



Urban Development Incentives and Private Investment in South Africa

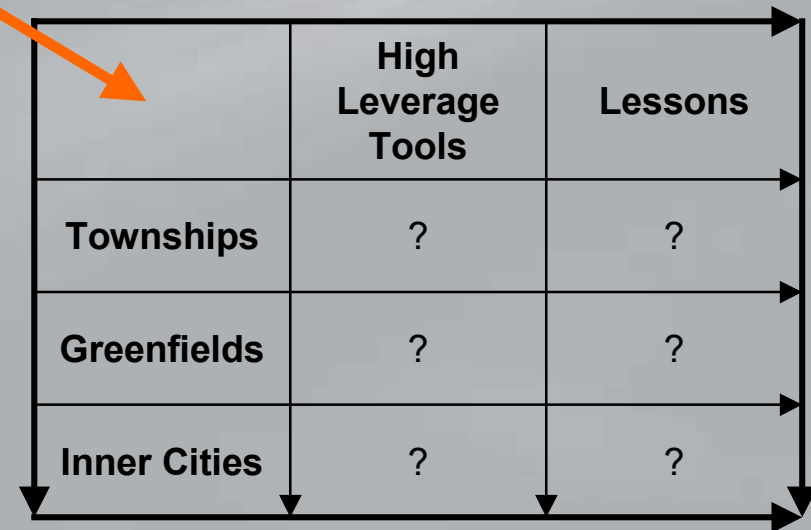
Preliminary Findings
UDZ Workshop 25 January 2008

Silimela Development Services



Outline

1. Terms of Reference
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6. High Level Lessons
7. Recommendations
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	High Leverage Tools	Lessons
Townships	?	?
Greenfields	?	?
Inner Cities	?	?

Terms of Reference

- SACN member cities have expressed the need for **empirical research** into the effectiveness of incentives as applied in three urban development contexts:
 1. *Townships*
 2. *Greenfields*
 3. *Inner cities*
- **Brief**
 - *Identify, classify* the most important incentives in urban development in SA since 1997.
 - Collate existing research on the effectiveness of these incentives and develop *comparative analytical framework*.
 - Hold *reference group meetings* with officials, investors and analysts to verify findings and fill gaps in analysis.

A Broad Definition of Incentives

All public sector actions aimed at leveraging *private sector investment in urban development*

(including financial (grants, subsidies, fiscal/ tax, institutional arrangements and regulatory options).

Background Issues

- Development trends in SA Cities
 - Capital flight to malls and suburbs
 - Systemic underdevelopment in townships
- Why are incentives used?
 - Structural barriers underlying social and economic inequality cannot be dismantled by market mechanisms alone.
 - State must assume interventionist role in urban and economic development to restructure the ‘apartheid city’.
 - Incentives have been developed and refined to promote investment that:
 - Address market distortions, investment risks & feasibility
 - Unlocks value in the short-term
 - Induces transformation of institutions

Background Issues

- 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.
- Cost, risk, and/or profitability of a desired action can be reduced BUT there is a corresponding asymmetrical cost to the government agency or donor.
- Cost reduction may involve one or a combination of the following components:
 - **monetary transfer** (direct grants, subsidies, write-downs, operational grants, tax benefits, allowances etc.)
 - **risk-sharing** (loan guarantees, build-operate-transfer, PPPs)
 - **regulatory flexibility** e.g. (zoning and development rights, government procurement benefits, development approval processes)
 - **non-monetary support** (technical assistance, facilitation, institutional arrangements)

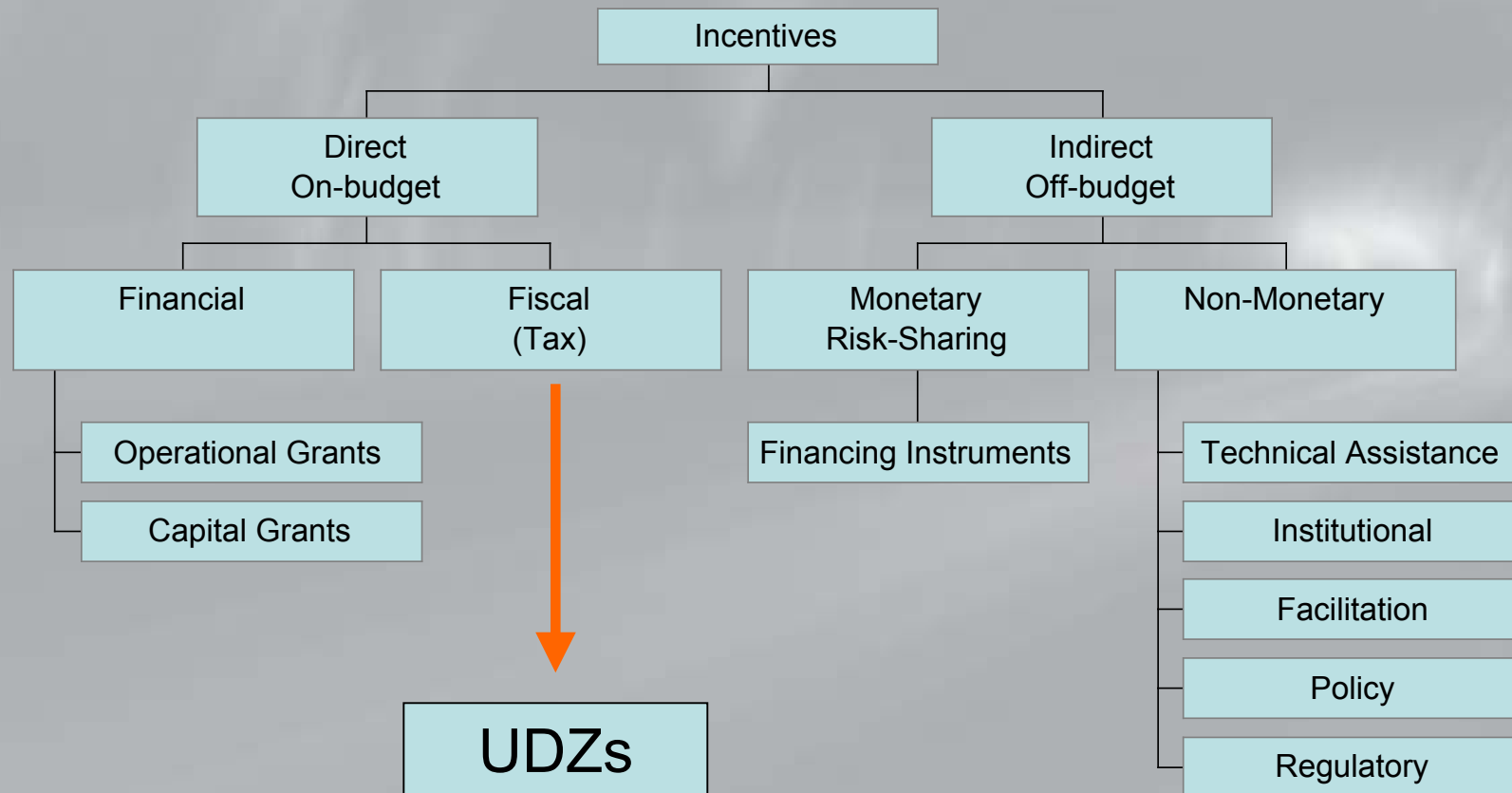
Methodology: Case Studies



Methodology

Primary Research	Policy	Legislation	Reports	Gov. Websites
25 interviews with key investors, officials	<ul style="list-style-type: none"> •NSDP •Draft Urban Strategy •Housing •LG Prov. White Paper •URP •UDZ •NDPG 	<ul style="list-style-type: none"> •MFMA •MSA •DoRA •MPRA •Tax Laws 	<ul style="list-style-type: none"> •CoCT •SACN •DBSA •dplg •HSRC •Local reports •CTP 	<ul style="list-style-type: none"> •Treasury •dplg •SAPS

Incentive Typology



Townships: High Leverage Tools (1)

What	Why
Land availability and services agreement Land Sales Agreement	Enhances development feasibility, affordability, and private sector cash flow Utilises private sector development packaging, phasing and marketing expertise
National, Provincial, and Local Government Investment in Public Facilities	Public investment signals public sector prioritisation as well as attraction of fees
NDPG transport linkages	Municipal capital infrastructure funds shortages linked to 2010 required additional funding for multi-modal and highway. Transport links crucial to feasibility and investor certainty
Management Association S21 CID	Provision of high impact safety and public space maintenance standards key to competing with suburban malls
Over-regulated controls in Townships	Reduce transaction complexity and cost.

Townships: High Leverage Tools (2)

What	Why
Public Transport and Systems Fund	Taxi interchange boosts footfall.
National Housing Programme	Creates secure capital base Financial anchor lowers financial risk
Bulk service contributions (if targeted at township areas, then MIG will compensate local governing body)	BICLs is disincentive. Reduces development cost Two forms: linking provisions to rezoning, or BICLs BICLs were relaxed in KBD, and was awarded mayoral flagship project,
Public space improvements	Essential to raise standards in relation to competing well located locations
Market Research and Feasibility Studies	Essential to attract private sector.

Townships: High Leverage Tools (3)

What	Why
Land value write-down	Reduces development costs
Land swap	Allow high-value packaging Prevented by MFMA
Joint Ventures	Access to private sector finance, expertise, and capacity
Financial Services Charter	New financing products and enhanced access to finance esp. residential market
Urban management measures	KMANCO Improving perceptions.
Flagship / status projects	Galvanises public and private sector commitment.
Urban Renewal Programme	Created profile and government attention. To leverage provincial and national resources, one needs high level status.

Townships: Lessons Learnt

- Make incentives accessible and user friendly
- Local packaging and integration capability (public/private)
- Land release needs to be facilitated (MFMA is major obstacle)
- Dedicated city officials
- Need visible flexible investment frameworks
- Public sector investment = critical
- Government doesn't work together (improve IG coordination)
- Over-regulation : re tape and MFMA (reduce transaction complexity)
- Local vehicle essential: community-government-private mandated link

Greenfields: High Leverage Tools

What	Why
Political Champion and Provincial Investment	Premier's intervention in EIA process (NIMBY objections) secured provincial departmental support. Five years from preferred bidder to breaking ground. Schools and health facilities leveraged.
Land sales/ availability agreement: municipality-developer	Revenue maximising option for LM, expedites development, marketing and selling operations via incentivised profit-driven developer expediting development with no up-front land purchase required from developer, or payment of rates and taxes until land transferred to end-user
Municipal and Provincial Inter-departmental Management Committees with dedicated municipal project manager	One main management committee with technical sub-committees facilitate vertical and horizontal coordination esp. re housing, infrastructure, environmental, law enforcement, and economic development initiatives

Greenfields: Lessons Learnt

- High level political interventions was required to overcome negative decision on EIA, got premier's support to it.
- Land sales agreement utilises expertise and incentive driven developer but doubts as to whether MFMA compliant
- Council inability to budget for loans is a constraint on raising sufficient funds for capital expenditure
- Complexity of development, and concerns regarding speculative purchases in context of rapid increase in property values, makes it difficult to do a cost-benefit assessment re cost to tax payer.

Inner Cities: High Leverage Tools (1)

What	Why
High impact urban management	<ul style="list-style-type: none"> • Higher level of safety and cleansing service provision required to compete with suburban malls • Innovative service delivery arrangements needed
Urban Development Zones	<ul style="list-style-type: none"> • 5 year accelerated depreciation reduces cost of capital • Decisive on marginal projects • Joburg CBD benefits large developments/ developers due to need to upgrade entire precincts to make an impact
Public Transport Infrastructure and Systems Fund	<ul style="list-style-type: none"> • Number One Issue for developers • Impacts on all aspects of viability: rentals, parking basements etc
Public Space Improvements	<ul style="list-style-type: none"> • Major driver of retail and office rentals • Key confidence builder • Inspires private contributions

Inner Cities: High Leverage Tools (2)

What	Why
National Housing Subsidies	<ul style="list-style-type: none"> •High potential but needs to include include R 7000 to R 15 000 category and additional measures
Land value write down	<ul style="list-style-type: none"> •Critical for social housing...MFMA an obstacle prohibits write down to non-profits (e.g. social housing)
CBD Partnerships	<ul style="list-style-type: none"> •Communication and marketing are essential •Key lobbying platform •Risk sharing in JVs
Urban Management Measures: CIDs / BIDs	<ul style="list-style-type: none"> •High impact on crime and grime factors •Marketing and events •Social investment lever

Inner Cities: High Leverage Tools (3)

What	Why
Land re packaging: swaps and twinning of lucrative and marginal sites	<ul style="list-style-type: none">•Viable and marketable land entities•Leverage of public and social investment
Flagship Projects (e.g Convention Centre)	<ul style="list-style-type: none">•Huge stimulation of visitor economy•Land value boost•Investor Confidence

Lessons Learnt: Inner Cities (1)

- Partnership structures are essential in order to:
 - Target and package appropriate incentives mix
 - Lobby for state resource commitment and by laws
 - Facilitate communication between business, government and community

Lessons Learnt: Inner Cities (2)

- *UDZs* need to target key community needs like social housing, micro enterprise opportunity and public space
- Much higher densities are needed
- Impact enhanced by targeting up-front capital cost to enhance new-builds

Lessons Learnt: Inner Cities (3)

- Cities need to be freed up to use ALL public land creatively
- Incentives need to be clear, measurable, dependable and well timed
- Public transport improvements are critical

Lessons Learnt: Inner Cities (4)

- Urban management service delivery as well as bulk infrastructure provisions/planning must be improved as a basic pre-condition:
 - Clean & Safe
 - Quality public space
 - Public investment leads the way

High Level Lessons

- High level political commitment and shared vision, backed with committed public capital investment and a public-private partnership arrangement which utilises private sector expertise and profit incentive boasts the highest private investment leverage ratio.
 - Joint venture agreements
 - Land sales agreement
- MFMA constrains public-private partnerships & involvement of private sector incl. non-profits
- Failure to address safety concerns as well as urban management issues will largely negate all leveraging efforts.
- Further incentive impact analysis is needed to determine:
 - Cost-benefits, economic impacts, and opportunity costs
 - Externalities

Recommendations

1. Develop national urban strategy
 - Macro-objectives
 - Benchmarks
 - Inter- and intra-nodal synergies
 - Long-term predictability
2. Ringfence national subsidies (transport, housing and MIG) and allocate directly to local government on basis of 20 year urban restructuring plan as tool to raise private finance and to reduce subsidy conflicts.
3. Develop package of incentives for inner city social housing. The UDZ could be adapted for this purpose and should also cover public space development and micro-business trading premises. UDZ could also be expanded to cover additional secondary nodes in metro areas
4. Review MFMA: Special Township Development Zones relax provisions re PPPs
5. Improve monitoring and evaluation systems & statistical data

Research Way Forward

- Reference group comments: February
- Seminar participation in April