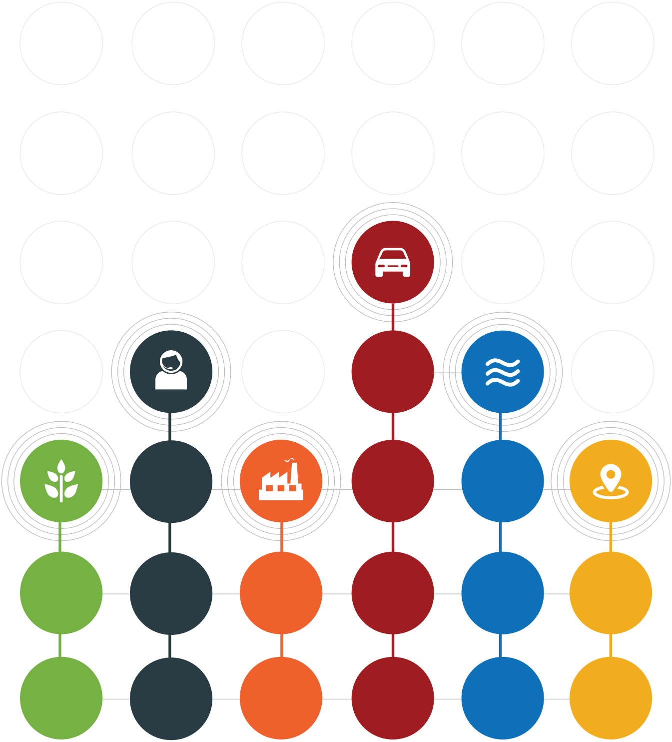

# INVESTMENT INCENTIVES

nelson mandela bay
MUNICIPALITY

*The proposed incentive policy presented in this section builds on the existing draft NMBM Incentive Policy. Research indicates 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. Improving the local business and investment climate in NMB is extremely important in order to retain, expand and attract investment in NMBM, and the financial incentives offered need to be paired with a conducive and favourable operating environment. While the NMBM Investment Incentives Policy will focus on municipal incentives, it will be complimented by an Investment Promotion Strategy. This section provides the strategic framework for the NMBM Investment Incentives Policy.*

1

# **AIM OF THE** INCENTIVE POLICY

The Investment Incentive Policy will 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 | To be a globally competitive and preferred Metropole that works together with the people. |
| Vision of the NMBM EGDS | 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.


# 2 FOCUS AND SCOPE OF THE INCENTIVE POLICY

The Incentive Policy focuses specifically to attract additional investments from new and existing investors and to increase the number of tourists that visit Nelson Mandela Bay.

The Incentive Policy will be applicable to the following key investment sectors as identified in the **NMBM EGDS:**

- Manufacturing sub-sectors: construction, pharmaceutical, clothing and textiles, petroleum, rubber products, wood and related products etc.
- Automotive manufacturing sub-sector
- Tourism and hospitality
- Agriculture and Agro-processing
- Ocean Economy
- Renewable Energy
- Services (BPO and Creative Industries)

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 SEZ and Uitenhage-Despatch, Colchester.

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; developers, airlines and cruise liners.

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 |
|---|---|---|
| 1 | Simplicity | The incentives will be easy to understand and communicate, as well as to manage and administer. |
| 2 | Transparency and Consistency | Incentives will be granted on a predetermined set of criteria to avoid any bias in awarding incentives, and will be available for public scrutiny. |
| 3 | Non-discrimination | The incentives offered will not discriminate between local, national and foreign investors. |
| 4 | Affordability | The costs incurred or income foregone from incentives will be valued and included in the municipal budgets and reviews. |
| 5 | Targeted | Incentives will only be applicable to those areas or economic sectors identified for further support. |
| 6 | 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 will be on the quality of service provided to investors. |
| 7 | Continuous Review | Incentives policy will be effectively monitored and evaluated to ensure they have the desired impact, and regularly reviewed to ensure it remains relevant. |
| 8 | Meet all legislative requirements | The policy and incentives will abide by national and international law relating to incentives and cost-subsidies. |

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 will be competitive relative to the incentives offered by other municipalities in South Africa but still adhere to the principles of this policy. It will also promote development in the specific geographical and sectoral focus areas of the NMBM.

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 and increase tourism activity in the district. The following incentives are proposed.

## SOFT INCENTIVES 4.1

### 4.1.1 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. 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 will partner with other economic development and investment facilitation institutions in NMB such as CDC, NMBC, MBDA and ECDC to provide a One-Stop Investment Shop that facilitates investment in NMB. This One-Stop Shop will 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 will focus exclusively on medium to large commercial and industrial investments in NMB. Smaller investments will be handled by the SMME unit of NMBM. It will 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.

### 4.1.2 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 of 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 will be in the shortest possible time and not be costly.

The NMBM will offer investors certainty about completion of approvals that is within its ambit such as building plans and rezoning applications. For this, the NMBM will develop internal Service Level Agreements with the other departments within the NMBM such as Planning, Electricity, Water, Infrastructure, and Land and Housing. These agreements will 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 will develop an investment application tracking system to monitor progress of investment related applications. If there are any delays during the process, the NMBM will inform the investor immediately.

### 4.1.3 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 NMU, DEDEA, NMBBC and ECDC.

### 4.1.4 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 will support and facilitate local businesses and new investors in developing the skills and training to employees by local training providers when approached.

### 4.1.5 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

***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.***

## HARD (FINANCIAL) INCENTIVES 4.2

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

### 4.2.1 Joint Financing of Feasibility Study and/or Business Plan Development

Investors might be interested in a number of projects in NMB. However, these projects may require more detailed feasibility studies to assist investors to make informed decisions. 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 will 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 50% of the total cost of developing the business plan and/or feasibility study.

### 4.2.2 Rebate on Development Costs on Approved Investments

The municipality will provide a 100% rebate, limited to a maximum of Rlm on investments that have met the set criteria for the following municipal development costs:

| Building Plans | Rezoning Costs | Connection Fees |
|---|---|---|

This will not apply to residential investments or investments on land zoned for residential development.

The rebate will only apply if:

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

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

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

- The investment must be made within Nelson Mandela Bay with a minimum investment value of R20 million
- With a minimum size of 1 ha
- Employ more than 100 construction staff
- At least 30% participation of local SMME's

### 4.2.3 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:

| | | |
|---|---|---|
| Direct Jobs | 40% of the relevant municipal services account (max R1m) | 50-100 |
| | 60% of the relevant municipal services account (max R1m) | 101-200 |
| | 80% of the relevant municipal services account (max R1m) | 201-500 |
| | 100% of the relevant municipal services account (max R1m) | 501+ |

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:

I. *Discounts will only apply where the Nelson Mandela Bay Municipality is the utility service provider.*
II. *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.*
III. *Discounts will only apply if the applicant is also the owner of the premises from which the business operates.*

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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 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.

### 4.2.4 Discounts on Municipal Land and Buildings

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 at a reduced rate to ensure that 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. As per MFMA requirements, the NMBM will determine the economic value of the investment in deciding whether to grant a discount and the size of the discount.

I. *Selling municipal land/buildings to approved investors: the discount will 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.*

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The discount will only apply to rental agreements of 5 years or longer and is limited to the first 3 years of operations.

Below are the respective rental discounts applicable:

| | | |
|---|---|---|
| Direct Jobs | 40% off the market rental price (max R1m) | 50-100 |
| | 60% off the market rental price (max R1m) | 101-200 |
| | 80% off the market rental price (max R1m) | 201-500 |
| | 100% off the market rental price (max R1m) | 501+ |

## 4.2.5 Rental Subsidisation for Private Land and Buildings

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. The discount will only apply to rental agreements of 5 years or longer and is limited to the first 3 years of operations. Below are the respective rental discounts applicable:

| | | |
|---|---|---|
| Direct Jobs | 40% off the market rental price (max R1m) | 50-100 |
| | 60% off the market rental price (max R1m) | 101-200 |
| | 80% off the market rental price (max R1m) | 201-500 |
| | 100% off the market rental price (max R1m) | 501+ |

## QUALIFYING CRITERIA 4.3

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 as defined by the National Small
  - 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;

- Business Amendment Act (2003).
- 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 operational for a period not exceeding 12 months prior to the application

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.

## EVALUATION CRITERIA 4.4

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

I. *Investment in priority geographical areas of the NMBM;*
II. *Investment in priority sectors of the NMBM (not applicable to rebate on development costs);*
III. *Promote Broad-Based Black Economic Empowerment;*
IV. *Extent of local procurement which strengthens the local economy;*
V. *Number of direct employment opportunities created;*
VI. *Increase the human capital within NMB (not applicable to rebate on development costs);*

---

Each application will be weighed and scored against these evaluation criteria.

The following incentive weighting matrix could apply:

| | 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 (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) | Options | Points |
|---|---|---|
| | < R1 000 | 3 |
| | R1 000 to R2 000 | 6 |
| | R2 000 to R4 000 | 9 |
| | R4 000 + | 12 |

## SPECIFIC INDUSTRY INCENTIVES 4.5

### 4.5.1 Aviation

International Routes

| Description | Incentive Amount per Annum | Period |
|---|---|---|
| New Service *(Passenger Commercial Airline)* | R2 million | Three (3) years |
| New Service *(Cargo Airlines)* | R1 million | Three (3) years |
| Increase in Frequency *(Passenger Commercial Airline & Cargo Airlines)* | R400 000 | Three (3) years |

Domestic Routes

| Description | Incentive Amount per Annum | Period |
|---|---|---|
| New Service *(Passenger Commercial Airline)* | R1 million | Three (3) years |
| New Service *(Cargo Airlines)* | R1 million | Three (3) years |
| Increase in Frequency *(Passenger Commercial Airline & Cargo Airlines)* | R1 million | Three (3) years |

### 4.5.2 Cruise Liner

| Description | |
|---|---|
| Discount on Port Tariffs/Taxes | NMBM will pay the required discounts on port tariffs directly to Transnet Ports Authority |
| Green Cruise Incentive | NMBM will assist Cruise Liners docking in the port with the removal of their waste |

# INCENTIVE CONTRACT TERMS AND CONDITIONS

4.6

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

I. *The maximum period of the incentive contract is five (5) years after application (not applicable to the cruise liner incentives).*
II. *The financial discounts will only commence upon the actual start date of production / business services*
III. *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*
IV. *All incentives will form the subject of an incentive contract between the relevant municipality and the applicant*
V. *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.*
VI. *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.

## INVESTMENT INCENTIVES TO ENCOURAGE BUSINESS RETENTION POST COVID-19 4.7

The COVID-19 pandemic has provoked a worldwide health and economic crisis. The economic contraction, projected drop in foreign direct investment (FDI), changes to wider government policies and the pressure on public budgets are just some of the areas that will have an impact on the operations and activities of OECDs. According to the latest OECD projections, global FDI is expected to decline sharply in 2020. Besides the dramatic health and social implications, the COVID-19 crisis has caused severe economic disruptions. The IMF (2020) foresees a 3% global contraction, and the OECD a loss of 2 percentage points in annual GDP growth for each month of containment. The recession is also going to affect global FDI flows.

Companies are also likely to rethink their supply chains in the medium and long run. Multi National Enterprises (MNEs) are likely to review their operations in light of COVID-19. The direction of changes will depend on how companies will balance risk-mitigation with cost-efficiency, among others. On the one hand, a more systematic valuation of risk of disruptions might encourage shortening of global value chains. On the other hand, firms may seek resilience to location-specific shocks through geographic diversification. Some reshoring and nearshoring opportunities may arise but are likely to affect more developing countries.

Governments across the world have undertaken wide-ranging measures to combat the negative economic effects of the crisis. The fiscal packages announced to date have aimed at cushioning the impact of the drop in economic activity and maintaining productive capacity. Supporting business cash-flow has been the core goal of such measures. Business retention therefore forms part of the solution to support economic recovery.

One of the NMBM's core economic drivers have been the manufacturing sector which contributes close to 30% towards the GVA of the City. MNEs are responsible for a large share of global value-added, trade, employment and research and development. FDI can also have potentially important direct and indirect effects on the local economy, including by generating jobs and facilitating access to foreign inputs, goods and services and knowledge. MNEs also tend to be larger, more productive, and R&D-intensive

than purely domestic firms. As such, they are well-positioned to help governments deal with the effects of the pandemic. It is in this regard then that the NMBM will offer Business retention incentives to those companies have been conducting their business in Nelson Mandela Bay for a period longer than 10 years.

In an effort to not only retain the monetary business investment but to also protect the jobs and livelihood of Nelson Mandela Bay citizens.

### 4.7.1 Discounts on Rates and Services to Retain Existing Investment

In order to encourage business retention, the municipality will provide discounts on municipal services and/or costs to existing investments, for a limited period of a maximum of 1 year only. The municipal services and rates eligible for discounts are:

- Water
- Sewerage
- Refuse removal
- Electricity
- Rates

The specific discounts are:

| Investment into the City for a Period of 10 Years or More | |
|---|---|
| R500 million - R1 billion | Up to R500 000 of the relevant municipal services account (max R500 000) |
| R300 million - R499 million | Up to R300 000 of the relevant municipal services account (max R300 000) |
| R100 million - R299 million | Up to R150 000 of the relevant municipal services account (max R150 000) |

## QUALIFYING CRITERIA 4.8

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

I. *The investment must be made within Nelson Mandela Bay;*
II. *The investment must qualify as a large business as defined by the National Small Business Amendment Act (2003).*

*- Employ more than 100 permanent staff*
*- The investment in the City must be between ZAR R 100 million to ZAR R1 billion in both Capital Expenditure as well as OPEX*

III. *The investment must be an existing 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*
IV. *The investment must be of a commercial or industrial nature on land zoned for industrial or commercial activities; and*
V. *The investment must have been operational for a period of more than 10 years prior to the application*

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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.

## EVALUATION CRITERIA 4.9

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

I. *Investment in priority geographical areas of the NMBM;*

II. *Investment in priority sectors of the NMBM (not applicable to rebate on development costs);*
III. *Numbers of years that the business has been operation in Nelson Mandela Bay*
IV. *Extent of local procurement which strengthens the local economy;*
V. *Number of direct employment opportunities created;*
VI. *Increase the human capital within NMB (not applicable to rebate on development costs);*

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

| | 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 |

| | Options | Points |
|---|---|---|
| BBBEE (as per BBBEE Scorecard) | <30 | 0 |
| | ≥30 and <45 | 3 |
| | ≥45 and <60 | 6 |
| | ≥60 and <75 | 9 |
| | ≥75 | 12 |
| Local Procurement (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 |

## BUSINESS RETENTION INCENTIVE CONTRACT TERMS AND CONDITIONS 4.10

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

I. *The maximum period of the incentive contract will be 1 year only.*
II. *The financial discounts will only commence upon the approval of the application by the NMBM City Manager*
III. *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*
IV. *All incentives will form the subject of an incentive contract between the Nelson Mandela Bay municipality and the applicant*
V. *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.*
VI. *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.*

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

5

# **INCENTIVE** FUND

Incentives can be costly to the municipality in direct expenditure and/or lost future income it if not effectively planned for.

It is important not to compromise the financial viability of the NMBM. It is recommended that NMBM allocate a sufficient budget per annum, i.e. an Incentive Fund, from which these incentives are paid.

***This Incentive Funds will increase at least by 10% each year.***

No incentives will 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 will 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

The Incentive Policy focuses specifically to attract additional investments from new and existing investors and to increase the number of tourists that visit Nelson Mandela Bay.

## MANAGEMENT PRINCIPLES 6.1

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

| Principle | Description |
|---|---|
| 1. The incentive scheme is dependent on a service orientated marketing approach. | The One-Stop Investment shop creates a single interface for investors and integrates the investment promotion and marketing of the NMB. |
| 2. This incentive scheme is only applicable to new investments that qualifies. | Mandatory criteria for qualifying for investment incentives is that the investment must be a new business or expansion of an existing business in NMBM. |
| 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 will not offer incentives beyond those approved in this policy. |

| Principle | Description |
| --- | --- |
| 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. |

## MAINTENANCE OF THE INCENTIVE POLICY 6.2

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

I. *The incentive policy shall be reviewed at least every two years;*

II. *The council can instruct changes to the policy from time to time;*
III. *The updated approved incentive policy shall be maintained at all times on the NMBM intranet;*
IV. *Updated approved incentive qualifier conditions e.g. preferred industry list shall be maintained on the NMBM internet;*
V. *Sub-directorates shall cost their incentive contributions per financial year for budgeting by EDTA and allocation of incentive costs;*
VI. *The approved version of the incentive evaluation model shall be maintained in the same manner as the incentive policy*.

## INSTITUTIONAL ARRANGEMENTS 6.3

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 eThekwini 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 will be increased and formal partnerships be developed with other economic development and investment facilitation institutions in NMB such as CDC, NMBBC, 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 will 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 will 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 Executive Director. Therefore, it is recommended that 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 will act as the single reference point for the investor before, during and after investment. It will have a dedicated budget and the freedom to operate within a clear mandate developed by the municipality.

It will focus exclusively on medium to large commercial and industrial investments in NMB. Smaller investments will be handled by the SMME unit of NMBM.

### 6.3.2 Roles and Responsibilities

The purpose of the NMBM 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 will 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 o 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;

## EVALUATION OF INVESTMENT APPLICATIONS 6.4

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

I. *Investments will be screened against the set criteria to evaluate whether incentive management process is applicable;*

II. *Negotiations will proceed within the incentive approval procedure if the qualification*
III. *criteria are met;*
IV. *Only the approved incentive evaluation model will be used to establish the economic contribution of an investment and the incentives offered.*
V. *An evaluation report will be completed together with a draft incentive contract for final negotiations and approval.*

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### 6.4.1 Approval Procedure

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

I. *The incentive approval procedure shall mandate the responsible Trade & Investment official's authority to negotiate and recommend an investor's incentives package for approval by the Executive Director for Economic Development, Tourism and Agriculture(EDTA)*
II. *The final incentive contract shall become the legal binding agreement between NMBM and the investor for incentive management*
III. *The following conditions mandate the respective NMBM Trade and & Investment 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*

IV. *The following conditions mandate the NMBM Trade &Investment Director to recommend the 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*
- *Recommendation according to the approved incentive policy*

V. *The respective NMBM Trade & Investment official/authority shall maintain a documented audit trail of adherence to the approval procedure.*

## ESTIMATED COSTS OF INCENTIVES 6.5

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

II. *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.*

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

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**For more information on investment/investor related queries in Nelson Mandela Bay, contact,**


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