asset Related	<ul style="list-style-type: none"> • Cost sharing of new physical service related support infrastructure • Rental subsidisation
Holiday period on rates	Providing a rates holiday to assist businesses to lower start-up costs. This can be achieved via a 100% discount over a period or a sliding scale for service payments to make investments more attractive. An example of such a sliding scale is. 33.3% year 1, 66.7% year 2 and 100% year 3 etc.
Creative Incentives	Creative incentives could be added to this policy as part of the policy review process e.g. assistance with specialised skills training

Source: NMBM Draft Incentive Policy

The draft Incentive Policy identified the following management principles:

- The incentive scheme is dependent on a service orientated marketing approach
- This incentive scheme is only applicable to new investments that qualifies
- The direct and indirect economic contribution of an investment as per the incentive evaluation model is evaluated to determine the financial ceiling of the incentives

- Incentives could only be allocated from the pre-approved incentive list
- The cumulative value of incentives shall remain within the approved incentive budget
- The policy gives mandated authority to responsible officials according to pre-determined conditions for authorising incentive negotiations and recommendations

The draft Incentive Policy has also identified specific incentive management procedures relating to maintenance of the policy, evaluation and approval of incentive applications, institutional structures to improve investor relations, and the awarding and implementation of incentives. It has also identified the roles and responsibilities of the different units within the NMBM.

PART B: INCENTIVE POLICY

5 INCENTIVE POLICY FRAMEWORK

This section provides the strategic framework for the NMBM Investment Incentives Policy. The situational analysis has revealed that the general business and investment climate, as well as the future business prospects of the specific locality are more important in investment decisions than the availability of direct incentives. Thus, improving the local business and investment climate in NMBM is more important than offering direct, financial incentives in order to retain, expand and attract investment in NMBM. While the NMBM Investment Incentives Policy will focus on municipal incentives, it should be complimented by an Investment Promotion Strategy.

The proposed incentive policy presented in this section builds on the existing draft NMBM Incentive Policy presented in Section 4.5.

5.1 AIM OF THE INCENTIVE POLICY

The Investment Incentive Policy must be aligned to the overall economic vision for the city, as stated in the NMBM IDP and 2020 Economic Growth and Development Strategy. These are:

Vision of the NMBM IDP	Vision of the NMBM EGDS
To be a globally competitive and preferred Metropole that works together with the people	To be a world-class, well-diversified and integrated competitive global economy that prides itself in its excellent business environment to create sustainable livelihood for its inhabitants

The overarching aim of the NMBM Incentive Policy is:

To provide NMBM with the necessary policy guidelines to improve the economic competitiveness of Nelson Mandela Bay in order to attract, secure and grow local and international investment in the area.

More specifically, the incentive policy provides the necessary guiding principles, details on incentives offered by NMBM, application processes, relevant requirements and approval procedures, and defines roles and responsibilities to enable a professional, consistent and transparent incentive management dispensation.

5.2 FOCUS AND SCOPE OF THE INCENTIVE POLICY

The Incentive Policy focuses specifically to attract additional investments from new and existing investors to Nelson Mandela Bay in the following key sectors as identified in the NMBM EGDS:

- Manufacturing sub-sectors: fuel, petroleum, rubber products, wood and related products
- Automotive manufacturing sub-sector
- Tourism and hospitality
- Agriculture
- Construction
- Logistics
- Other knowledge and information sectors (incl. BPO)

The Incentive Policy covers the whole metro, but special focus is on the key economic development nodes as identified in the new NMBM Spatial Development Framework (SDF). Key development nodes in the NMB area include the Port Elizabeth CBD, Motherwell, Coega IDZ and Uitenhage-Despatch.

The Incentive Policy is directed at new medium to large investments, as defined by the National Small Business Amendment Act (2003), i.e. new investments that will create 50 or more permanent job and have minimum asset values of between R2 million and R5 million, depending on which sector the business operates (See Annexure D for specific classification).

5.3 GUIDING PRINCIPLES

National and international best practices have identified the following principles for investment incentives, which are guiding the development and implementation of this policy:

Guiding Principle	Description
Simplicity	The incentives should be easy to understand and communicate, as well as to manage and administer.
Transparency and Consistency	Incentives should be granted on a predetermined set of criteria to avoid any bias in awarding incentives, and should be available for public scrutiny.
Non-discrimination	The incentives offered must not discriminate between local, national and foreign investors
Affordability	The costs incurred or income foregone from incentives must be valued and included in the municipal budgets and reviews.
Targeted	Incentives should be only be applicable to those areas or economic sectors identified for further support.
Cooperative governance	While competition between localities is healthy, it is important to avoid any incentive war that could cause investment relocations that result in a zero-sum game (nobody wins) and become unaffordable to municipalities – rather, competition should be on the quality of service provided to investors
Continuous Review	incentives policy must be effectively monitored and evaluated to ensure they have the desired impact, and regularly reviewed to ensure it remains relevant
Meet all legislative	The policy and incentives must abide by national and international law

5.4 INCENTIVES OFFERED

As stated earlier, the aim of the policy is to improve the economic competitiveness of Nelson Mandela Bay in order to attract, secure and grow local and international investment in the area. The incentives offered by NMBM must be competitive relative to the incentives offered by other municipalities in South Africa but still adhere to the principles of this policy. It should also promote development in the specific geographical and sectoral focus areas of the metro.

The focus is on both soft (non-financial) and hard (financial) incentives. Soft incentives are services offered by the municipality to improve the local investment climate for all enterprises in Nelson Mandela Bay in order to encourage new investment in the area, as well as retain and expand existing investments. With hard (financial) incentives, some of the financial costs (and/or risks) of a specific investment are shared by the NMBM, i.e. NMBM incurs costs and/or forego future income in order to attract specific investments to the district. The following incentives are proposed.

5.4.1 SOFT INCENTIVES

ONE-STOP INVESTMENT SHOP FOR NELSON MANDELA BAY

A key issue identified by all stakeholders is the lack of a single entity or interface to promote and facilitate investment in NMB. As identified in Section 4.4, there are a number of institutions facilitating investment in NMB, with investors often referred to another institution for one thing and to another institution for something else. These are indirect obstacles to investment in NMB. In addition, there is little coordination between the existing institutions in promoting NMB as a single investment destination, often competing against each other to attract investment to their specific locations.

NMBM should partner with other economic development and investment facilitation institutions in NMB such as UDDI, CDC, PERCCI, MBDA and ECDC to provide a One-Stop Investment Shop that facilitates investment in NMB. This One-Stop Shop should focus on:

- Integrated Marketing and Promotion of Nelson Mandela Bay as an investment destination
- Facilitating the expedient processing of applications submitted by investors to the municipality such as:
 - Building Plans
 - Clearance certificate
 - Municipal comments on E.I.A.
 - Rezoning
 - Water and electricity connections
- Assist investors with:
 - E.I.A. 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
- Provide investment aftercare services
- Identify constraints and solutions to increase investment in NMB

In order to be effective, this One-Stop Investment Shop should focus exclusively on medium to large commercial and industrial investments in NMB. Smaller investments should be handled by the SMME unit of NMBM. It should act as the single reference point for the investor before, during and after investment.

In partnership with its partners and the SMME Unit of the NMBM, the One-Stop Investment Shop will develop and maintain a SMME database with contact details of local suppliers which will be promoted amongst and accessible to local, national and foreign investors.

STREAMLINING MUNICIPAL PROCESSES AND PROCEDURES

Most large national and international companies that approached the NMBM have already thoroughly researched the business environment and market potential when they considered investing in Nelson Mandela Bay. In many cases, the decision to invest has already been made even before the first contact is made with the municipality. When the enquiry is made, the main priority for the investor is to commission the new project within the shortest possible time. This is where the municipality can be the most helpful and effective.

The best incentive that NMBM could offer to any investor is efficient and effective municipal services and administration in the establishment of a new business or expansion of an existing business. Investors want certainty about when they can actually start production, i.e. have certainty about when all the administrative approval processes will be completed. Ideally, it should be in the shortest possible time and not be costly.

The NMBM should offer investors certainty about completion of approvals that is within its ambit such as building plans and rezoning applications. For this, the NMBM should develop internal Service Level Agreements with the other departments within the NMBM such as Planning, Electricity, Water, Infrastructure, and Land and Housing. These agreements should commit the departments to process their part of investment applications within a specified time and communicate any possible delays to the Investment Facilitation Unit. In order to do this, the Facilitation Unit must develop an investment application tracking system to monitor progress of investment related applications. If there are any delays during the process, the NMBM should inform the investor immediately.

UPDATED ECONOMIC, MARKET AND INDUSTRY INFORMATION AND ANALYSIS

The NMBM will coordinate and facilitate the gathering of local economic and market information, and conduct research on and analysis of key sectors regularly and make it readily available for local businesses and potential investors. This is to be done in partnership with the NMMU, Eastern Cape Department of Economic Development, PERCCI and ECDC.

SUPPORT AND FACILITATE SKILLS DEVELOPMENT AND TRAINING TO EMPLOYEES OF NEW INVESTMENTS

Having correctly skilled people is critical for businesses and investments to succeed. The NMBM should support and facilitate local businesses and new investors in developing the skills and training to employees by local training providers when approached.

FACILITATE AND SUPPORT CLUSTER DEVELOPMENT INITIATIVES

In the era of globalisation, it is important that local industries become more competitive. This requires more cooperation and coordination between firms in the same industry. The NMBM facilitate and support cluster development initiatives in NMBM that has proven to improve efficiency and/or reduce risks/costs for individual enterprises and improved the competitiveness of local businesses in national and global markets such as:

- Benchmarking clubs
- Industry associations
- Business hives and incubators
- Joint research & development programmes
- Joint marketing initiatives

In particular, the NMBM supports clusters in applying for the relevant DTI programmes such as Sector Specific Assistance Scheme and the Export Market and Investment Assistance Scheme (see Section 2.3).

5.4.2 HARD (FINANCIAL) INCENTIVES

The following financial incentives are offered by the NMBM to investors.

JOINT FINANCING OF FEASIBILITY STUDY AND/OR BUSINESS PLAN DEVELOPMENT

There are a number of potential economic development projects identified for Nelson Mandela Bay at the NMBM Growth and Development Summit and in the NMBM EGDS, as identified in Section 4. However, these projects may require more detailed feasibility studies to attract investors. In addition, any local investors have ideas and/or rights to potentially large investment opportunities, but lack the funds to undertake detailed feasibility studies and/or business plans.

The NMBM Investment Facilitation Unit should partner with other organisations and enterprises to provide some financial support for the development of business plans and feasibility studies of potential / new investments where such investments are deemed beneficial to the local economy and within the targeted sectors of the respective municipality. The contribution by the NMBM is dependent on the availability of funds and is limited to R50,000 or 50% of the total cost of developing the business plan and/or feasibility study, whichever is the lowest. The investor must approach the NMBM individually to apply for this incentive.

REBATE ON MUNICIPAL BUILDING PLAN APPROVAL COSTS FOR APPROVED INVESTMENTS

The municipality will provide a 100% rebate on approved investments for the approval costs for building plans submitted by investors to the municipality. This should not apply to residential investments or investments on land zoned for residential development. The rebate should only apply if:

- The business also owns the premises on which the development is set to take place;
- The business has signed at least a 10 year lease agreement for premises in an area in NMB identified for urban renewal.

The rebate does not apply to any additional costs or penalties that the developer may incur when submitting the building plans.

DISCOUNTS ON RATES AND SERVICES FOR NEW INVESTMENTS

The first few years of any new investment faces significant cash flow challenges with high capital expenditure costs, low but fast growing income levels, and relative low levels of efficiency in many processes of the new enterprise, amongst others. The aim of this incentive is to lower the start-up costs and initial utility expenses of a new investment to improve cash flow and survival rate. The municipality recovers this investment through higher rates and utility services income in future.

The municipality will provide discounts on municipal services and/or costs to new business investments, or expansion of existing investments, for a limited period (maximum five (5) years) following such investments. The municipal services and rates eligible for discounts are:

- Water
- Sewerage
- Refuse removal
- Electricity
- Rates

The specific discounts are:

Year 1:	80% of the relevant municipal services account
Year 2:	60% of the relevant municipal services account
Year 3:	40% of the relevant municipal services account
Year 4:	20% of the relevant municipal services account
Year 5:	0% of the relevant municipal services account (i.e. normal rates apply)

In addition, the full basic service connection fees for electricity, water and sewerage will be refunded if the application has been approved. However, the developer remains liable for the cost of providing and installing cables and municipality owned equipment on the relevant premises for

electricity, sewerage and water connections if these are absent or not to the specifications of the developer.

These discounts are similar to those applied by some municipalities in South Africa. The following restrictions apply to these discounts:

- Discounts will only apply where the Nelson Mandela Bay Municipality is the utility service provider.
- Discounts only apply to the municipality's part of these costs, e.g. it only applies to the NMBM portion of overall electricity costs and does not apply to the basic costs at which the municipality purchases electricity from Eskom.
- Discounts will only apply if the applicant is also the owner of the premises from which the business operates.

Where there are no services at the identified investment site and additional service infrastructure is required for the investment to take place, the NMBM will assist the investor in leveraging the necessary resources such as applications for the DTI's Critical Infrastructure Programme (C/F Section 2.3) or make special application to the Municipal Infrastructure Grant (MIG) fund at the National Treasury.

It is recommended that the deposits investors must submit to the municipality in order to receive its services be recovered over a period of 1 year, i.e. twelve equal monthly deposits or 4 quarterly deposits. This only applies to applicants that qualify for the discount on rates and services.

DISCOUNT ON MUNICIPAL LAND AND BUILDINGS/ RENTAL SUBSIDISATION

Land is central to investment. The availability of land and the form of ownership of the land are important determinants in investment location decisions. The NMBM has strategic buildings and parcels of land available that it could offer to investors are a reduced rate to ensure the investment takes place. However, the NMBM is bound by the restrictions of the Municipal Finance Management Act (MFMA).

The MFMA requires that municipalities, in selling/letting of assets (including land) non-essential for service delivery, have to consider the fair market value of the asset, as well as the economic and community value to be received from selling/letting the asset. The process has to be open and transparent, and aligned with the respective municipality's supply chain management policy. Selling/letting of municipal land would have a direct cost implication for the municipality if land is sold under market value, e.g. if it is deemed the economic value the investment would generate for the local area exceeds the financial loss to the municipality.

The NMBM will negotiate with the relevant investor about possible discounts on selling/letting of municipal land. Private land let directly to new investors is included in this incentive. The investor will negotiate a rental fee with the lessor of the premises and the NMBM will evaluate the qualifying rental subsidisation amount as per the established criteria. As per MFMA requirements, the NMBM

must determine the economic value of the investment in deciding whether to grant a discount and the size of the discount.

- Selling municipal land/buildings to approved investors: the discount should not exceed 25% of the cost of the land and only applies to the purchase price of the land. The economic value of the capital expenditure (excluding the purchase value of the land) of the investment must be at least double the size of the discount of the land.
- Rental of municipal land/buildings to investors: the discount should only apply to rentals agreements of 5 years or longer and is limited to the first 2 years of the operation. The rental discount for municipal buildings or land is only applicable if its economic value of the operational expenditure (excluding the rental fees) in the first three years is at least double the value of the discount in those particular years. The respective rental discount is:

Year 1	40% off the market rental price
Year 2	20% off the market rental price
Year 3+	Normal market rental price applies

5.4.3 QUALIFYING CRITERIA

The following minimum criteria must be met by applicant investors in order to qualify for these discounts:

- The investment must be made within Nelson Mandela Bay;
- The investment must qualify as medium or large business or be equal in size to a medium or large business, as defined by the National Small Business Amendment Act (2003) (See Annexure D for more details), i.e.
 - Employ more than 50 permanent staff,
 - Generate minimum turnover of between R5 million and R15 million (depending on which sector the business operates), and
 - Have minimum asset values of between R2 million and R5 million, depending on which sector the business operates;
- The investment must be a new investment or expansion of an existing business in Nelson Mandela Bay, i.e. it does not apply to businesses that have simply relocated within Nelson Mandela Bay;
- The investment must be of a commercial or industrial nature on land zoned for industrial or commercial activities; and
- The investment must have been made within 12 months prior to the application and after approval of this policy by the NMBM Council.

Businesses and investors will have to provide the relevant documentation required by the municipality to substantiate the application and proof that these criteria have been met.

5.4.4 EVALUATION CRITERIA

The size of each of the incentives identified above is the maximum that is available to investors per incentive. Preferential consideration should be given to those investments that strengthen the development priorities of the NMBM EGDS, i.e.

- Investment in priority geographical areas of the metro;
- Investment in priority sectors of the metro;
- Promote Broad-Based Black Economic Empowerment;
- Extent of local procurement which strengthens the local economy;
- Number of direct employment opportunities created;
- Increase the human capital (skills and knowledge) within NMB.

Each application should be weighed and scored against these evaluation criteria. The following incentive weighting matrix could apply:

Criteria	Options	Points
Located in Priority Zone	No	12
	Yes	24
Priority Sector	No	8
	Yes	16
Direct Jobs	50 – 100	6
	100 – 200	12
	200 – 500	18
	500 +	24
BBBEE (as per BBBEE Scorecard)	< 30	0
	≥ 30 and <45	3
	≥45 and <60	6
	≥60 and < 75	9
	≥75	12
Local Procurement (% of total opex. Procured from other businesses in NMB)	Less than 20%	3
	20% to 30%	6
	30% to 50%	9
	50% +	12
Skills Development (Annual Training Costs per employee)	<R1,000	3
	R1,000 to R2,000	6
	R2,000 to R4,000	9
	R4,000 +	12

The final agreement must be ratified by the Exco and Council, and should be publicly available. This will encourage consistency and transparency.

5.4.5 INCENTIVE CONTRACT TERMS AND CONDITIONS

The following terms and conditions will apply to contracts between the NMBM and the successful applicant:

- The maximum period of the incentive contract is five (5) years after application.
- The financial discounts will only commence upon the actual start date of production / business services
- Change of ownership or name of the enterprise already receiving incentives does not qualify such enterprises to re-apply for a new allocation of incentives, with existing incentives granted continuing for the remainder of its period, provided original conditions are still met
- All incentives will form the subject of an incentive contract between the relevant municipality and the applicant
- Incentives will be suspended if the all existing accounts with the municipality are not up to date, i.e. not more than a maximum of 60 days in arrears.
- The municipality may withdraw any incentives offered to a specific applicant at its own discretion if, in its opinion, the applicant has breached any condition in the incentive contract.

Please note that this list is not exhaustive as the normal contract terms and conditions as per NMBM supply chain policies apply.

5.5 INCENTIVE FUND

Incentives can be costly to the municipality in direct expenditure and/or lost future income if not effectively planned for. It is important not to compromise the financial viability of the NMBM It is recommended that NMBM allocate a limited budget per annum, i.e. an Incentive Fund, from which these incentives are paid. This Incentive Fund should not be larger than 0.5% of the NMBM budget. With the budget for the 2008/9 financial year being R5.24 billion, the Incentive Fund would thus be about R26 million.

No incentives should be offered in the remainder of a year if the total amount of incentives offered by the NMBM has exceeded the value of the Incentive Fund. This should ensure that the incentives don't adversely affect the financial viability of the municipality. It is therefore important that the incentive fund be effectively managed.

6 MANAGEMENT OF INCENTIVE POLICY

6.1 MANAGEMENT PRINCIPLES

The following management principles were identified in the previous draft Incentive Policy and should be carried over into the new NMBM Incentive Policy.

Principle	Description
1. The incentive scheme is dependent on a service orientated marketing	The One-Stop Investment shop creates a single interface for investors and integrates the investment

approach	promotion and marketing of the NMB
2. This incentive scheme is only applicable to new investments that qualifies	A mandatory criteria for qualifying for investment incentives is that the investment must be a new business or expansion of an existing business in NMBM. Incentives are largest for investments that promote the development priorities of the metro.
3. The direct and indirect economic contribution of an investment as per the incentive evaluation model is evaluated to determine the financial ceiling of the incentives	An incentive evaluation model is proposed and each incentive application will be evaluated against that to determine the extent of the incentive offered.
4. Incentives could only be allocated from the pre-approved incentive list	The NMBM should not offer incentives beyond those approved in this policy.
5. The cumulative value of incentives shall remain within the approved incentive budget	The total amount of incentives offered during any financial year is limited to the size of the Incentive Fund in that year. Important to remember that incentives offered will have an impact on the incentive fund in future (compulsory obligations by the NMBM).
6. The policy gives mandated authority to responsible officials according to pre-determined conditions for authorising incentive negotiations and recommendations	The NMBM Trade and Investment Unit will be responsible for implementation of the policy and the management of the incentives to investors.

6.2 MAINTENANCE OF THE INCENTIVE POLICY

The following was contained in the previous Draft Incentive Policy and should be included in the new Incentive Policy:

- The incentive policy shall be reviewed at least annually to coincide with the budget approval cycle;
- Ad-hoc requests by business units to review the incentive policy shall follow the standard council approval process;
- The council can instruct changes to the policy from time to time;
- The updated approved incentive policy shall be maintained at all times on the NMBMM intranet;
- Updated approved incentive qualifier conditions e.g. preferred industry list shall be maintained on the NMBMM intranet;
- Business units shall provide a incentive list of available incentives as well as the associated standard NPV value;
- Business units shall cost their incentive contributions per financial year for budgeting by EDTA and allocation of incentive costs ;

- The approved version of the incentive evaluation model shall be maintained in the same manner as the incentive policy.

6.3 INSTITUTIONAL ARRANGEMENTS

As stated previously, the best incentive that NMBM could offer to any investor is efficient and effective municipal support, since investors want to commence with business in the shortest possible time. Therefore, all that most investors require are good, professional guidance and an efficient business establishment process. Most large national and international companies considering investing in NMBM have already thoroughly researched the business environment and market potential and thereafter shortlisted NMBM as a potential investment location. Thus, they have considered the competitiveness of NMBM even before the first contact is made with the municipality. When the enquiry is made, the main priority for the investor is to commission the new project within the shortest possible time. This is where the municipality can be the most helpful and effective. However, this can only be done if an effective municipal investment support structure is in place.

6.3.1 INSTITUTIONAL STRUCTURE

An effective institutional structure to manage the implementation of the Investment Incentives Policy in NMBM is critical. The case studies have revealed that investment promotion and facilitation function in Durban and Cape Town is delegated to an institutional structure independent from, but financially supported by the respective municipality, i.e. to the Durban Investment Promotion Agency (DIPA) in eThekweni and Wesgro in the case of Cape Town.

The NMBM already has a Trade and Investment Facilitation Unit (NMBM T&I) within the Economic Development Directorate. Therefore, it is not recommended for NMBM to create a separate entity to facilitate investment in NMBM. It is recommended that the NMBM T&I become the One-Stop Investment Shop for NMBM. In order to do this, the budget of the NMBM T&I should be increased and formal partnerships be developed with other economic development and investment facilitation institutions in NMB such as UDDI, CDC, PERCCI, MBDA and ECDC. It will create a single investment interface for potential investors and integrate the investment promotion and marketing of the NMB by the various stakeholders. In addition to facilitating investment, this unit should be responsible for managing the incentives.

It is important that the NMBM T&I is situated at an organisational level where it has easy access to decision makers and high profile civic members (e.g. Mayor, Deputy Mayor and Municipal Manager) in order to facilitate meetings between investors and the NMBM. Ideally, the NMBM T&I should report directly to the NMBM Municipal Manager and the Business Advisory Forum, but if this is not practical, then indirect reporting to the MM via the NMBM Economic Development Manager. Therefore, it is recommended the NMBM T&I be elevated in the structures of the NMBM. An advantage of this is the institutional support that the unit could receive from the NMBM structures and the improve coordination and communication with other line departments in NMBM.

The NMBM T&I (the One-Stop Investment Shop) will be responsible for implementing this policy. It should act as the single reference point for the investor before, during and after investment. It should have a dedicated budget and the freedom to operate within a clear mandate developed by the municipality. It should focus exclusively on medium to large commercial and industrial investments in NMB. Smaller investments should be handled by the SMME unit of NMBM.

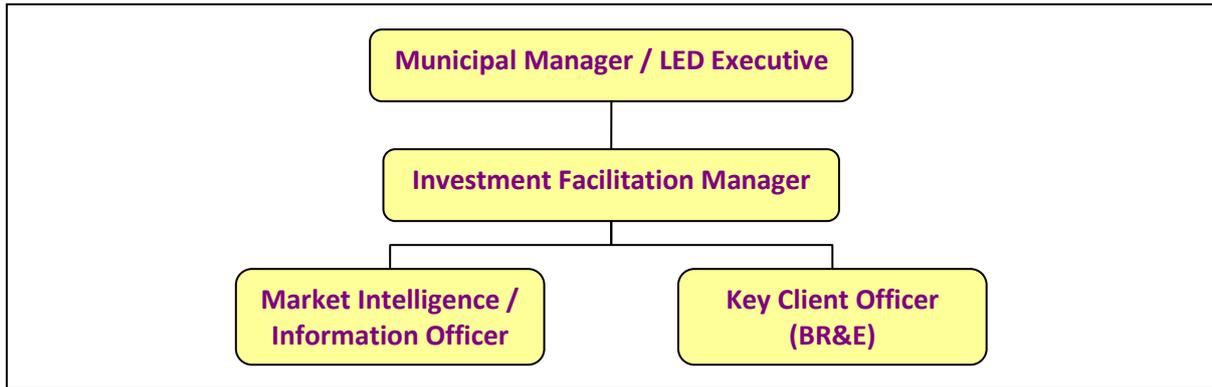
6.3.2 ROLES AND RESPONSIBILITIES

The purpose of the NMBM T&I will be to facilitate investment in NMBM, improve the investment climate in NMBM and manage the Incentives on behalf of NMBM. As such, the roles and responsibilities of the NMBM T&I should include:

- Integrated Marketing and Promotion of Nelson Mandela Bay as an investment destination;
- Facilitating the expedient processing of applications submitted by investors to the municipality;
- Negotiate, allocate and implement incentives offered by the municipality;
- Management and administration of incentives offered to investors in NMBM;
- Assist investors with:
 - E.I.A. 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
- In partnership with its partners and the SMME Unit of the NMBM, develop and maintain a SMME database with contact details of local suppliers accessible to local, national and foreign investors.
- Provide investment aftercare services to encourage investors to expand their investment in NMB;
- Establish and maintain good communication channels with potential and existing investors, as well as other investment promotion role players;
- Monitor and improve of the local business and investment climate throughout NMB;
- Identify constraints and solutions to increase investment in NMB;
- Interact and coordinate with line departments to provide hard and soft infrastructure to improve the local business and investment climate;

6.3.3 PERSONNEL

It is best that the NMBM T&I staff be highly focused and skilled in dealing with investment related queries. The NMBM T&I should be lean in staff numbers to keep costs down and remain focussed on its primary functions. The recommended organisation structure for the NMBM T&I is presented below.



The institutional structure can only support the staff in executing their responsibilities, not guarantee it success. Ultimately, the success of this policy depends on the commitment of, and effort by the persons responsible for its implementation. It is critical that these positions be filled with committed and knowledgeable staff with clearly defined roles and responsibilities.

6.3.4 SKILLS PROFILE OF NMBM T&I PERSONNEL

The NMBM T&I personnel must be appropriately experienced and skilled to comfortably interact with individuals that are highly business-orientated, often internationally experienced and sometimes of a high business/political profile. An understanding of various business etiquette skills in a multi-cultural environment is also vital. It is important that the selection of the personnel should not be taken lightly as the success of attracting investment into NMBM would solely rest on the professionalism and effectiveness of the NMBM T&I. Below is a brief summary of the core skills required and the brief job description for the key positions in the organisational chart.

Skills Requirement	Job Description
Investment Manager	
<ul style="list-style-type: none"> • Management and Administrative Skills at Senior management level • Business Planning Skills; • Networking and People-orientated Skills; • Ability to interact with individuals/officials at the highest level; • Proactive and aggressive deal-locator and deal-maker; • Understanding of internal business models/practice; • Bachelor's degree (Commerce, Science or Engineering), and a post-graduate degree from a reputable institution. 	<ul style="list-style-type: none"> • Interaction with and personal support of high profile investors; • Interaction with senior NMBM officials and councillors to secure a deal; • Business Planning & Budgeting of the NMBM T&I; • Performance Management and motivation of staff; • Feedback Reports to NMBM EXCO; • Programme Monitoring and evaluation;
Market Intelligence/Information Manager	
<ul style="list-style-type: none"> • Business Planning; • Economic Research; 	<ul style="list-style-type: none"> • Commission and regularly update NMBM related sector reports;

<ul style="list-style-type: none"> • Business Development • Marketing & Promotions; • Bachelor’s degree (Commerce) preferably with a post-graduate degree from a reputable institution. 	<ul style="list-style-type: none"> • Commission sector opportunity studies; • Conduct market intelligence studies on existing key businesses in NMBM • Analyse, compare and recommend improvements to the NMB business climate; • Develop appropriate marketing material and media channels to promote NMB as an investment destination; • Distribute promotional material to target market sector using appropriate channels and stakeholders.
--	--

Key Client Manager

<ul style="list-style-type: none"> • Networking Skills; • Business Planning and Operations; • Good knowledge of local operating conditions; • Ability to interact with high profile executives; 	<ul style="list-style-type: none"> • Develop and update a database of all key sectors and large businesses in NMB; • Regularly visit/meet with key business representatives and leaders to investigate areas of concern and opportunities for expansion and market growth; • Implement programmes to retain and expand existing businesses; • Arrange annual forums between NMBM senior officials and key local business;
---	---

In summary, the investment team would be “deal-makers” and should consist of professionals that are cumulatively skilled in business, IT, Tax, Finance, Labour laws, Real Estate, economics, research, information and possess a wide network and sphere of influence. These persons will interact with key stakeholders and other investment promotion role-players such as the DEDEA, ECDC and DTI through which investment leads could be generated. In almost all the interventions, the investment promotion team would need to collaborate with and obtain the support of other interested and affected local stakeholders.

6.4 EVALUATION OF INVESTMENT APPLICATIONS

The following recommendations are made with regards to the evaluation and approval procedures upon receiving investment incentive applications:

- Investments should be screened against the set criteria to evaluate whether incentive management process is applicable;
- Negotiations should proceed within the incentive approval procedure if the qualification criteria are met;
- Only the official approved incentive evaluation model must be used to establish the economic contribution of an investment and the incentives offered.
- An evaluation report should be completed together with a draft incentive contract for final negotiations and approval.

6.4.1 APPROVAL PROCEDURE

It is recommended the following approval procedure apply for investment incentives:

- The incentive approval procedure shall mandate the responsible official/ authority (NMBM T&I) to negotiate and recommend an investor's incentives package
- The final incentive contract shall become the legal binding agreement between NMBM and the investor for incentive management
- The NMBM incentive approvals shall be in accordance with the applicable delegated authorities determined from time to time
- The following conditions mandate the respective NMBM T&I official/authority to conduct incentive negotiations:
 - The investment qualifies for incentive management
 - The economic contribution of the investment is positive
 - Incentive portfolio meet the mandatory criteria
 - Evaluation done with official evaluation tool
 - Negotiations according to approved incentive policy
- The following conditions mandate the NMBM T&I manager to approve the recommended incentive packages and associated contracts:
 - Recommendations and draft contract complies with the above incentive policy approval procedure
 - Sufficient funds available in Incentive Fund to fund the recommendations
 - Approval according to approved incentive policy
- The following conditions require approval from the NMBM ad hoc process or normal approval process:
 - For any recommendations or contracting outside the incentive policy approval procedure
 - For additional NPV incentive budget within a financial year
 - For annual or ad hoc changes to the incentive policy –
- The respective NMBM T&I official/authority shall maintain a documented audit trail of adherence to the approval procedure.

6.5 ESTIMATED COSTS OF INCENTIVES

As stated previously, the NMBM should establish an Incentive Fund from which the cost to the municipality of the proposed incentives should be distributed. In the event that the Incentive Fund is depleted, no more incentives should be offered.

In terms of joint financing of feasibility studies and/or business plans, it is recommended that this not exceed 2% of the Incentive Fund's budget. This would be R520,000 p.a. in the 2008/9 Financial Year if the value of the Incentive Fund is a 0.5% of the municipal budget.

The rate of depletion of the Incentive Fund will depend on the number of investments and the size of the incentives per investment.

EXAMPLE: R100 PARTS MANUFACTURER IN UITENHAGE

It is useful to see the like direct cost to the municipality of a specific investment, which is illustrated by the following example. The example is based on estimated usage of municipal services, which varies depending on the type of enterprise, and the following estimated cost of municipal services:

Table 6.1: Rates and service charges used in example

Utility / Rates	Unit	Unit cost
Water	R / kl	R 8.94
Electricity	R / kWh	R 0.55
Sewerage	R / kl of effluent	R 0.04
Refuse	R / 15m ³ container / year	R 1,036.45
Rates – Land	% of value of land	7.9%
Rates – Buildings	% of value of buildings	1.6%

A new parts manufacturing plant established in Uitenhage worth about R100 million. The investor buys the land in a private transaction from the current landowner, a private entity. The value of the property at the start is assumed to be R5 million for the land and R20 million for the buildings.

It is estimated that the impact on the local economy is based on sector specific economic multipliers derived from national economic data. The expected impact on the local economy is about R108 million per year. The direct impact on local income is expected to be about R24.7 million and indirect impact about R25.6 million. An estimated 224 direct and 409 indirect job opportunities will be created.

Table 6.2: Estimated economic impact on economy

Impact on Economy	New Business Sales	GGP	Income	Employment
Direct	R 108,496,216	R 40,044,741	R 24,719,325	224
Indirect	R 167,044,043	R 59,346,432	R 25,553,980	409
Total	R 275,540,259	R 99,391,173	R 50,273,305	633

Source: Urban-Econ calculations

In terms of the evaluation criteria, the following applies:

Table 6.3: Evaluation matrix of investment example

Criteria	Options	Points
Located in Uitenhage, a Priority Zone	Yes	12
Priority Sector – Auto Manufacturing	Yes	16
Direct Jobs	224	18

BBBEE Scorecard value	40	3
% Locally Procured	45%	9
(Annual Training Costs per employee	R1,500	6
Total		64

Thus, the investor is entitled to receive 64% of the maximum incentives offered for rates and services. The actual rates applicable in the first five years are presented below.

Table 6.4: Actual discounts applicable

	Maximum Incentive	Actual Incentive
Year 1	80%	51%
Year 2	60%	38%
Year 3	40%	26%
Year 4	20%	13%
Year 5	0%	0%

It is assumed that municipal charges and rates will increase at the rate of inflation, i.e. no “above inflation” increases will occur. For simplicity, inflation is assumed to be 0%. It is assumed that the volume of services used will increase by 2% per year, while value of land and buildings is also assumed to increase at a real rate (excluding inflation) of 2% per year. As defined earlier, the discounts only apply to the municipality’s part of the overall cost. It is assumed that municipality’s part of overall costs for water, sewerage and refuse is 100%, but only 20% for electricity where the other 80% constitutes the cost of buying the electricity from Eskom by the municipality

Table 6.5: Total actual income to NMBM and estimated loss of future income

	Usage per year	Year				
		1	2	3	4	5
Water	5,000 kl/month	R 261,763	R 337,031	R 415,204	R 496,370	R 580,617
Electricity	25,000 kWh/month	R 192,454	R 201,902	R 211,651	R 221,709	R 232,084
Sewerage	5,000 kl/month	R 1,133	R 1,459	R 1,797	R 2,149	R 2,513
Refuse	8 containers	R 4,046	R 5,210	R 6,418	R 7,673	R 8,975
Rates (Land)		R 181,910	R 234,217	R 288,543	R 344,948	R 403,494
Rates (Buildings)		R 159,195	R 204,971	R 252,513	R 301,875	R 353,111
Total		R 800,502	R 984,789	R 1,176,127	R 1,374,724	R 1,580,795
Rates & Services Income Lost to NMBM		R 659,908	R 504,829	R 343,284	R 175,075	R 0

Source: Urban-Econ calculations

The total loss to the NMBM from service charges and rates income is estimated to be about R659,908 in the first year, reducing to about R175,075 in the fourth year. In the fifth year, normal

rates apply. These estimates exclude any additional costs to provide the necessary physical infrastructure where such infrastructure does not exist up front. It also excludes the loss of service connection fee, which may vary depending on the type of connection installed.

The net effect is that the municipality loose about R660,000 in rates income, but the local economy gain nearly R100 million and 220 direct and 400 indirect jobs as a result of the investment.

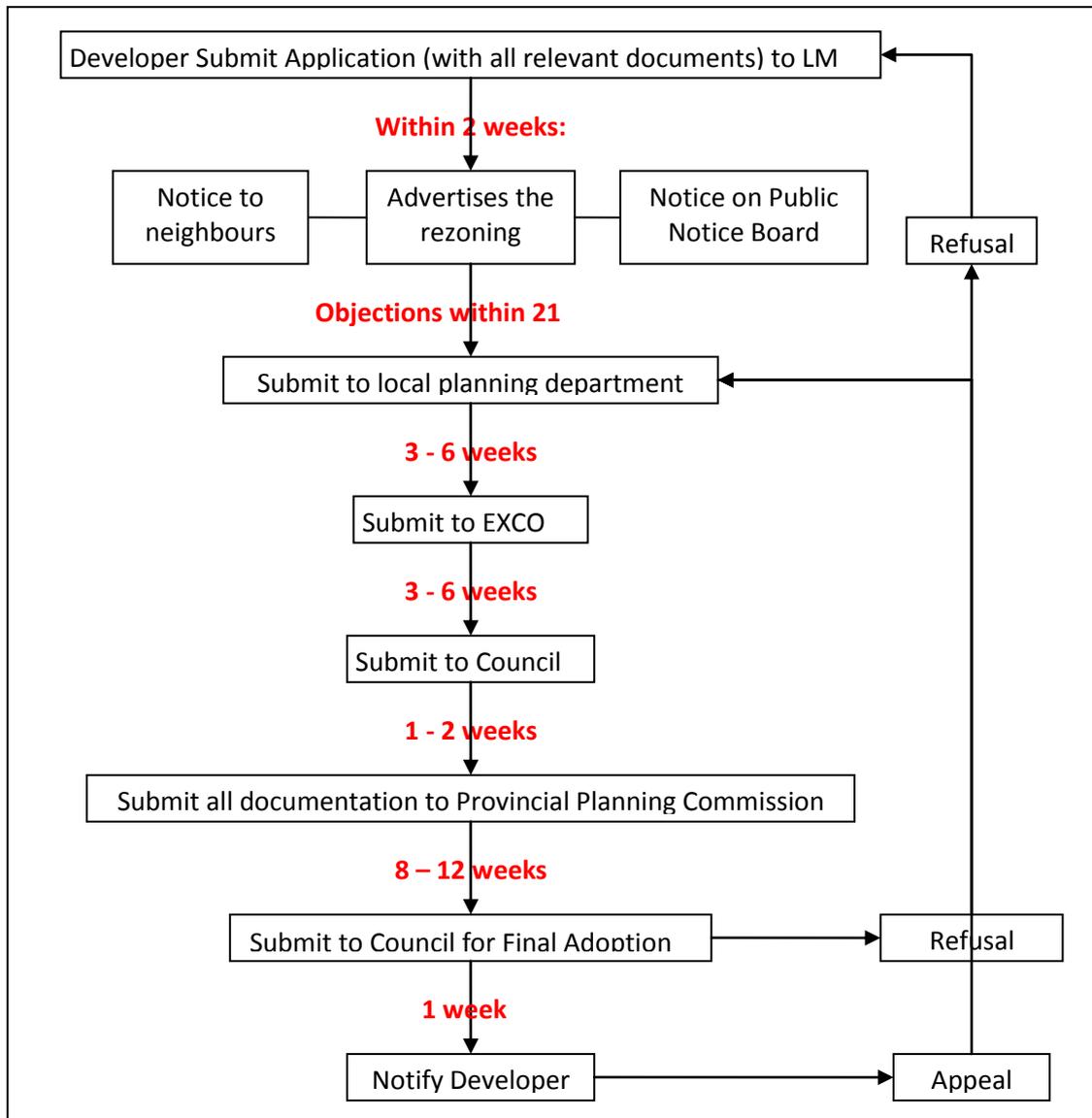
REFERENCES

- COEGA DEVELOPMENT CORPORATION (2005). Property Market Study. Report done by Urban-Econ Eastern Cape.
- DEPARTMENT OF TRADE AND INDUSTRY (2008). Investment Support Initiatives. Online: www.dti.gov.za
- NELSON MANDELA BAY MUNICIPALITY (2004). 2020 Economic Growth and Development Strategy and 2004-2009 Plan.
- NELSON MANDELA BAY MUNICIPALITY (2006). Incentive Policy (Draft).
- NELSON MANDELA BAY MUNICIPALITY (2007). An Investment Competitiveness Study for the Nelson Mandela Bay Municipality. Report by Garnett-Adams Management Consulting
- UMDM (2007). uMgungundlovu District Municipality Investment Incentive Strategy. Report done by Urban-Econ KZN..
- UNCTAD (1996). Incentives and Foreign Direct Investment, UNCTAD-DTCI/28, Current Series, Series A, No. 30, United Nations Publications, New York.
- UNCTAD (2003). *Incentives*. UNCTAD Series on International Investment Agreements: UNCTAD/ITE/IIT/2003/5. United Nations Publication: New York.
- UNCTAD (2008). FDI Statistics. Online: www.unctad.org/fdistatistics
- UNIDO (2005). Africa Foreign Investor Survey 2005. United Nations Industrial Development Organisation: Geneva
- WESGRO (2007). Survey of Constraints to Investment in Cape Town. Report prepared by Wolpe Development Strategies Consortium.
- WORLD BANK (2005). *South Africa: An Assessment of the Investment Climate*. Washington and Cape Town.

ANNEXURE A: LIST OF PERSONS INTERVIEWED

Name	Position	Organisation
Dr Atul Padalkar	Senior Researcher * Investment Liaison Officer	(DIPA
Ms Joyce Ross	Investment Facilitator	Wesgro
Mr Stanley Visser	Investment Promotion Officer	City of Cape Town
Mr Odwa Mtati	CEO	PERCCI
Ms Nomkhita Mona	CEO	UDDI
Mr Kutloano Headbush	Chapter President	NAFCOC (Nelson Mandela Bay)
Mr Zwelithi Gagayi	Financial Accountant	MBDA
Mr. Seth Maqetuka	Executive Director	NMBM: Housing and Land
Ms Dawn McCarthy	Director	NMBM: Land Planning & Management
Mr K Jacoby	Chief Financial Officer	NMBM: Budget and Treasury
Ms. B Wabaza	Regional Manager	ECDC (Nelson Mandela Bay)
Mr Garry McWilliams	Managing Director	Bruce McWilliams Industries
Mr L. Tamboa	Research Analyst: Business Development	CDC

ANNEXURE B: REZONING APPLICATION PROCESS



Source: UMDM (2007)

ANNEXURE C: SECRET INVESTOR ENQUIRY

11 November 2008

Dear Sir/Madam

We are an international manufacturing firm of renewable energy products that wishes to establish a R80 million manufacturing facility in South Africa. Port Elizabeth has been identified as a potential location for such a facility. Our requirements are as follows:

- Land: 15 ha zoned industrial
- Site must be easily accessible to the major road and rail networks;
- Access to skilled labour (artisans, management, financial). At least 80 people would be employed from the locality;
- Work permits for foreign executives and management;
- Water: 500 kl per month of good quality water
- Electricity: 500 kVA at 33kV supply;
- Other attractive features of your locality (residential suburbs, healthcare, shopping, leisure facilities, etc.)
- Incentives offered to locate the business in your locality;
- Any other assistance offered by your local council;

We wish to make a decision on the location by this Monday, so your information must reach me by Friday noon at the latest for your location to be considered. Please respond or pass this on to the most appropriate official in your organization for response ASAP.

Kind regards

Omo-Osagie Osazuwa
Executive Director

ANNEXURE D: CLASSIFICATION OF SMMES IN THE NATIONAL SMALL BUSINESS AMENDMENT ACT OF 2003

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than:	Total annual turnover Less than:	Total gross asset value (fixed property excluded) Less than:
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: National Small Business Amendment Act (2003)