

**WELL-GOVERNED CITIES REFERENCE GROUP MEETING  
TO BE HELD A BREAKWATER LODGE PROTEA HOTEL, PORTSWOOD RD, V&A  
WATERFRONT, CAPE TOWN ON 20 MARCH 2008**

**1. Background to the meeting**

Mr Andrew Boraine, a member of the Board of Directors of the SACN and CEO of the Cape Town Partnership, welcomed all participants and outlined the objectives for the meeting.

The well-governed cities programme of the SA Cities Network includes a focus on urban development partnerships in 2007/08. The urban development partnerships theme was launched at a seminar in Newtown in March 2007. At this session the SACN secretariat was asked to investigate the relative impact of the range of urban development incentives that have been available during the last decade. The terms of reference for this project called for:

“... empirical research to inform a better understanding about the most effective fiscal incentives for private investment in projects that have the potential to restructure, integrate and renew urban neighbourhoods.”

Silimela Development Strategies was selected from 3 strong bids to do the work, and the research team is composed of Rae Wolpe, Shahid Solomon and Claus Rabe. They were contracted to do the following:

- a) Identify and classify the most important fiscal incentives for private investment in urban development in SA since 1997 (including public grants for urban infrastructure, tax rebates administered by national and local government, and other programme-driven urban development initiatives that focus spending on particular areas or nodes).
- b) Collate existing research and evaluation on the impact and effectiveness of fiscal incentives for urban development and develop a synthesised and comparative analytical framework.
- c) Consult relevant municipal officials, other government officials, private investors, and other analysts to verify findings and fill any gaps in the analysis. This consultation process includes two meetings of a Reference Group of approximately 12 people convened by the SACN; and attendance at other relevant SACN knowledge exchange events.
- d) Prepare a report (approximately 80 pages long) that provides an evidence-based analysis of the comparative effectiveness of urban development incentives; and an objective assessment of the comparative impact of these instruments.

Preliminary findings of the research were presented at a first Reference Group meeting in Soweto in November 2007, and since then comments have been received from National Treasury and DBSA. This reference group meeting provides the last opportunity for member cities to make inputs.

A focussed seminar on the Urban Development Zone Tax Incentive was also hosted by the SACN and eThekweni Municipality in January 2008. The recommendations of this seminar were presented to the Tax Policy team at the National Treasury, and as a result a five-year extension in the UDZ sheme was announced in the 2008 Budget.

This reference group meeting has been convened to discuss and verify the draft report on the impact of incentives for urban development.

**2. Assessing the impact of the urban development incentives**

Mr Rae Wolpe, of Silimela Development Strategies, presented the findings of the report beginning with an explanation of the research brief and methodology. [Presentation attached as Annexure A].

***Incentives*** are broadly defined as direct or indirect cost or benefit that changes behavior by motivating a decision or action by consumers, businesses, or other participants in the economy which would not otherwise have take place in order to achieve some objective.

Incentives are required when there are market distortions, or market forces that contradict social and economic objectives (such as the flight of capital to malls and suburbs and chronic under-investment in townships).

In **inner city** areas, the key incentives include: high impact urban management; UDZ tax incentive; Public transport infrastructure and systems grants; Public space improvements by municipalities; National housing grant funding; Land value write downs; and City partnerships and CIDs

In **townships** the high impact incentives are: Land availability and services agreements; National, Provincial and Local government investment in public facilities; the Neighbourhood Development Partnership Grant; Management Associations; reductions in over-regulated controls; Public Transport Infrastructure and Systems grant; National Housing Programme grants; Bulk service contributions; the Urban Renewal Programme and Market research and feasibility studies.

In **greenfield** developments, the incentives that have greatest impact are: Political champions and provincial investment; Land sales and availability agreements; Municipal and Provincial inter-governmental management committees; and dedicated municipal project management capacity.

There was some discussion after the presentation about how best to measure the impact of incentives. One option used by Msunduzi Municipality is to compare the cost of the incentive scheme against investment value and jobs created. A social development matrix showing income flows within and between communities can also serve as a good indicator of social impact. Because of the limited scope of this report, high level quantitative indicators of impact are used, and verified through qualitative perspectives captured through interviews with key stakeholders.

The limited focus of the research on the larger urban centres was also criticised because it does not reflect what is happening in smaller cities. One size does not fit all. The reference group recommended that the SACN must go as far as possible to cover all cities.

The report does not draw a clear link between planning and urban development investment outcomes. It is also not clear what the cascading impact of macro-economic policies such as the NSDP and Asgi-SA. Nodal development strategies are clearly important, but local spatial development frameworks (SDFs) are not clear enough in defining anchor projects, or local area nodes, that concentrate investment in key places. Cities must make the call on what areas are more important and how these areas are linked into the urban fabric. Special development zones may be a key strategy to achieve that.

Two questions were raised in smaller group discussions:

**1) Which urban development incentives have the greatest leverage impact?**

- There is a need to ringfence sector incentives to avoid policy contradictions. An integrated approach is required to match sector objectives to desirable development outcomes.
- Infrastructure grants are particularly important.
- A range of tools are needed to promote desirable development.
- The best incentives are non-financial (especially urban management and project facilitation).
- Public entrepreneurs – deal facilitators – must be part of project implementation.
- Marketing strategies are also key.
- Land deals and land use regulation should be used more pro-actively – cities can declare special development zones or overlay zones to achieve desirable developments.

**2) Do we need more incentives for urban development?**

- The locus of control is important: We need more incentives, but the public sector must lead decision-making and these must be better targeted to urban development needs and opportunities.
- Municipalities do not need more grants. Cities miss opportunities because of conditionalities associated with intergovernmental transfers. Rather, cities need more revenue raising opportunities.
- There is a need to deal with Section 14 of the MFMA. Land should be excluded from this clause, and Municipalities must develop land disposal policy in the spirit of the law. A sequential development process should be incentivised through access to land.
- Regulatory impact assessments should be prioritised in order to understand the impact of incentives and regulations.

The conclusion of the discussions was that the SACN must present the complexity associated with urban development incentives, but the report must also make a set of very simple recommendations.

### 3. Summary of key issues

Mr David Schmidt presented an analysis of the key issues that emerged from the report and the discussions. [Presentation attached as Annexure B]. He emphasised that we are in a moment when cities have some space for creativity and they should take the opportunity to change the way they plan.

He highlighted a series of policy tensions that cascade into the application of urban development incentives and affect the impact that they may have. These include:

- A development focus on areas of deprivation versus areas of potential.
- The desire to achieve national uniformity and equity at the expense of locally specific and appropriate urban development solutions.
- Urban development solutions that are defined by place rather than flow.
- The prioritisation of capital cost reductions versus achieving operational cost efficiencies.
- Greenfield versus consolidation or infill developments.
- Single use versus integrated multi-use developments.
- Directed planning versus responsive planning.

He identified four big issues that must be confronted in the report:

- What is it going to take to facilitate affordable social housing adjacent to areas of potential and transport corridors at scale?
- What is it going to take to create focused integrated institutional capacity to drive projects in priority nodes (public entrepreneurs)?
- How is the voice of business heard in planning processes?
- What will drive urban development investment decisions in the future? For example, investment decisions in future may be about guarantees for basic services rather than access to markets.

### 4. Way forward

The draft report on the impact of urban development incentives will be refined and updated by the end of the month, and a summary version of it will be published as an insert in Delivery (24 pages in A5 full colour format). The SACN will launch the report at a one day seminar in eThekweni on 23 April 2008.

The SACN will also take the work on developing an integration grant further during 2008/09. This will take the form of a thematic focus led by a new reference group that will generate clear recommendations to inform the restructuring of MIG and the devolution of other capital grants for urban development.

Mr Andrew Boraine thanked the members of this reference group who have participated in the two meetings, and given written inputs to strengthen the research and analysis and closed the meeting.

