Report on the Evaluation of Government Business Incentives

POLICY SUMMARY, EXECUTIVE SUMMARY AND SUMMARY REPORT

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National Evaluation Plan Report

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AEBEL

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GLOSSARY

BEE	Black Economic Employment
CHIETA	Chemical Industries Education and Training Authority
DAFF	Department of Agriculture Forestry and Fisheries
DBSA	Development Bank of Southern Africa
DoL	Department of Labour
DoT	Department of Tourism
DPME	Department of Performance Monitoring and Evaluation
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
DST	Department of Science and Technology
DTI	Department of Trade and Industry
GEAR	Growth, Employment and Redistribution Strategy
IDC	Industrial Development Corporation
IDZ	Industrial Development Zone
IEDC	International Economic Development Council
IEP	Institute for Economics and Peace
IGICC	Inter-Governmental Incentives Coordinating Committee
IPAP	Industrial Policy Action Plan
M&E	Monitoring and Evaluation
MERSETA	Manufacturing, Engineering and Related Services Sector Education and Training Authority
NDP	National Development Plan
NEF	National Empowerment Fund
NT	National Treasury
OECD	Organization for Economic Cooperation and Development
PSC	Project Steering Commitee
R & D	Research & Development
RIA	Regulatory Impact Assessment
SARS	South African Revenue Services
SEDA	Small Enterprise and Development Agency
SEFA	Small Enterprise Finance Agency
SEIA	Socio-Economic Impact Assessment
SETA	Sector Education and Training Authority
SEZ	Special Economic Zone
SHRA	Social Housing Regulatory Authority
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
TIA	Technology Innovation Agency
ToC	Theory of Change

POLICY SUMMARY

The South African Government uses a wide range of incentives to encourage firms to act or invest in specific activities or contribute to certain social or economic outcomes. Whereas individual programmes are monitored and, in some cases, regularly evaluated, these evaluations provide for a partial assessment of how the system as a whole is working together to support business and benefit society.

The purpose of this evaluation is to bring together a consistent set of information across the entire national system of business incentives, identify overlaps and complementarities, and explore how specific programmes and the system as a whole have been structured to achieve government's wider policy objectives. The main findings from this evaluation are:

- South Africa spends around R50 billion a year on an elaborate mix of business incentives that cut across multiple departments and sectors.
- The incentive system is well-aligned with the Government's overall economic strategies and goals, but it is difficult to assess whether the system is actually contributing towards the achievement of these objectives.
- Insufficient attention is given to the rationale and design of new incentives, and the monitoring and evaluation of existing programmes.
- A large part of the incentive system is oriented towards sustaining mature industries and protecting workers in existing companies, rather than facilitating new entrants (companies or sectors) or technology diffusion.

The evaluation demonstrates the substantial scale of business incentives in South Africa and highlights numerous innovations and successes in the delivery of specific programmes. It also reveals many areas for improvement. The following recommendations focus on the general lessons emerging from this study, which cut across most but not all incentives:

- An Inter-Governmental Incentives Coordinating Committee (IGICC) should be established to facilitate the implementation of the recommendations flowing from this evaluation. The IGICC will begin work on the development of a National Incentives Policy Framework that will inform the design, administration and review of both existing and new business incentives in South Africa.
- All departments responsible for the administration of business incentives should develop a comprehensive monitoring and evaluation framework, in which all substantive incentives (with budgets of more than R100 mn a year) should be subjected to an independent evaluation. Once completed, all evaluations should be made public.
- The DTI together with the National Treasury should invest in the design and development of a comprehensive and on-line grant and document management system, and a single register of all beneficiary firms should be developed to be administered by the National Treasury or SARS.
- The National Treasury should develop a practice note in accordance with the Public Finance Management Act setting out clear guidance regarding the treatment of incentives, to assist departments in budgeting for and managing incentives over multiple financial years, and to clarify accounting, reporting and verification requirements.

EXECUTIVE SUMMARY

1 INTRODUCTION

The South African Government uses a wide range of incentives to encourage firms to act or invest in specific activities or contribute to certain social or economic outcomes. Whereas individual programmes are monitored and, in some cases, regularly evaluated, these evaluations provide a partial assessment of how the system as a whole is working together to support business and benefit society.

The purpose of this evaluation is to bring together a consistent set of information across the entire national system of business incentives, identify overlaps and complementarities, and explore how specific programmes and the system as a whole have been structured to achieve government's wider policy objectives. In doing so, this evaluation assesses whether the system of incentives is working effectively, efficiently and coherently, and makes recommendations on how the system can be improved.

2 THE CONTEXT

This evaluation takes as its starting point that business incentives are a key component of any national economic policy and programme. When designed well, business incentive schemes serve to support government priorities and provide beneficiary firms with needed and targeted support. On the other hand, badly designed or managed incentive schemes lead to unnecessary waste, economic distortion and displacement, and other unintended consequences. This evaluation therefore aims to support the development of a more considered and coherent approach to the system of business incentives, that will ultimately serve to enhance the economic and social gains on the substantial support and investment that is already provided by government.

3 THE PROGRAMME

The South African business incentives system comprises various incentive programmes spanning all types of incentives, both supply and demand. Importantly, different incentives target different outcomes. However, the main purpose of an incentive is to change behaviour at the firm level. Conceptually, change occurs by impacting firm profitability either through: (a) reducing costs; (b) increasing costs (in other words a negative incentive); or (c) increasing revenues. Individual incentive programs, if effective, should result in changed firm behaviour causing them to invest in capital, labour, inclusion or research and development. At an aggregate level the response of individual firms results in economy wide effects.

The system-level theory of change developed as part of this evaluation indicates that if the relevant outputs (individual incentive programmes) are delivered, and these are effective, this should be evidenced in several immediate outcomes. These include firm level investment in capital, the establishment of new enterprises, firm investment in labour, firm level transformation, and firm investment in research and development.

Critically, the realisation of these outcomes is dependent on multiple assumptions at all levels of the theory of change. These include:

- high level of coordination and the delivery of core infrastructure and services across multiple government department;

- inputs costs and the general economic environment is conducive to private sector investment;
- key barriers to entry (for new entrants / firms) or expansion are effectively addressed; and
- generalised economic growth and overall macroeconomic stability.

Likewise, for the ToC to hold (and thereby lead to the intended change in firm behaviour), it is critical that incentives are fully costed, monitored and evaluated; well-targeted and supported by clear criteria; appropriately resourced; and implemented efficiently and transparently.

4 POLICY AND DATA REVIEW

There is widespread debate on the economic rationale for government intervention in an economy; and the use of business incentives. Nevertheless, the application of incentives is common across countries, and three common concepts have emerged that are generally used to explain why and when governments should intervene in markets. Firstly, governments may intervene in markets to address issues of market failure and economic inefficiencies, such as free-riding, negative externalities and information asymmetries. Secondly, they may intervene to ensure social protection, distributive justice and fair outcomes in societies and markets. Lastly, Government may intervene to support activities contributing to specific economic and industrial development imperatives.

The available literature provides useful guidelines of the key considerations policy makers should undertake when designing incentive programmes. Specifically, effective and efficient incentives are (i) formulated within and governed by some broader economic and industrial policy objective or framework; (ii) well targeted (clearly specifying qualifying criteria and conditionalities); (iii) sufficiently co-ordinated across regions and sub-national government levels; (iv) transparent and open for public scrutiny; (v) actively managed and (vi) are not an appropriate alternatives to ensuring an overall conducive economic environment for business.

5 LESSONS FROM THE COUNTRY COMPARISONS

The evaluation included a review of the system of incentives in three comparator countries: Thailand, Chile and Germany.[1] All three countries make wide use of incentives to facilitate investment and encourage specific types of business activities. However, the specific approach and focus of the incentive system in each country, differs markedly depending on national priorities. In Chile, incentives are used to support the development of disparate regions; whereas in Thailand, the focus has been on specific sectors and more recently, to encourage international businesses to locate their regional head-offices in the country. In Germany, the system of business incentives focuses strongly on research and the development and SMEs[2].

[1] The countries were agreed with the Evaluation Project Steering Committee. The selection is intended to offer an array of different approaches to compare South Africa against, and should not be seen as either comprehensive of all national systems nor considered “best practice”.

[2] Important to note than in Germany, an SME is defined as a business with an annual turnover of less than 50 million euros and with fewer than 500 employees.

6 CASE STUDIES

Twenty incentives were selected for case study analysis as part of this evaluation. These case studies provide numerous, general observations about the design, implementation and review of the system of business incentives in South Africa.

The design of incentives

Most of the incentives reviewed were not constructed on the back of substantial evidence or research. In all of the 20 case studies, there was no confirmation of economic cost-benefit or options analysis, or the use of regulatory or socio-economic impact assessment (RIA or SEIA) techniques. Rather, in many cases, incentives have been implemented to meet pressing political or policy concerns, which apply to a specific sector or group of beneficiaries. In doing so, insufficient attention is given to the design of specific programmes, and specifically, whether and how an incentive is the best mechanism to address the stated policy problem.

The implementation of incentives

The Government manages incentives in the same way that it manages budget programmes. In most cases incentives are treated as transfers to public or private enterprises, but in a few cases may be treated as goods and services. While this approach is important to prevent wastage and abuse, it determines how incentives are administered and reported, which can lead to problems in respect of incentives that require multi-year funding commitments. In general, the guidelines for specific incentives in South Africa are clear and in almost all cases, publicly available. This points to a high degree of transparency across the system. On the other hand, most departments report a lack of human resources to effectively manage and monitor incentives. Furthermore, application and approval systems are mostly incomplete or manual.

The review of incentives

With few exceptions, M&E is not fully incorporated in the design of new incentives. Whereas most incentives report on outputs (i.e. the number and value of grants disbursed to beneficiaries), there is little information on programme outcomes (i.e. such as the resulting increase in employment, revenue or R&D over time). Moreover, where outcome data is reported, it is often collected at the application stage, and not tracked or verified going forward. Finally, reviews and evaluations are conducted for most incentives, but in many cases these reviews are not sufficiently substantive or are done internally. There is also a strong focus on project outputs and compliance, rather than on beneficiary and economic outcomes.

7 KEY EVALUATION FINDINGS

The terms of reference set out seven key evaluation questions to be addressed through this evaluation.

What are the business incentives that are currently offered by the South African Government?

In total, 244 business incentives were identified and captured in the inventory database. This includes 64 direct incentives; 43 indirect (tax) incentives[3]; 10 other incentives (mostly information services) and 127 different SETA grant programmes. More than half of the direct incentives that are offered by Government are provided in the form of subsidies or grants.

[3] All of which are administered either wholly, or jointly with another department, by SARS.

Accelerated depreciation provisions account for the largest number of indirect incentives, though there are also numerous allowances for reduced tax rates and tax exemptions. Only three demand-side incentives were found, two of which are implemented through the government procurement system – and a third which seeks to shift consumer demand in the motor industry.

Why are government business incentives important and how?

In general, incentives are used to assist firms to overcome specific market failures, or to encourage firms to undertake activities which generate wider spill-over benefits for the economy or society. In South Africa, the greatest amount of funding goes to capital incentives, where market failures are not the primary focus. Rather, it would seem that investment incentives are used to mitigate against the cost or uncertainty of doing business in South Africa, and to upgrade or sustain production and employment, especially in priority sectors. In addition, the South African Government sees business incentives as an important mechanism to raise competitiveness, address historical inequalities and increase the participation of historically disadvantaged groups in the economy. Conversely, many incentives are designed to address market failures in the labour market, where there is a significant mismatch between the skills generated by the education system and the needs of business.

Is the incentive package achieving the broader objectives and are they aligned with overarching frameworks and plans?

The incentive system is well-aligned with Government's overall economic objectives – to raise investment and reduce inequality and unemployment – and specific incentives are clearly targeted at industries that are a stated policy priority or addressing key areas of market failure. It is much more difficult to assess whether the system is actually contributing towards the achievement of these objectives. This is partly because the mechanism through which they do so has not been fully articulated in the design of most incentive programmes; and partly because firm behaviour and performance is dependent on so many other economic and social factors. As a result, the extent to which these outcomes are realised, is not reported and cannot be measured or evaluated. Moreover, a large part of the incentive system is oriented towards sustaining mature industries and protecting workers in existing companies, rather than facilitating new entrants (companies or sectors) or technology diffusion. Over time, this may limit the ability of the system to contribute towards the creation of new jobs and more dynamic economic growth.

Do these incentive programmes complement each other in relation to the frameworks/plans and what are the gaps?

There is little evidence to suggest that incentives in South Africa are designed, managed or reported in a systematic way. Rather, different departments and agencies assume responsibility for the implementation of their own programmes, to address their specific interests and those of their constituency, while also accounting for the Government's wider policy objectives. In doing so, most incentives come with multiple objectives, many of which overlap and some of which conflict with the primary purpose of the incentive. Moreover, most government departments are unable to manage or report on these multiple objectives, and do not have the skills in-house to advise on aspects which often fall outside of their core mandate. There is also a risk that in loading incentives with too many sub-objectives, some areas that are deserving of more focused intervention, are effectively neglected. Specifically, in South

Africa, it would seem that insufficient attention has been given to supporting R&D activities and innovation across all sectors of the economy.

What is the overall Theory of Change (or theories of change) for government business incentives and is it (are they) working as planned?

The overall system-level theory of change is valid and does capture the intent and programme logic of individual incentives. Based on the interviews, workshops with stakeholders and case studies there is evidence that the logic of the ToC breaks down in a number of key areas at the level of design, implementation and monitoring and evaluation. The lack of adequate M&E (which is directly linked to adequate design and the development of appropriate incentive-level ToCs) means that there is insufficient evidence at the outcome level. While there is some evidence that individual incentives are supporting individual firms and at the intermediate outcome level are contributing to increased economic participation, the available data suggest that at the outcome level key results such as increased economic productivity, expanded production and employment are not being realised to the extent envisaged. This is partly because of broader issues (key assumptions in the theory of change) such as confidence in the general economic environment, the cost of doing business and the competitive structure of many industries; but weaknesses in monitoring and evaluation also mean that the contribution of incentives cannot easily be isolated. The revised theory of change for the overall system of business incentives is shown in Figure 9 under Section 6.5.

How does South Africa compare with other countries on business incentives?

South Africa offers an elaborate mix of business incentives that cut across multiple departments and sectors. As such, the system appears less coordinated and focused than those in the comparator countries. This possibly explains why most respondents perceive incentives in South Africa to be of similar value, but less effective, than incentives elsewhere. It would also appear that in some of the comparator countries, greater attention is given to the economic design and targeting of specific incentives, and more rigorous processes are in place for monitoring success. Likewise, these countries seem to place greater emphasis on supporting new businesses and technology; especially in less-developed regions.

How can the system of business incentives be strengthened to achieve greater value for money and to enhance more inclusive economic growth in the country?

It is estimated that South Africa spent between R 40 billion and R 45 billion on business incentives in 2014/15. This is now probably closer to R 50 billion; equivalent to around 3% of the national budget in 2018/19. Whereas the scale of this transfer is substantial, and most government departments report on the amount spent and the number of beneficiaries, there is limited information available on the outcomes (or returns) on this investment. As a first step in strengthening the system of incentives, greater effort must be placed on specifying the economic rationale (including the costs and benefits) associated with proposed interventions, and ensuring that these costs and benefits are measured, monitored and evaluated fully over time. Moreover, to maximise the potential gains from the system, incentives should be more closely directed at specific policy concerns or market failures, and support firm-level activities that create the strongest potential for spill-overs.

8 CONCLUSIONS

Relevance of the System of Incentives

The evaluation concludes that the system of government incentives is generally relevant to the South African economic context, in line with international trends and broadly aligned with current policy initiatives. In general, the available business incentives are well-aligned with the government's overall economic growth, transformation and job creation objectives. More than half of the case study incentives were deemed to be strongly aligned with national policy frameworks, including the NDP and IPAP. However, the majority of South Africa's incentives are directed at raising investment or supporting specific sectors of the economy. This is acknowledged, as an objective of the system, by both government and business respondents; but it is not clear that the cost of capital is in itself a primary constraint (especially for established businesses).

Effectiveness of the System of Incentives

There is some evidence that individual incentives are supporting individual firms and at the intermediate outcome level are contributing to increased economic participation. However, the available data suggest that key results such as increased economic productivity, expanded production and employment are not being realised to the extent envisaged. This is partly because of broader issues (key assumptions in the theory of change) such as confidence in the general economic environment, the cost of doing business and the competitive structure of many industries; but weaknesses in monitoring and evaluation also mean that the contribution of incentives cannot easily be isolated. Furthermore, a key assumption with respect to an *effective system of incentives* – effective intergovernmental coordination and planning – is largely absent.

Efficiency of the System of Incentives

While it is not possible to calculate and show the return on investment on the system of incentives, for some of the case studies, information on outputs (firms or projects supported) and outcomes (jobs created or sustained) is available. The case study data indicates that a large proportion of the incentive pool is going towards relatively few capital-intensive firms. Of greater concern, is the lack of more detailed information on incentive outcomes, which effectively prevents the calculation of more useful measures of economic return and success.

Impact of the System of Incentives

Overall the evaluation was not able to comprehensively test whether the system of incentives is achieving its outcomes and having the desired impact. Thus, based on the available data, the extent to which these incentives have made a meaningful contribution to reducing overall levels of poverty, inequality and unemployment in South Africa, is uncertain. This is partly because there are many other factors that influence the achievement of these objectives; but also, because there is insufficient information available on the outcomes of most incentives, and the system as a whole.

9 RECOMMENDATIONS

R1 Establish an Inter-Governmental Incentives Coordinating Committee (IGICC). This committee should include the National Treasury, DTI, DST, SARS and the DPME.

R2 The IGICC should develop a National Incentives Policy Framework to inform the design, administration and review of both existing and new business incentives.

R3 Given the economically sensitive nature of incentives, a Communications Plan should be developed immediately for public release.

R4 The National Treasury should develop a methodology for evaluating the motivation for and the associated economic costs and benefits of new and existing incentives. All incentives should be assessed against the National Incentives Policy Framework, in accordance with this methodology.

R5 The National Treasury, in collaboration with the DPME, should develop minimum annual reporting requirements for all government incentives.

R6 A single register of all beneficiary firms should be developed to be administered by the National Treasury or SARS.

R7 The IGICC should oversee the appointment of a service provider to design and develop a comprehensive and on-line grant and document management system.

R8 The DPME should review the status and the depth of internal and external evaluations, across all of the incentives identified in this study (with budgets of more than R 100 million per year). Those incentives that have not yet been subjected to an independent evaluation should be prioritised for inclusion in the national evaluation plan.

R9 All departments responsible for the administration of business incentives should develop a comprehensive monitoring and evaluation framework, and sufficient resources should be made available for M&E in programme budgets. The DPME should issue guidelines and advise on appropriate costs.

R10 All ex-ante assessments and ex-post evaluations of new or existing incentives should be made public.

R11 The National Treasury in collaboration with the Auditor General, should develop a practice note to the Public Finance Management Act setting out clear guidance as to the treatment of incentives.

R12 The National Treasury, in collaboration with SARS, should undertake a review of all of the tax incentives identified in this study and assess whether they are still relevant, effective and efficient.

R13 The Department of Science and Technology, in consultation with the DTI, should undertake a review of South Africa's overall support offering for the commercialisation of research and development, compared to international best practice.

R14 The Department of Higher Education and Training should introduce a common budget and programme reporting framework for all SETAs; and should establish a mechanism through which the SETAs can share ideas and collaborate.

1 INTRODUCTION

1.1 Introduction

The South African Government uses a wide range of incentives to encourage firms to act or invest in specific activities or contribute to certain social or economic outcomes. Whereas individual programmes are monitored and, in some cases, regularly evaluated, these evaluations provide for a partial assessment of how the system as a whole is working together to support business and benefit society.

The purpose of this evaluation is to bring together a consistent set of information across the entire national system of business incentives, identify overlaps and complementarities, and explore how specific programmes and the system as a whole have been structured to achieve government's wider policy objectives. In doing so, this evaluation assesses whether the system of incentives is working effectively, efficiently and coherently, and makes recommendations on how the system can be improved.

1.2 The context of this evaluation

Almost all countries provide some form of tax or fiscal incentives to support the business sector. The form and target of this assistance differs markedly by country, but usually includes some combination of tax holidays, investment allowances or credits, reduced tax rates, research and development (R&D) incentives and Special Economic Zones (SEZs). Moreover, whereas low and middle-income countries favour simple tax holidays, tax reductions and investment allowances, high income countries generally make greater use of R&D incentives and zone-based programmes.

This evaluation takes as its starting point that business incentives are a key component of any national economic policy and programme. When designed well, business incentive schemes serve to support government priorities and provide beneficiary firms with needed and targeted support. On the other hand, badly designed or managed incentive schemes lead to unnecessary waste, economic distortion and displacement, and other unintended consequences. This evaluation therefore aims to support the development of a more considered and coherent approach to the system of business incentives, that will ultimately serve to enhance the economic and social gains on the substantial support and investment that is already provided by government.

In doing so, it is important to recognise that that the system of business incentives in place in South Africa is informed by the current economic and social context; and the South African Government's response to the domestic and global economic environment (as reflected in recent policy documents and statements such as the National Development Plan and the Industrial Policy Action Plans). Likewise, the effectiveness and impact of the system of incentives is greatly influenced by domestic economic and social conditions, and the overall state of the world economy.

1.3 Evaluation questions

The evaluation comprises two main elements: firstly, an assessment of the entire system of business incentives, and secondly a number of case studies of specific business incentives. The following key questions were posed in the terms of reference:

1) What are the business incentives that are currently offered by the South African Government (inventory of incentives)?
2) Why are government business incentives important and how? (brief background to government business incentives)
3) Is the incentive package achieving the broader objectives and are they aligned with overarching frameworks and plans?
4) Do these incentive programmes complement each other in relation to the frameworks/plans and what are the gaps?
5) What is the overall Theory of Change (or theories of change) for government business incentives and is it (are they) working as planned? (the TOC should provide a detailed explanation how the schemes were conceptualised and how they are working in practice)
6) How does South Africa compare with other countries on business incentives?
7) How can the system of business incentives be strengthened and achieve greater value for money to enhance more inclusive economic growth in the country?

1.4 Methodology

This evaluation was carried out in six stages over 18 months; from January 2017 to July 2018.

Following the inception phase, the available literature on the use and effectiveness of incentives, internationally and in South Africa, was reviewed. Based on the literature review, an initial theory of change was developed for the system of business incentives and validated in a workshop with the Steering Committee. The evaluation framework and all associated research instruments were derived from this theory of change. The theory of change has subsequently been extended to cater for different categories of incentives.

A core task of this project was to compile a usable inventory of all business incentive programmes available at the national level, including all grants and tax and financial concessions. For the purpose of this evaluation, an Excel-based database was designed and developed, prior to the data collection exercise. This database includes three main worksheets, which together provide information on 244 identified incentives.

Two sets of consultations were undertaken over the study period. Firstly, at the national level, interviews were conducted with 22 officials and 13 business people and academics. These interviews provided insights into the design, implementation and evaluation of incentives, and the coordination of incentives across government.

Secondly, case studies were completed of 20 specific incentives. These studies included interviews with a further 74 officials and 79 representatives from industry.

The study also included country comparisons of business incentives in three countries: Chile, Thailand and Germany.

The main limitation of this evaluation is the lack of information on incentive outcomes across most of the incentives captured in the inventory and investigated further in the case studies. Moreover, for many incentives, reliable expenditure and output data is not available. It is also important to acknowledge that the case studies and consultations that took place over the course of this evaluation do not represent the full spectrum of business incentives that are currently offered in South Africa, nor do they reflect the experiences of all implementing agents and beneficiaries.

2 THE PROGRAMME THEORY OF CHANGE

The South African business incentives system comprises a number of incentive programmes spanning all types of incentives, both supply and demand. Importantly, different incentives target different outcomes. However, the main purpose of an incentive is to change behaviour at the firm level. Conceptually, change occurs by impacting firm profitability either through: (a) reducing costs; (b) increasing costs (in other words a negative incentive); or (c) increasing revenues. Individual incentive programs, if effective, should result in changed firm behaviour, causing them to invest in capital, labour, inclusion or research and development. At an aggregate level the response of individual firms results in economy wide effects.

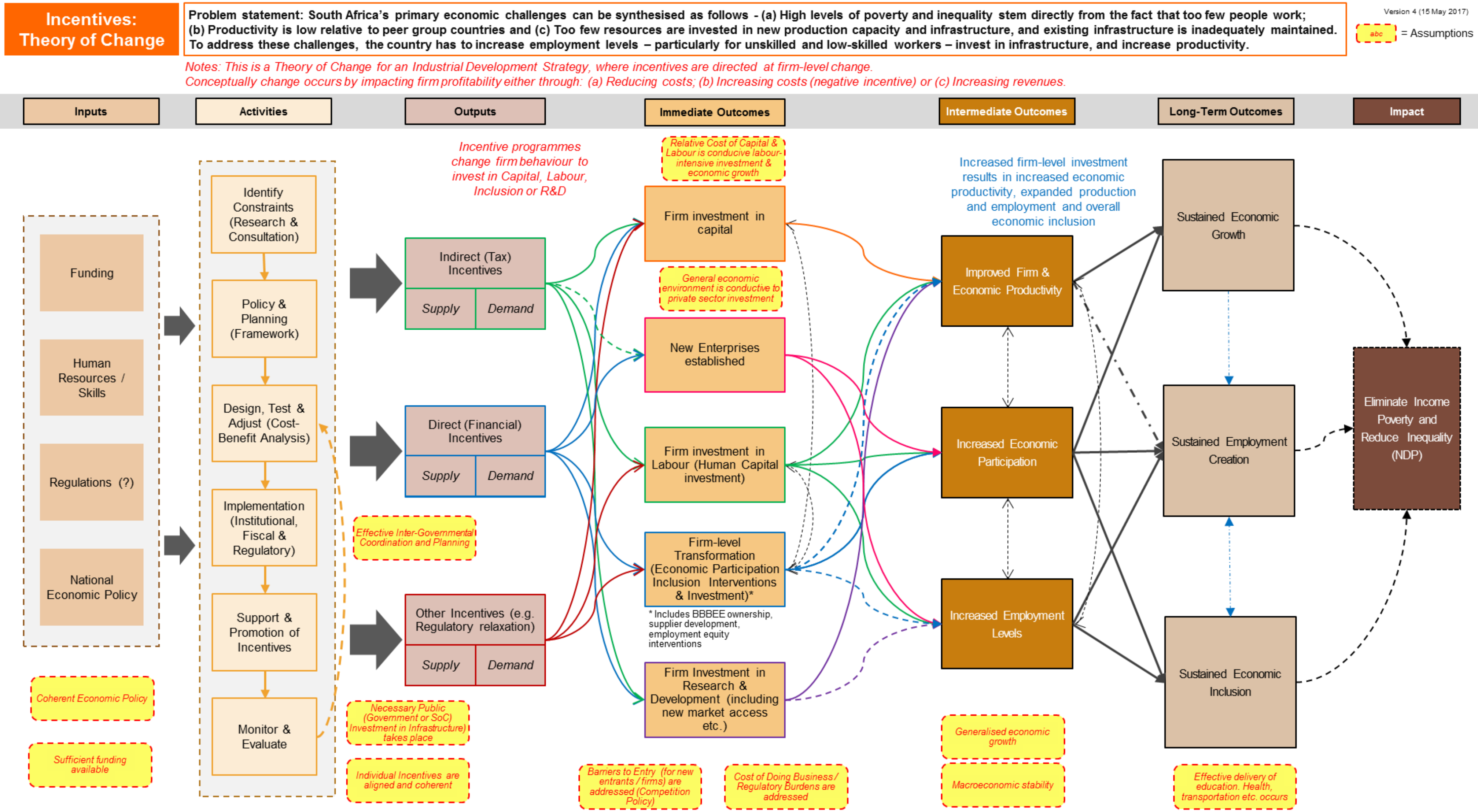
The system-level theory of change developed as part of this evaluation (Figure 1), indicates that if the relevant outputs (individual incentive programmes) are delivered, and these are effective, this should be evidenced in a number of immediate outcomes. These include firm level investment in capital, the establishment of new enterprises, firm investment in labour, firm level transformation, and firm investment in research and development.

It follows, if the immediate outcomes (firm-level investment) are realised through a combination of different business incentives, then the business incentives system, at the aggregate level, should result in increased economic productivity, expanded production and employment and enhanced economic inclusion. These changes are evidenced in the intermediate outcomes. The achievement of these intermediate outcomes is a necessary – but not sufficient condition – to realise the long-term outcomes of sustained economic growth; sustained employment creation and sustained economic inclusion (which considers both spatial economic development and economic transformation).

Critically, the realisation of these outcomes is dependent on multiple assumptions at all levels of the theory of change. This includes the need for a high level of coordination and the delivery of core infrastructure and services across multiple government departments; that input costs and the general economic environment is conducive to private sector investment; that key barriers to entry (for new entrants / firms) or expansion are effectively addressed; and that there is generalised economic growth and overall macroeconomic stability. Likewise, for the ToC to hold (and thereby lead to the intended change in firm behaviour), it is critical that incentives are fully costed, monitored and evaluated; well-targeted and supported by clear criteria; appropriately resourced; and implemented efficiently and transparently.

In addition to the system level theory of change, several category-level theories of change were developed in order to assess one or more of the immediate outcomes specified at the system-level.

Figure 1: The current theory of change



3 LITERATURE AND DOCUMENT REVIEW

The broad nature of business incentives and the boundaries defining incentives are not always clear. This makes it difficult to come to a universally agreed definition of business incentives. Internationally, countries offer a wide range of incentives to business, ranging from tax holidays, preferential tax rates, grants, preferential loans, monopoly rights and preferential infrastructure access. Broadly, these can be categorised into three main types: (i) indirect (tax) incentives (which are the most commonly used and researched); (ii) direct (financial) incentives and (iii) other incentives (vary significantly across countries). For the purpose of this evaluation, these same categories will be used to define the scope and describe the different types of incentives in play in South Africa.

There is widespread debate on the economic rationale for government intervention in an economy; and the use of business incentives. Nevertheless, the application of incentives is common across countries, and three common concepts have emerged that are generally used to explain why and when governments should intervene in markets. Firstly, governments may intervene in markets to address issues of market failure and economic inefficiencies, such as free-riding, negative externalities and information asymmetries. Secondly, they may intervene to ensure social protection, distributive justice and fair outcomes in societies and markets. Lastly, Government may intervene to support activities contributing to specific economic and industrial development imperatives.

Incentives are ranked relatively low in investor surveys that consider the main determinants of investment, with other factors such as economic and political stability, the volatility of the currency, local market size, the availability of skilled labour and the transparency of the legal framework usually deemed to be much more important. Nevertheless, it is acknowledged that incentives are widely used by governments globally and form an important component of many national economic programmes. Recent economic studies reveal that (investment) incentives can have a positive impact; though these effects are generally small and are not constant across different regions or countries. Geographic and demographic characteristics therefore need to be taken into account in the design of new incentives. In addition, serious attention should be given to the possible displacement effects of government interventions. This usually requires thorough cost-benefit analyses prior to implementation.

The available literature provides useful guidelines on the key considerations policy makers should undertake when designing incentive programmes. Specifically, effective and efficient incentives are (i) formulated within and governed by some broader economic and industrial policy objective or framework; (ii) well targeted (clearly specifying qualifying criteria and conditionalities); (iii) sufficiently co-ordinated across regions and sub-national government levels; (iv) transparent and open for public scrutiny; (v) actively managed and (vi) are not an appropriate alternative to ensuring an overall conducive economic environment for business.

South Africa's key economic policies (the NDP, IPAP and Nine-Point Plan) should play a central role in guiding the thinking behind the design and implementation of incentive programmes. Broadly, these policies identify the key constraints facing the South African economy, and the need to promote faster and more inclusive economic growth as well as address high levels of unemployment and inequality. Specifically, these policies identify weak exports; a small and undiversified economy; poor coordination and collaboration within government and between government and the private sector; spatial disparities; energy production and security challenges; and poor institutional and financial support for businesses as common economic constraints. For small and black-owned businesses, highly unequal access to finance, infrastructure and markets, and regulatory and skills constraints, are especially problematic.

Investment incentives in South Africa have a long history. From the wide-scale and well-funded regional development strategies supporting homeland territories under apartheid, to the redistributive (GEAR) and sector specific policies (such as the Motor Industry Development Programme and the Strategic Industrial Program) employed in the mid-1990s. Between 1994 and 2015[4], it is estimated that the county spent R 84.3 billion on industrial support and development initiatives[5].

In addition to the on-budget expenditure on industrial development initiatives, tax benefits provided by government to industry have traditionally prioritised a few manufacturing sectors, such as motor vehicles, clothing and textiles, and the small business sector (though many more tax incentives have been made available for other sectors and purposes, most notably in mining and agriculture). The total value of these industry-specific tax benefits between 1995 and 2015 amounted to R 207.3 billion – more than double on-budget expenditure – and accounting for 71% of total "expenditure" on industrial development initiatives. Expressed in constant 2015 prices, South Africa incurred R 393.15 billion in tax expenditure to support industrial development initiatives over this period[6]. No consolidated evidence could be found on the corresponding amount spent to support other sectors of the economy.

4 LESSONS FROM THE COUNTRY COMPARISONS

The evaluation included a review of the system of incentives in three comparator countries: Thailand, Chile and Germany.[7] All three countries make wide use of incentives to facilitate investment and encourage specific types of business activities. However, the specific approach and focus of the incentive system in each country, differs markedly depending on national priorities. In Chile, incentives are used to support the development of disparate regions; whereas in Thailand, the focus has been on specific sectors and more recently, to encourage international businesses to locate their regional head-offices in the country. In Germany, the system of business incentives focuses strongly on research and the development and SMMEs.

Many of the incentives pursued in these three countries are mirrored in some form in South Africa. There are however a number of lessons that emerge from these country case studies, which could be further considered in the review of South Africa's system of business incentives. These include:

[4] (Jahed, Amra, & Ellse, 2016)
[5] Important to note that this study, and these estimates, are limited to the programmes of the Departments of Trade and Industry, Economic Development and Small Business.
[6] Jahed, Amra, & Ellse, 2016. This includes duty credits provided to manufacturers of vehicles, clothing and textiles, as well as the reduced headline tax rate for small businesses and the 12i and 12g depreciation incentives for manufacturing investment. It excludes tax benefits to R&D, the mining, oil and agriculture sectors and the general depreciation allowances offered by SARS.
[7] The countries were agreed with the Evaluation Project Steering Committee. The selection is intended to offer an array of different approaches to compare South Africa against, and should not be seen as either comprehensive of all national systems nor considered "best practice".

- The roles and responsibilities of each organisation within the incentive framework must be clearly defined; in Thailand, a central investment agency responsible for the administration of all incentives coordinates investment activities for Government and makes it easier for prospective investors.

- In Chile, incentives are tailor-made to be attractive to selected sectors or business activities that the country wishes to promote. Effective targeting requires a selection process based on industry value chain assessments and only those missing links that are critical for the overall development of an industry receive additional incentive support.

- In Chile, incentives extend beyond traditional sectors to promote venture capital and the development of local capital fund management industries. This includes allowing banks to invest up to the equivalent of one percent of their asset base in venture capital through investment fund administrators and subsidiaries.

- In Germany and Thailand, more generous incentives are offered to projects that are most likely to generate positive externalities by bringing new technology to the country or investing in less-developed provinces.

- In Germany, the amount of support provided is based on the size of the enterprise, with SMEs qualifying for more generous incentives.

- In Chile and Thailand, the incentive system explicitly seeks to attract or support companies that have global or regional ambitions or linkages (such as regional headquarters), by allowing for some activities outside of the country to qualify for benefits (e.g. R&D); by making it easier for firms to undertake international financial transactions; and by eliminating limits on the hiring of foreign professionals.

- In Chile, M&E is institutionalized and managed to inform and provide feedback to decision-making processes, and a mechanism is in place for following up on recommendations. Likewise, independent research, and in particular, the use of randomised control studies, is used to assess the effectiveness and impact of government programmes.

- In Thailand, national plans explicitly target improvements in external and international measures of perception, such as the Transparency International Corruption Index; the Institute for Economics and Peace (IEP) Peace Index and independent competitiveness rankings.

5 FINDINGS FROM THE CASE STUDIES

The following 20 incentives were selected for case study analysis as part of this evaluation. These case studies should not be considered or used as independent evaluation reports. However, as a collection of studies, there are numerous and important themes that do emerge, for which there is sufficient evidence to draw general conclusions about the design, implementation and review of the system of business incentives in South Africa.

Table 1: Case studies

Incentive	Department / Agency
The Manufacturing Competitiveness Enhancement Programme (MCEP)	DTI
The Automotive Production and Development Programme (AIS)	DTI
The Tourism Incentive Programme (TIP)	DoT
The Black Business Supplier Development Programme (BBSDP)	DSBD
The Cooperative Incentive Scheme	DSBD
The SEDA Technology Transfer Fund	SEDA
The TIA Seed Fund	TIA
The Animal and Veld Management Programme (AVMP)	DRDLR
The Agri-Parks Programme	DRDLR
The Green Fund	DBSA
The Jobs Fund	NT
The Gro-E Youth Scheme	IDC
The MERSETA Apprenticeship Programme	MERSETA
The CHIETA Work Integrated Learning Grants	CHIETA
The Local Content Designation – Rail Rolling Stock	DTI
The Employment Tax Incentive (ETI)	SARS/DoL
The Research and Development Tax Incentive (11D of the Income Tax Act)	DST/SARS
The Industrial Policy Projects Incentive (12I of the Income Tax Act)	DTI/SARS
The Manufacturing Incentive (12D of the Income Tax Act)	SARS
The Small Business Incentive (12E of the Income Tax Act) and graduated tax rate structure	SARS

5.1 The design of incentives

The majority of the incentives reviewed were not constructed on the back of substantial evidence or research. In no cases was there confirmation of economic cost benefit or options analysis, or the use of regulatory or socio-economic impact assessment (RIA or SEIA) techniques. On the other hand, most incentives were informed by some research activity, and for three of the incentives reviewed this research was deemed to be substantive (this includes two pilot studies). Just three programmes could provide or articulate a theory of change.

It would appear that in many cases, incentives have been implemented to meet pressing political or policy concerns, which apply to a specific sector or group of beneficiaries. This is reflected in the high degree of alignment between the twenty incentives reviewed, and government's national policy objectives. However, in doing so, it would seem that insufficient attention is given to the design of specific programmes, and specifically, whether and how an incentive is the best mechanism to address the stated policy problem.

Finally, there appears to be little coordination and learning in government around the design of incentive programmes. Despite the existence of significant expertise in some units, there are weak mechanisms for sharing lessons and information within departments and across government, and in most instances, officials do not look beyond sector or line department interests. As a result, new incentives do not capitalise on the experience of previous initiatives, and administrative guidelines and systems are usually constructed afresh. There are also differences in definitions and methodologies used by different entities in government (e.g. those that apply to SMMEs or value-added); and differences in the costing, monitoring and evaluation of incentive programmes.

5.2 The implementation of incentives

The Government manages incentives in the same way that it manages budget programmes i.e. in most cases incentives are treated as transfers to public or private enterprises, but in a few cases may be treated as goods and services. This approach is influenced by the Auditor General and the National Treasury, and there is consequently a very strong focus on compliance. While this is important to prevent wastage and abuse, it determines how incentives are administered and reported. This approach is problematic in respect of incentives that require multi-year funding commitments. Technically, roll-over requests are possible, but these are not always granted. While this is perfectly understandable in respect of other (non-incentive) grant programmes it is a significant risk in the case of incentives where third parties make very large and significant investments (often with a matched funding component) based on the anticipation of public money.

In general, the guidelines for specific incentives in South Africa are clear and in almost all cases, publicly available. This points to a high degree of transparency across the system. There are however instances where the application of specific guidelines and criteria is unclear, or where interpretations and processes shift (sometimes becoming tighter and sometimes looser) in response to changing political or economic demands, or financial constraints. Whereas it is important for policies to adjust to changing circumstances, this may reduce the certainty and value attached to some incentives. Appeals and enforcement processes are generally weak or missing.

Most departments report a lack of human resources to effectively manage and monitor incentives. Application and approval systems are mostly incomplete or manual, and this greatly increases the administrative burden for both government and beneficiaries, undermines data collection efforts/data integrity, and hinders the monitoring and evaluation of incentives. Where fully automated systems are in place, they appear to work well. More importantly, in some departments, there is insufficient capacity to undertake site visits, address complaints and verify outcomes. Generally, there is an underestimation of the programme management resources (people, systems and operating budgets) required to properly administer incentive systems.

Finally, there is disagreement as to the use and usefulness of consultants (and other intermediaries). A few programmes recognise the need for specialist consultants to market and distribute incentives more widely or prefer to work through wholesale organisations and have formally incorporated these mechanisms into the design of the incentive. Similarly, some respondents argue that consultants are necessary to navigate complex rules and procedures; or access information and officials. But most departments see consultants as an unnecessary cost to the beneficiary.

5.3 The review of incentives

With few exceptions, monitoring and evaluation is not fully incorporated in the design of new incentives. Just four of the twenty incentives had a comprehensive M&E framework in place, and in half of the cases, there was no indication that M&E processes and indicators had been considered up-front. It follows that appropriate monitoring indicators are seldom defined.

Whereas most incentives report on outputs (i.e. the number and value of grants disbursed to beneficiaries), there is little information on programme outcomes (i.e. such as the resulting increase in employment, revenue or R&D over time). Moreover, where outcome data is reported, it is often collected at the application stage, and not tracked or verified going forward.

Finally, reviews and evaluations are conducted for most incentives, but in many cases these reviews are not sufficiently substantive or are done internally. There is also a strong focus on project outputs and compliance, rather than on beneficiary and economic outcomes.

6 KEY EVALUATION FINDINGS

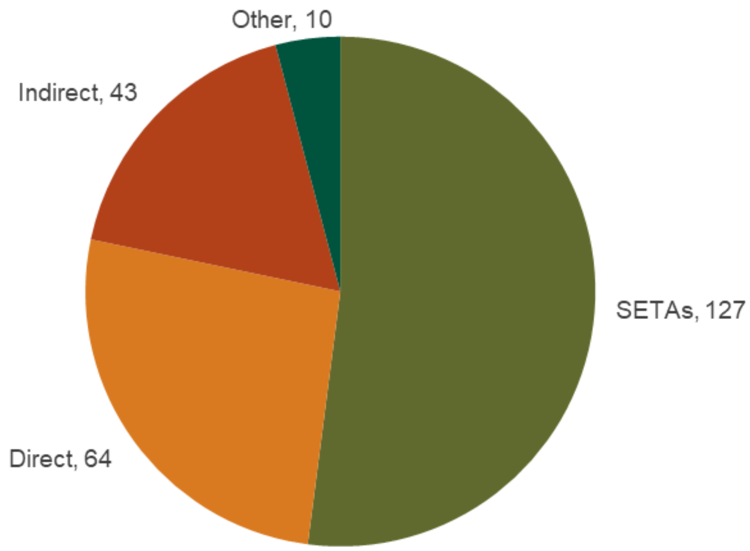
The terms of reference set out seven key evaluation questions to be addressed through this evaluation. Information and data were collected from the literature and document review; consultations with government, business and other industry stakeholders; the inventory of business incentives that was developed as part of this evaluation; and the 20 case studies. The main findings from these different components are set out against these seven questions below.

6.1 What are the business incentives that are currently offered by the South African Government?

A core task of this project was to compile a usable inventory of all business incentive programmes available at the national level, including all grants and tax and financial concessions. In doing so, a generally inclusive definition of business incentives was used, and the database includes those programmes or benefits provided by national government and its agencies, that are specifically intended to contribute to the creation of new businesses or change the behaviour of existing businesses. In total, 244 business incentives were identified.

Figure 2 provides a high-level breakdown of the different incentives incorporated in the database. The greatest number of programmes are spread across the 21 SETAs. Whereas each SETA receives substantial funding from the Skills Development Levey to support skills development and training activities in the relevant sector, a large proportion of this funding is returned to firms in the form of mandatory grants, as long as they comply with certain prescribed procedures. These grants are not included in the database. Rather, the focus is only on the discretionary grants (and associated programmes) implemented by SETAs that specifically look to encourage member firms to undertake additional training or skills development activities, or which support firm creation or employment creation in the sector more broadly.

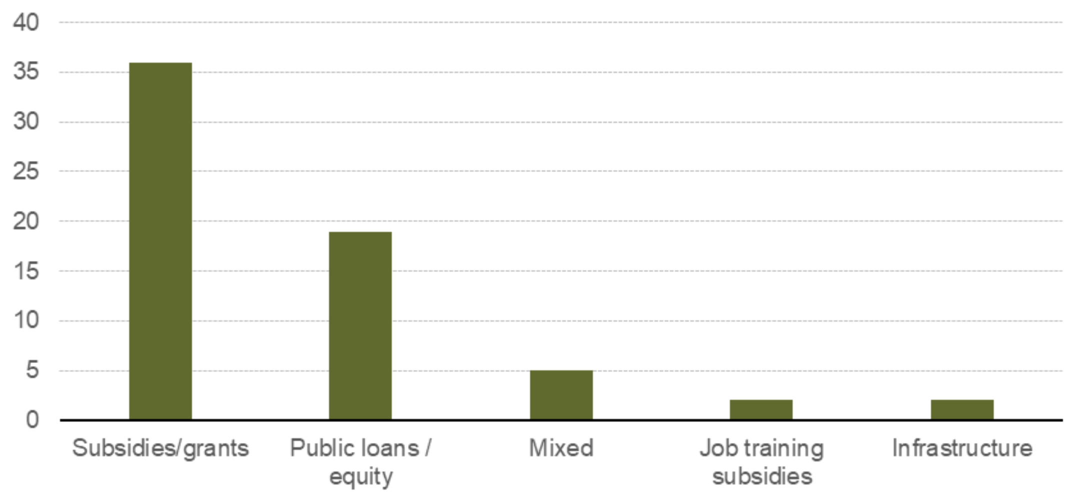
Figure 2: General classification of business incentives (Number of incentives in the system)



Source: Inventory of business incentives

The next largest category of incentives are the direct programmes of national departments and their agencies. The largest number of direct incentives are in the form of grants or subsidies. Almost half of these grants are managed by the Department of Trade and Industry, with the Department of Small Business Development and TIA also responsible for multiple grant programmes. Loans and equity arrangements account for the next largest number of direct incentives, with the IDC accounting for 10 of the 19 programmes. The IDC also provides 2 mixed facilities – which combine both loan and grant funding. The two infrastructure incentives involve the provision of technological or agriculture infrastructure for small businesses.

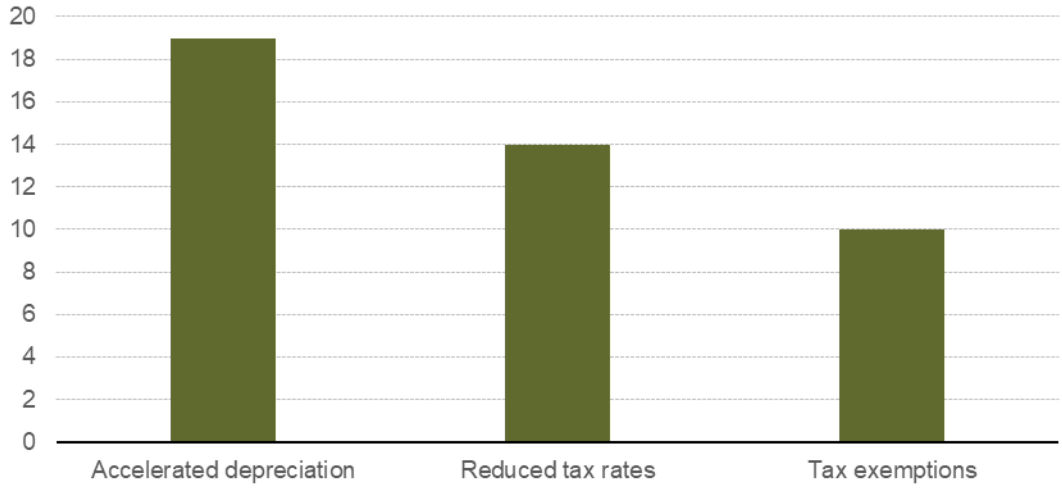
Figure 3: Types of direct incentives (Number of incentives in the system)



Source: Inventory of business incentives

Most of the indirect incentives available through SARS provide for the accelerated depreciation on specified assets (such as housing or dams) or expenditure (such as machinery or exploration). The Government also provides for reduced tax rates in certain circumstances, or for specific types of businesses or activities. Finally, in some the earnings of specific types of businesses (such as shipping companies and sole proprietorships) or in certain sectors (the film, mining and oil and gas industries), are exempt from specific taxes or levies.

Figure 4: Types of indirect incentives (Number of incentives in the system)

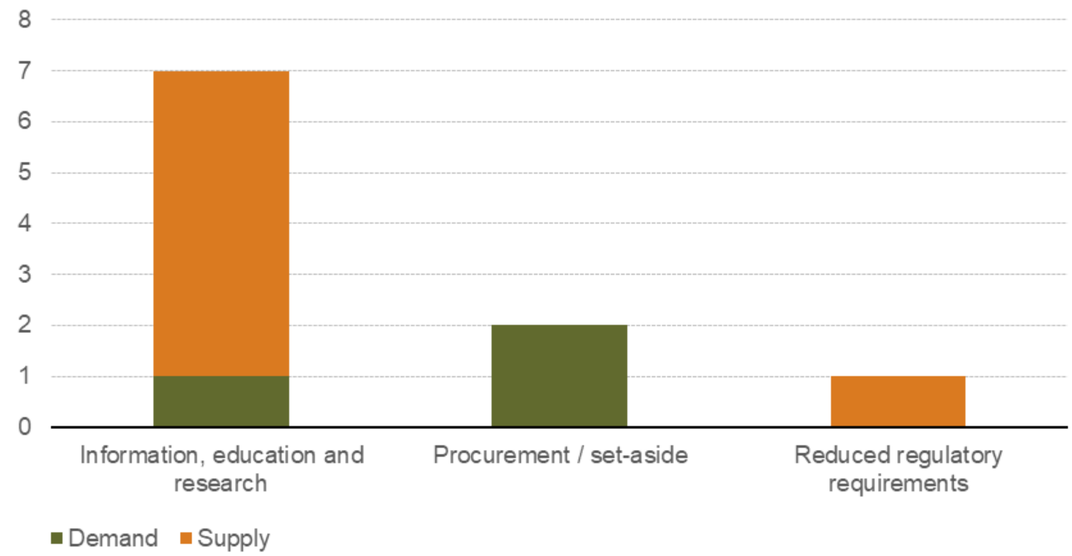


Source: Inventory of business incentives

Other incentives available from Government include information services, which generally involve the provision of market studies or technical advice to firms in specific sectors; government procurement to encourage the use of domestic content and technology transfers; and a concession on BEE regulations in the mining sector to promote beneficiation.

Only three demand side incentives were identified – two of which are implemented through the government procurement system – and a third which seeks to shift consumer demand in the motor industry through fuel efficiency labelling of vehicles and public information programmes.

Figure 5: Types of other incentives (Number of incentives in the system)



Source: Inventory of business incentives

6.2 Why are government business incentives important and how?

The literature and document review describe the main reasons for government intervention in general, and the use of business incentives in particular. The conventional economic rationale for government intervention is to address ***market failure***. Specifically, there is a strong economic case for government regulation and or initiatives that contribute to wider economic benefits (externalities) – such as R&D and skills development; and interventions that assist business to overcome the information asymmetries that are always present in markets – including efforts to increase competition or knowledge sharing.

Despite the risk and existence of market failures, there are often cases in which markets do result in the efficient allocation of resources, yet there is no guarantee that these optimal economic outcomes are socially fair or desirable. There is thus a further role for government to intervene, in such circumstances, to ensure ***social protection and distributive justice***. These cases can be generalised into three types of efficient but inequitable outcomes:[8]

- When market outcomes are not fairly distributed between the 'haves' and the 'have-nots'
- When citizens are not all being treated equally, especially those situated in the same situations
- When the interests of future generations and the defenceless are not being protected

The third and final reason given for the use of government incentives, is to influence and promote ***economic and industrial development***. Whereas some industrial development incentives are functional – and serve to improve the overall economic environment in which firms operate – most are selective and focus on industries that are deemed to be "strategic". In many instances, governments negotiate specific deals for individual firms.[9] In such

[8] (Authority, 2006)
[9] (Altenburg, 2011) pg. 15

situations, business incentives can be viewed as government prerogatives directed to firms to induce some specific type of economic activity that would otherwise have not occurred – or could have occurred but to a lesser degree – without government assistance.

It is notable that the majority of South Africa's incentives are directed at raising investment or supporting specific sectors of the economy. This is acknowledged, as an objective of the system, by both government and business respondents; but it is not clear that the cost of capital is in itself a primary constraint (especially for established businesses).

Rather, based on views expressed in this study, low growth and the cost of government regulation and services (most notably transport), constrain the development and competitiveness of South African firms. Whereas capital incentives may serve to mitigate some of these costs and encourage firms to invest in sectors of priority to government, they do not serve to address the underlying challenges confronted by industry more broadly.

6.3 Is the incentive package achieving the broader objectives and are they aligned with overarching frameworks and plans?

In general, the available business incentives are well-aligned with the government's overall economic growth, transformation and job creation objectives. More than half of the case study programmes were deemed to be strongly aligned with national policy frameworks, including the NDP and IPAP. For the remaining nine incentives, the target group was specifically mentioned in these frameworks, though the desired change was not fully described.

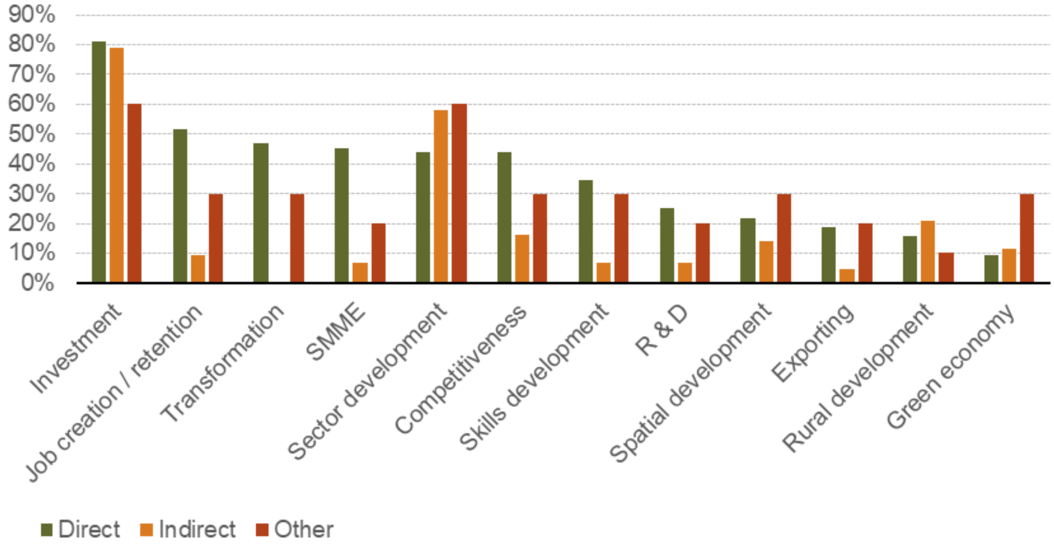
However, the extent to which these incentives have made a meaningful contribution to reducing overall levels of poverty, inequality and unemployment in South Africa, is uncertain. This is partly because there are so many other factors that influence the achievement of these objectives; but also because there is insufficient information available on the outcomes of most incentives, and the system as a whole.

6.4 Do these incentive programmes complement each other in relation to the frameworks/plans and what are the gaps?

Business incentives in South Africa are designed to achieve multiple objectives. Based on the available information, each incentive in the inventory database was assessed against 12 different policy objectives; the overall results are presented in Figure 6. On average, direct incentives seek to achieve more than 4 policy objectives; indirect incentives are generally more targeted, at 2 incentives on average.

Investment stands out at the most common single objective and is reflected in around 80% of the direct and indirect incentives captured in the inventory. Job creation, transformation and SMME development are addressed by between 40% and 50% of direct incentives, but are seldom a focus of indirect incentives. Interestingly, a reasonable amount of 'other' incentives aim to support the green economy, or encourage energy efficiency, but this is not a major concern across direct and indirect incentives. Moreover, research and development appear to be a surprisingly low priority.

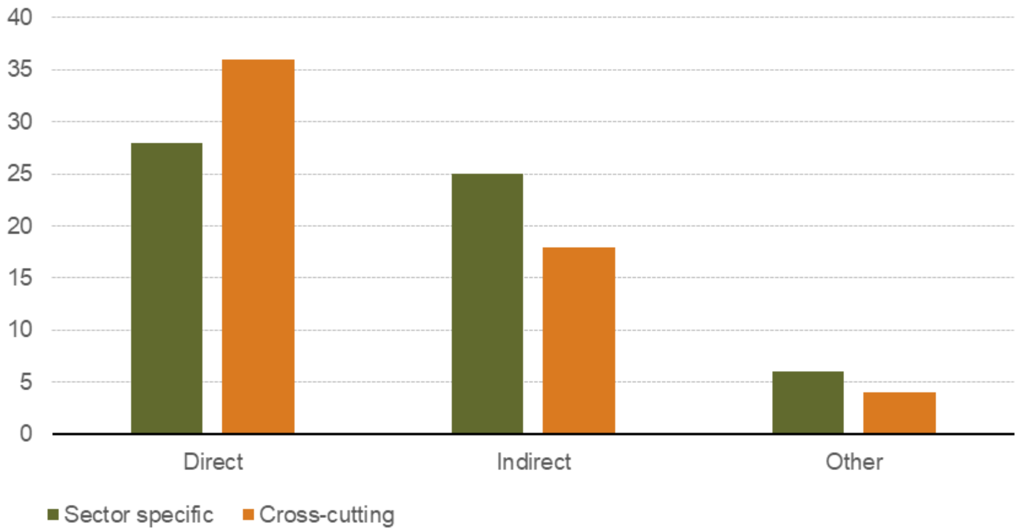
Figure 6: Incentive objectives (% of total)



Source: Inventory of business incentives

As indicated in Figure 6, a large proportion of incentives have a sector focus. This is confirmed in Figure 7. The majority of indirect and 'other' incentives are targeted at a specific sector, or in some cases, a limited set of sectors. Whereas most direct incentives are cross-cutting – and available to all qualifying businesses – a large number are still restricted to priority sectors. These sectors are generally reflected in the published guidelines and criteria, though in some cases, sector priorities are not immediately transparent.

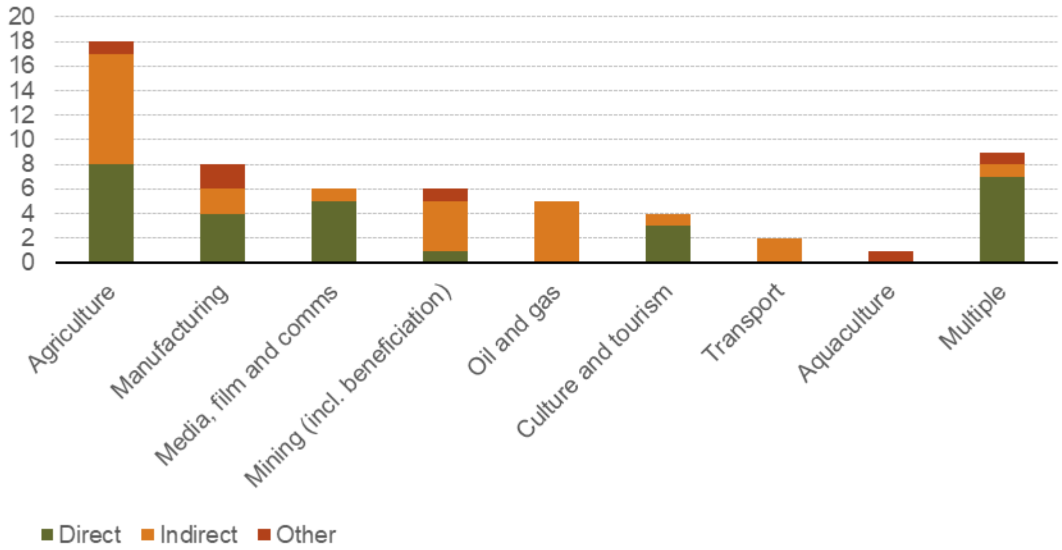
Figure 7: Number of sector and cross-cutting incentives in the system



Source: Inventory of business incentives

Looking more closely at the focus of the identified sector-specific incentives, agriculture is the most common priority for both direct and indirect inventives (at least in terms of the number of incentives available, but not necessarily in value). Most of the remaining indirect incentives are targeted at the mining, oil and gas sector. All but two of the agriculture and mining tax incentives are reasonably old – pre-dating 1994; with eight from the 1960s. The oil and gas tax incentives are more recent, and were all implemented in 2006/07. Whereas manufcaturing accounts for a significant number of direct incentives, it is interesting to note that the services sector in general, and the media, film, communications, tourism and cultural industries in particular, are also regarded as priorities.

Figure 8: Priority sectors (number of incentives in the system)



Source: Inventory of business incentives

In design, it would therefore appear that the system of business incentives is targeted at the government's stated policy priorities, including sectors of specific strategic interest. That said, the apparent leaning towards mature sectors, such as agriculture and mining, and the relatively low priority given to R&D and the digital economy, suggests that the system is biased towards existing sectors and large incumbent firms, rather than emerging industries and businesses. Likewise, many incentives focus on sustaining jobs in these sectors, rather than creating new employment opportunities. This observation was confirmed during many of the case study interviews.

The case studies also highlight a number of gaps in the implementation of incentives in South Africa. The majority of the incentives were not constructed on the back of substantial evidence or research. In no cases was there confirmation of economic cost benefit or options analysis, or the use of regulatory or socio-economic impact assessment (RIA or SEIA) techniques; and just three programmes could provide or articulate a theory of change or results chain. Most departments report a lack of human resources to effectively manage and monitor incentives, and application and approval systems are mostly incomplete or manual. This greatly increases the administrative burden for both government and beneficiaries. With few exceptions, monitoring and evaluation is not fully incorporated in the design of new incentives, and reviews are usually done internally and focus on project outputs and compliance.

6.5 What is the overall Theory of Change (or theories of change) for government business incentives and is it (are they) working as planned?

While the overall system-level theory of change is valid, there is evidence (based on the interviews, workshops with stakeholders and case studies) that the logic of the ToC breaks down in a number of key areas at the level of design, implementation, and monitoring and evaluation. The figure overleaf presents the incentive-system ToC with annotations and comments on key areas of concern.

At the point of initial conceptualisation there is insufficient research and problem analysis and generally no proper theories of change are developed. Critically this means that the precise problem statement the incentive aims to address is not always well articulated and the causal pathways and consequent indicators not well defined. This fails to provide a systematic foundation to assess the impact of the incentive.

Furthermore, at the design stage there appears to be no consideration of alternatives (other or no incentives) to address the problem identified and it is not clear that proper cost benefit or other similar assessments are undertaken that would seek to identify potential unintended consequences.

The case studies in particular highlight that implementation is a key weakness, with programme administrators citing the lack of sufficient people, and inadequate management information system as key constraints. Overall the ToC need to consider the adequacy of these inputs – the scale and complexity of many of the incentives requires adaquate capacity and resourcing to effectively administer and monitor.

Monitoring is primarily focused on outputs (typically funds expended) and evaluation systems are weak – hampered by the absence of clearly defined programme ToCs / log frames in many cases. Of concern – as evidenced in the case studies – is that in many instances there is inadequate evaluation of incentive outcomes and impact, with very limited data available. This hampers both an assessment of incentives at an individual level and more critically makes any assessment of overall system-wide effects challenging. This also relates to the logic in the ToC with respect to regular review and revision of incentives. There appears to be little evidence that there is an effective feedback loop from the monitoring and evaluation function to the review, redesign and even termination of incentives on the basis of sound evidence. Where incentives do demonstrate an active and consistent review process the incentive appears to work more effectively, is better targeted and is able to secure better buy-in from key stakeholders (not in the least where such review processes are transparently conducted with industry recipients).

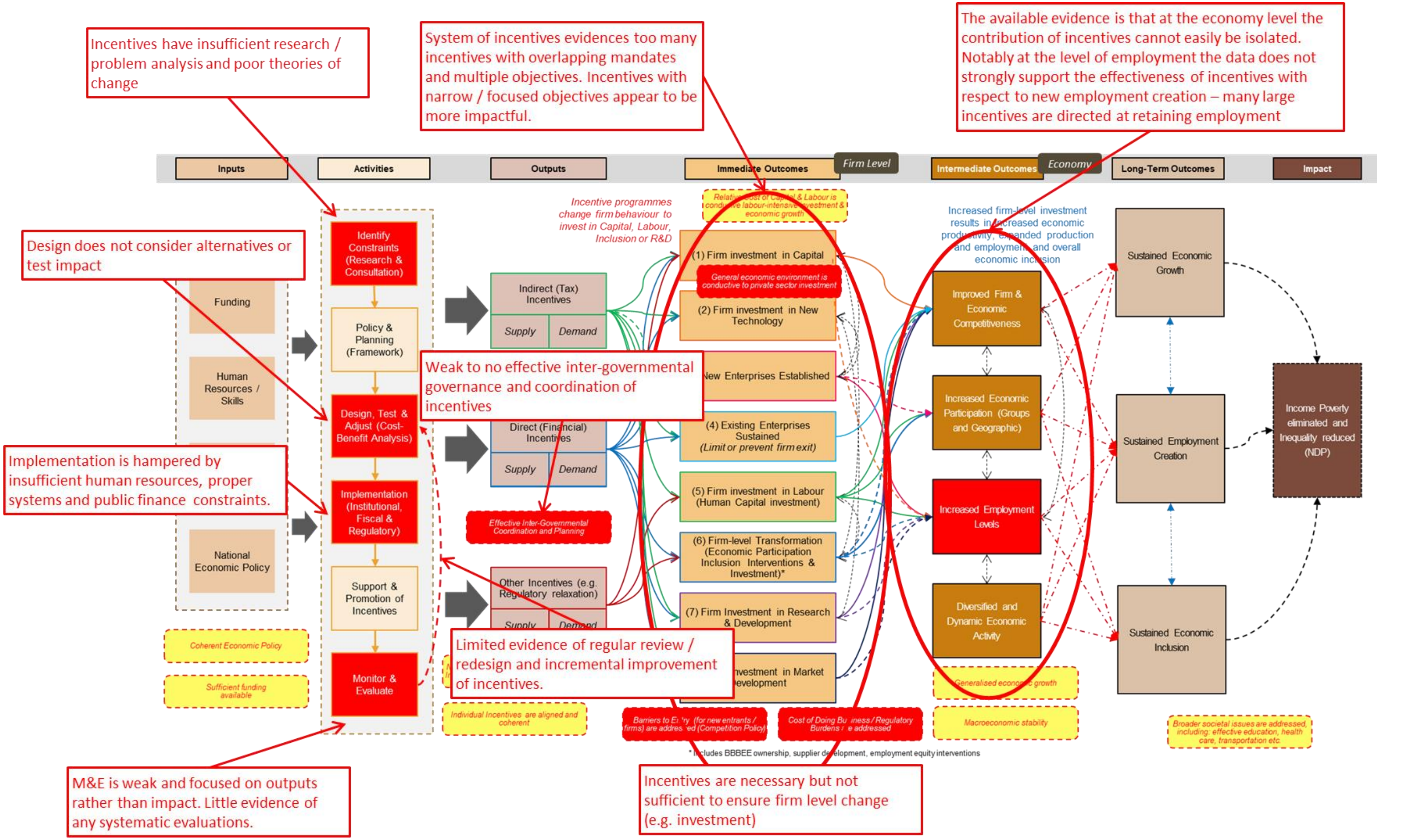
Of related concern is that the evidence suggests that the key assumption with respect to an *effective system of incentives* – effective intergovernmental coordination and planning – is largely absent. As noted elsewhere the “system” is not coherent, appears to be duplicative and possibly even contradictory at points.

Overall the ToC, supported by the research, evidences a system of too many incentives with overlapping mandates and multiple objectives. In particular the layering of multiple objectives (which was noted in the development of specific incentive level ToCs) creates a dilution effect and hampers both the administration and acceptance of incentives. The case studies suggest that where incentives have narrow or more focused objectives (or at least a primary objective with some secondary objectives), they appear to be more impactful.

Overall the research was not able to comprehensively test whether the system of incentives is achieving its outcomes and having the desired impact. In part, as already noted, this is because the M&E systems are weak and focused on outputs rather than outcomes and impact. While there is some evidence that individual incentives are supporting individual firms and at the intermediate outcome level are contributing to increased economic participation, the available data suggest that at the outcome level key results such as increased economic productivity, expanded production and employment are not being realised to the extent envisaged. This is partly because of broader issues (key assumptions in the theory of change) such as confidence in the general economic environment, the cost of doing business and the competitive structure of many industries; but weaknesses in monitoring and evaluation also mean that the contribution of incentives cannot easily be isolated.

While the data is limited, the research suggests that at the economy level the contribution of incentives cannot easily be isolated. Notably at the level of employment, the data does not strongly support the effectiveness of incentives with respect to new employment creation – many large incentives are directed at retaining employment. Nevertheless, the overall ToC we would argue remains valid. The issue is rather the key assumptions that must hold in order for incentives to be effective.

Figure 9: Revised Theory of Change: Overall System Level

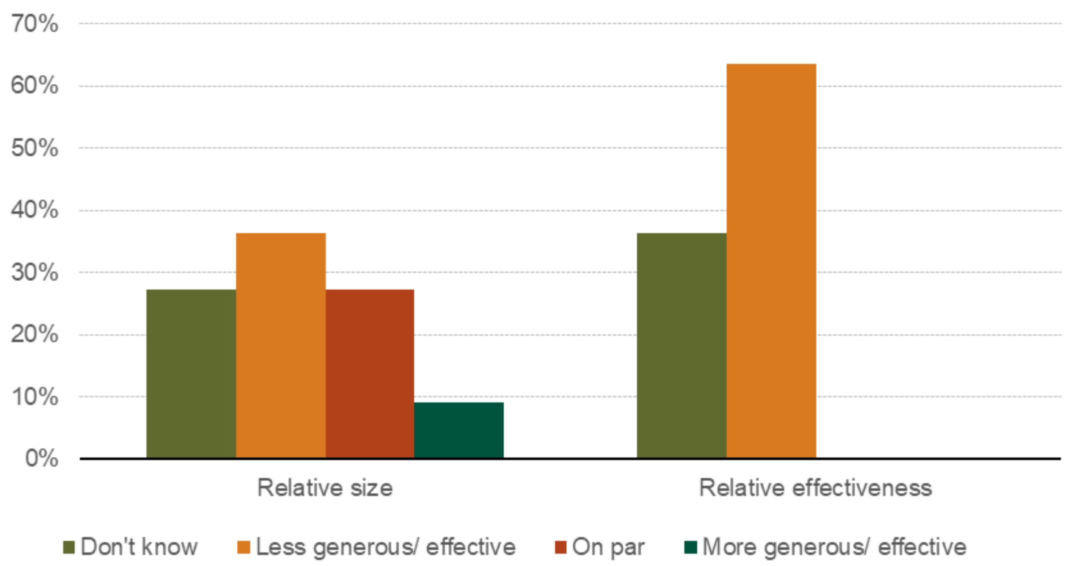


6.6 How does South Africa compare with other countries on business incentives?

The evaluation included a review the system of incentives in three comparator countries: Thailand, Chile and Germany. All three countries make wide use of incentives to facilitate investment and encourage specific types of business activities. However, the specific approach and focus of the incentive system in each country, differs markedly depending on national priorities. In Chile, incentives are used to support the development of disparate regions; whereas in Thailand, the focus has been on specific sectors and more recently, to encourage international businesses to locate their regional head-offices in the country. In Germany, the system of business incentives focuses strongly on research and the development and SMMEs.

In addition, respondents were asked how the overall offering of government incentives in South Africa compare to other countries that are considered direct competitors for South Africa (for instance, Brazil). As indicated in Figure 10, a significant number of respondents were unable to assess the relative size and effectiveness of government incentives. For those that did, the amount allocated to the system of incentives in South Africa is perceived to be more or less on par with elsewhere, but significantly less effective. These perceptions were common across government officials and business and other organizations.

Figure 10: Incentives in South Africa compared to competitor countries



Source: Interviews with stakeholders

The perceived discrepancy between the relative size and the relative efficiency of business incentives in South Africa, suggests that the available funds are not aligned with the actual needs of the target groups. The country comparisons provide some ideas as to where and how funds could be better directed (for example towards smaller businesses and R&D). They also reinforce the importance of rigorous research and substantive evaluations in design and implementation of an effective incentive system.

6.7 How can the system of business incentives be strengthened to achieve greater value for money and to enhance more inclusive economic growth in the country?

How do we strike a balance between the strategic use of demand side instruments and fiscal support?

There is little evidence of the use of demand side instruments in South Africa. Moreover, the only demand side incentive reviewed as part of this evaluation – the local content designation on rail rolling stock – appears to have encountered significant implementation problems, and the cost of this intervention is unknown. On the other hand, the literature identifies a wide range of demand side incentives, which are used elsewhere, usually to promote the demand for innovative technologies and thus increased investment by firms in R&D activities. Interventions range from the introduction of legislation directed at increasing consumer confidence in innovation products, safety regulation, standards and public procurement. These demand-side tools usually complement supply side instruments such as public grants and funding schemes.

Importantly, the demand-side instruments cited in the literature do not use procurement as a blunt instrument for raising local content in a specific sector, but rather look to boost public and private sector demand for new technologies or services. Thus, instead of trying to strike a balance between the use of supply and demand side incentives, it will first be useful to review the design and implementation of existing demand side instruments in South Africa, against international best-practice. In doing so, it will be critical to estimate the likely economic cost (and associated benefit) of current demand-side interventions, and any proposed revisions or additions.

What incentive instruments work best be it direct fiscal transfers, tax instruments, and concessional finance or demand side instruments?

Although the recent literature points to the positive impacts of incentives, these effects are generally small and are not constant across different regions or countries. The impact of tax incentives, in particular, are questionable, given the small contribution of taxes to the overall cost of the business, and the fact that they are only of benefit if and when a company is making a profit. For these reasons, the G20 recommends that incentives that lower the cost of investment by reducing the cost of capital are preferred over profit-based tax incentives, as they make a greater number of investment projects more profitable at the margin.

More importantly, the literature highlights that the geographic and demographic characteristics of the country or target group, as well as the specific design of incentives, are critical factors in determining success. Thus, rather than favouring one type of incentive over another, there are a number of common design principles that could be used in the design and implementation of <u>all</u> incentive programmes. These ten guidelines are synthesised from the work of the G20, OECD, IEDC and Rodrick:

- Authority to implement incentives should lie in agencies which demonstrate sufficient competence. Moreover, because industrial policy plays itself out in dynamic and fluid environments, agencies must be able to adapt to changes and at the same time be able to phase out policies that no longer work with more relevant policies

- All incentive policies and programmes must be well coordinated with each other as well as with other policies; and must be governed by a coherent policy framework designed to improve the overall investment environment. This will require first, some consensus on the overall policy objectives; and secondly, ensuring that all incentive policies are in line with these objectives and are best suited to address the policy issue at the lowest cost possible.

- Good governance of incentives means that government's decision-making processes, policies and the administration of these incentives must be transparent and subject to public scrutiny and evaluation. In addition, policy makers need to determine the role that other public institutions will play in this process and who the ultimate accounting body will be in terms of design, implementation and finally monitoring and evaluation.

- The economic rationale for any incentive should be clearly articulated to enable public debate on the country's policy priorities. In doing so, policy makers should explain why offering an incentive is the best option to address a particular problem; or whether the desired impact could effectively be achieved through regulatory, process or systems improvements in the overall business environment.

- The economic costs and benefits of an incentive programme should be assessed both ex-ante and ex-post and should be guided by clearly stated assumptions and methodologies, with the assessments eventually being made publicly available.

- Incentives need to well-targeted and based on clear, verifiable and rules-based eligibility criteria. This is believed to be best facilitated through incentive programmes that are governed by minimal administrative discretion in the awarding of incentives and are available on equal terms to both foreign and local investors.

- Incentives should be directed towards activities and not sectors – sector-specific support can lead to misdirection of industrial promotion effects. Activity-focused support is more effective in addressing and correcting market failures (which may be dominant in a particular sector, but are likely to exist to some degree across several sectors).

- Incentives should not be of an ex ante nature (granted prior to the investment), but should rather promote activities that create the strongest potential for spill-overs, including linkages between foreign and local firms, education, training as well as research and development. Unless a subsidised activity has the potential to crowd-in other investments and/or technological and information spill overs, it should not be supported.

- Clearly defined monitoring processes must be built into the incentive programme up-front, including clear criteria that can be measured to assess success and failure. The specific design and management of individual programmes/incentives should consider the resources needed to support the monitoring and evaluation of these programmes.

- There should be a built-in sunset clause – this will assist in ensuring that resources do not end up being tied up for extended periods of time in activities that are not producing the desired outcomes, and provides for a natural point of evaluation and appraisal.

These guidelines are validated by the case study findings. Where the economic rationale for the incentive is well-defined (and ideally the theory of change has been articulated), it is easier to measure and see success. Likewise, those departments that have invested more in the implementation and administration of incentives, are able to manage and report on programmes more effectively. On the other hand, incentives that target specific sectors or types of organisations, are generally unable to demonstrate positive (net) economic outcomes, when compared to those that focus on specific activities (such as R&D or job creation). Finally, there is much less information available on the performance (and therefore the benefit) of tax and demand-side incentives, when compared to on-budget grant programmes.

Does South Africa realise a return on investment from these business incentives against the cost of delivering them?

As indicated earlier, for most incentives, there is insufficient data available on outputs or outcomes. As such, it is not possible to calculate the return on investment for the system. The only data that is available for almost all of these incentives, is on expenditure.

Figure 11 presents the available expenditure data for 41 of the 64 direct incentives included in the inventory. Where possible, budget information has been used, but in some cases, actual expenditure or approval data is shown. In total, just over R10 billion was allocated across these incentives in 2015/16. It is notable that the four largest incentives, together account for 43% of these funds. Moreover, as would be expected, around 40% of these funds are accounted for by the Department of Trade and Industry.

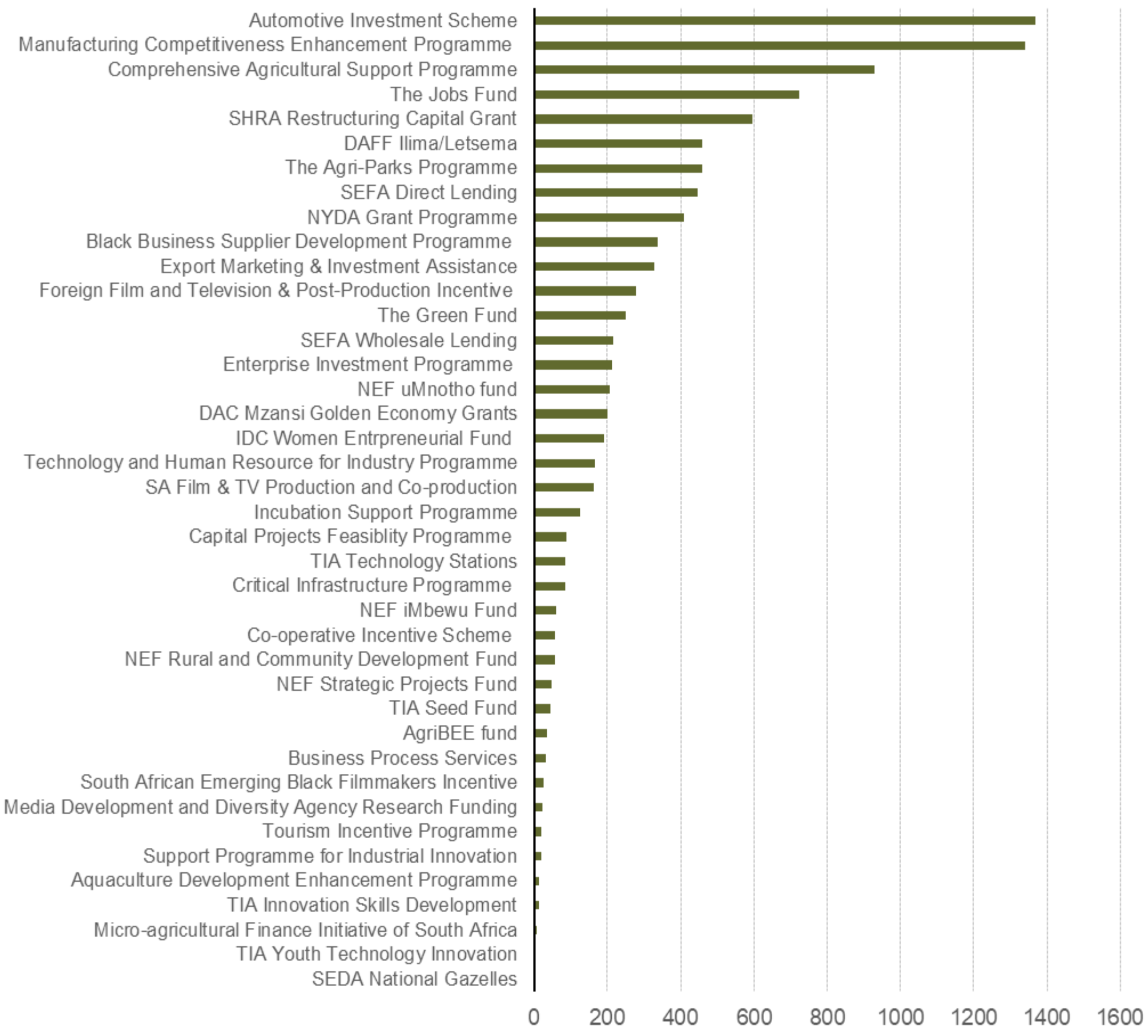
Expenditure data on indirect incentives is presented by the National Treasury in Annexure B (Tax Expenditure Statement) of the National Budget Review. The Treasury estimates that in total, around R30 bn was spent in 2014/15 alone, about three times that spent on direct incentives. Government's support to the automotive sector dwarfs all other incentive programmes – both direct and indirect – with the total contribution of the APDP estimated at R25 billion in 2014/15. The four smallest incentives, together account for R178 mn of tax expenditure; less than that spent on Urban Development Zones. That said, it is important to note that according to the DTI, the full amount (R20 bn) allocated to 12i had been approved by 2016/17, but these claims are not yet reflected in the expenditure data.

In total, the 20 SETAs spent around R10 bn in 2014/15; but expenditure data on the identified SETA incentive programmes is incomplete and therefore incomparable.

Assuming that around 30%[10] of the total SETA budget is directed at firms, then the total amount spent by the national government on the business incentives reflected in the inventory, in 2014/15, would amount to between R40 bn and R45 bn.

[10] This is based on an estimate across a few SETAs that do provide detailed budget information

Figure 11: Total expenditure – direct incentives (R mn, 2014/15 [11])



Source: Inventory of business incentives

[11] For the Aquaculture Development Enhancement Programme, and the three film-specific incentives, 2015/16 expenditure data has been used

7 Conclusions

The evaluation found that South Africa currently has some 244 business incentives. Of these incentives 64 can be categorised as direct incentives; 43 as indirect (tax) incentives; 10 as other incentives (mostly information services) and 127 as different SETA grant programmes. Most (56% in number, not value) of the direct incentives are offered in the form of subsidies or grants. Accelerated depreciation provisions account for the largest number of indirect incentives, though there are also numerous allowances for reduced tax rates and tax exemptions. Only three demand-side incentives were found, two of which are implemented through the government procurement system.

7.1 Relevance of the system of incentives

The evaluation concludes that the system of government incentives is generally relevant to the South African economic context, in line with international trends and broadly aligned with current policy initiatives. In general, the available business incentives are well-aligned with the government's overall economic growth, transformation and job creation objectives. More than half of the case study incentives were deemed to be strongly aligned with national policy frameworks, including the NDP and IPAP.

However, the majority of South Africa's incentives are directed at raising investment or supporting specific sectors of the economy. This is acknowledged, as an objective of the system, by both government and business respondents; but it is not clear that the cost of capital is in itself a primary constraint (especially for established businesses). Rather, based on views expressed in this study, low growth and the cost of government regulation and services (most notably transport), constrain the development and competitiveness of South African firms. Whereas capital incentives may serve to mitigate some of these costs and encourage firms to invest in sectors of priority to government, they do not serve to address the underlying challenges confronted by industry more broadly.

7.2 Effectiveness of the system of incentives

There is some evidence that individual incentives are supporting individual firms and at the intermediate outcome level are contributing to increased economic participation, however, the available data suggest that key results such as increased economic productivity, expanded production and employment are not being realised to the extent envisaged. This is partly because of broader issues (key assumptions in the theory of change) such as confidence in the general economic environment, the cost of doing business and the competitive structure of many industries; but weaknesses in monitoring and evaluation also mean that the contribution of incentives cannot easily be isolated.

A key assumption with respect to an *effective system of incentives* – effective intergovernmental coordination and planning – is largely absent. The "system" is not coherent, appears to be duplicative and possibly even contradictory at points. Furthermore, the layering of multiple objectives dilutes the signalling of individual incentives and hampers both the administration and acceptance of incentives. The case studies suggest that where incentives have narrow or more focused objectives, they appear to be more effective.

7.3 Efficiency of the system of incentives

For most incentives, there is insufficient data available on outputs or outcomes. As such, it is not possible to assess the efficiency of the system or calculate the return on investment for the system. The only data that is available for almost all of these incentives, is on expenditure.

It is estimated that South Africa spent between R 40 billion and R 45 billion on business incentives in 2014/15. This is now probably closer to R 50 billion; equivalent to around 3% of the national budget in 2018/19. In 2015/16 just over R 10 billion was spent on direct incentives (41 out of 64 incentives for which expenditure data was available). In 2014/15 around R30 bn was spent on indirect (tax) incentives, while the 20 SETAs spent around R10 bn on incentive-type programmes in 2014/15.

While it is not possible to calculate and show the return on investment on the system of incentives, for some of the case studies, information on outputs (firms or projects supported) and outcomes (jobs created or sustained) is available. The data highlights that two of the largest incentives (12i and the AIS) in absolute size, are distributed across relatively few projects or firms. The average 12i and AIS beneficiaries receive benefits of R157 million and R36 million respectively. On the opposite end of the scale, the Tourism Incentive Programme and Employment Tax Incentive spend the least per beneficiary, at R54 000 and R74 000 respectively.

Likewise, based on the available data, the AIS spends more than R2 million for every direct job created in the automotive sector, followed by 12i at R1.3 million. The next most ‘costly’ incentive is the Green Fund, at R430 000 per job. Most of the other incentives spend less than R100 000 for every job created or sustained, with the Employment Tax Incentive the most cost-effective at just R3 500 per job.

Whereas the above findings should not be construed to provide an estimate of the return on any of these incentives, they do indicate that a large proportion of the incentive pool is going towards relatively few capital-intensive firms. Of greater concern, is the lack of more detailed information on incentive outcomes, which effectively prevents the calculation of more useful measures of economic return and success.

7.4 Impact of the system of incentives

Overall the evaluation was not able to comprehensively test whether the system of incentives is achieving its outcomes and having the desired impact. Thus, based on the available data, the extent to which these incentives have made a meaningful contribution to reducing overall levels of poverty, inequality and unemployment in South Africa, is uncertain. This is partly because there are many other factors that influence the achievement of these objectives; but also, because there is insufficient information available on the outcomes of most incentives, and the system as a whole.

8 RECOMMENDATIONS

The evaluation demonstrates the substantial scale of business incentives in South Africa and highlights numerous innovations and successes in the delivery of specific programmes. It is however important to emphasise that the focus of this evaluation is on the overall system of incentives, and not on the performance of individual interventions. The following recommendations therefore focus on the general lessons emerging from this study, which cut across most but not all incentives, and how the overall system of business incentives in South Africa can be strengthened.

A possible implementation plan, for these recommendations, is provided in Annex 2.

8.1 Recommendations to enhance the governance of the incentive system

R1 Establish an **Inter-Governmental Incentives Coordinating Committee (IGICC)**. This committee should include the National Treasury, DTI, DST, SARS and the DPME

R2 The Government Business Incentives Evaluation Steering Committee should develop the terms of reference of the IGICC for approval by Cabinet. The primary role of the IGICC is to develop a **National Incentives Policy Framework**. This National Incentives Policy Framework must be informed by existing policy priorities, such as the National Development Plan and the Industrial Policy Action Plan, and should serve to:

- Define the specific types of interventions to be governed by the National Incentives Policy Framework.
- Articulate the economic rationale and the resulting design principles for different types of incentives[12].
- Prioritise (and ideally reduce) the policy objectives that individual incentives are expected to fulfil.
- Seek to consolidate the number of incentives that are available, under a smaller number of well-functioning departments or agencies.
- Set specific criteria to be used in the review of all existing incentives and the evaluation of all planned incentives.
- Describe the process to be applied in the review of all existing incentives and the evaluation of all planned incentives.
- Determine minimum standards for the budgeting, administration, accounting, monitoring and evaluation of incentives.
- Establish roles and responsibilities, including coordination and information-sharing mechanisms.
- Articulate the need for international, domestic and independent expertise in an advisory capacity.

R3 Given the economically sensitive nature of incentives, a **Communications Plan** should be developed by Cabinet for immediate public release. This plan should outline the overall review process, governance arrangements, proposed actions and timelines and offer assurance to the market that no immediate changes are envisaged.

[12] As a starting point, the Committee can draw on the principles derived from the literature and synthesised in Section 0 of this evaluation; and for tax incentives, on the work that has been undertaken by the Tax Policy Unit of the National Treasury.

R4 Based on the National Incentive Policy Framework, the National Treasury should develop **a methodology for evaluating the motivation for and the associated economic costs and benefits of new and existing incentives**, relative to alternative policy options. All applications for new incentives should be assessed against the National Incentives Policy Framework, in accordance with the methodology developed by the National Treasury. Moreover, any changes to existing incentives should be subject to such an assessment, and over the next three years, **all business incentives should be reviewed against the National Incentive Policy Framework**.

R5 Based on the National Incentives Policy Framework, the National Treasury, in collaboration with the DPME, should develop **minimum annual reporting requirements for all government incentives**, including on expenditure, incentive outputs and on all agreed measures of economic or social outcomes. This information should be published in the annual reports of the responsible department or agency and consolidated in the annual Budget Review.

R6 A **single register of all beneficiary firms** should be developed to be administered by the National Treasury or SARS. All departments and agencies should be required to report information to this register, and the register should be made accessible to all relevant departments and their agencies. Moreover, consideration should be given to making part of the register of beneficiaries (i.e. company names) accessible for public scrutiny[13].

R7 The IGICC should oversee the appointment of a service provider to design and development of **a comprehensive and on-line grant and document management system**, which can be used for the administration of all DTI incentives; and by extension, can be made available for the use by any other Department or Agency involved in the delivery of incentives. In developing the system, the service provider should review existing systems across government and identify opportunities for re-use, expansion or collaboration to minimise costs. The system should enhance the administration of incentives and meet minimum reporting and financial management (PFMA) requirements. Consideration should be given to utilising the National Treasury or alternatively the DTI as the procurement / contracting party.

8.2 Recommendations to enhance the evaluation of the incentive system

R8 The DPME should **review the status and the depth of all internal and external evaluations**, across all of the incentives identified in this study (with budgets of more than R 100 million per year). Those incentives that have not yet been subjected to an independent evaluation should be prioritised for inclusion in the national evaluation plan.

R9 All departments responsible for the administration of business incentives (existing and new) should **develop a comprehensive monitoring and evaluation framework**, and sufficient resources should be made available for monitoring and evaluation in programme budgets. Based on the National Incentives Policy Framework, the DPME should issue guidelines to assist departments in the design and implementation of M&E frameworks, and to advise on appropriate costs.

[13] In determining the information to be included in this register, full consideration will need to be given to the SARS and Tax Administration Act, which governs the use and confidentiality of taxpayer information.

R10 All **ex-ante assessments and ex-post evaluations of new or existing incentives should be made public**.

8.3 Recommendations to enhance the application of the Public Finance Management Act

R11 The National Treasury (including the Budget Office, Public Finance, Office of the Chief Procurement Officer and the Account General), in collaboration with the Auditor General, should develop **a practice note in terms of the Public Finance Management Act** setting out clear guidance as to the treatment of incentives to assist departments in budgeting for and managing incentives over multiple financial years, and to clarify accounting, reporting and verification requirements. Specifically, this note must address the significant risk incentives face with respect to the current roll-over process and ensure the availability of contracted funding amounts.

8.4 Recommendations to review components of the incentive system

R12 The National Treasury, in collaboration with SARS, should undertake a **review of all of the tax incentives** identified in this study and assess whether they are still relevant, effective and efficient. In undertaking this review reference should be made to the findings and recommendations of the Davis Tax Commission.

R13 The Department of Science and Technology, in consultation with the DTI, should undertake **a review of South Africa's overall support offering for the commercialisation of research and development**, including policies and programmes to advance the digital economy, compared to international best practice. Specific attention should be given to the use of demand-side incentives to encourage the up-take and spread of new technologies.

R14 The Department of Higher Education and Training should introduce a **common budget and programme reporting framework for all SETAs**; and should establish a mechanism through which the SETAs can share ideas and collaborate on skills initiatives that are currently delivered by individual SETAs but could be replicated and delivered more effectively across all sectors.

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Annex 2: High-level implementation plan

The recommendations outlined in this report should be implemented according to the following sequence / prioritisation.

Table 2: High-level implementation plan

Step	Recommendation	Action	Responsibility
1	**Establish an Inter-Governmental Incentives Coordinating Committee (IGICC)**	• Prepare terms of reference for approval by Cabinet	PSC
		• Appoint members to the Inter-Governmental Incentives Coordinating Committee.	PSC
2	**Communications Plan**	• Prepare a communications plan setting out the proposed arrangements and actions i.r.o. of the incentive system.	PSC
3	**Incentives Policy**	• Secure service providers / OECD/ other • Develop Policy • Consult key stakeholders on proposed framework • Present for comment to Economic Cluster • Submit to Cabinet for approval. • Publish Framework.	IGICC
4	**Incentives Review Process**	• Develop and agree a methodology for the economic assessment of existing and new incentives • Develop required templates and tools (e.g. submission requirements; certificates etc.)	National Treasury
5	**Minimum annual reporting requirements**	• Develop and agree minimum annual reporting requirements. • Publish / include requirements as part of annual National Treasury reporting requirements.	National Treasury and DPME
6	**On-line grant and document management system**	• Develop terms of reference • Undertake procurement of a service provider • Review existing systems and make recommendations on proposed system • Develop system	IGICC oversight Utilise NT or DTI for procurement and contracting

Step	Recommendation	Action	Responsibility
		• Pilot system • Roll-out system • Maintain system.	
7	**Monitoring and Evaluation**	• Review the status and the depth of internal and external evaluations. • Develop an evaluations plan in consultation with relevant line departments. • Develop guidelines to assist departments in the design and implementation of M&E frameworks and advise on appropriate costs.	DPME
		• Develop a comprehensive monitoring and evaluation framework.	Relevant line departments
		• Publish all ex-ante assessments and ex-post evaluations of new or existing incentives on the DPME website	DPME
8	**PFMA Practice Note**	• Convene a workshop with relevant departments, National Treasury functions (including the Budget Office, Public Finance, Office of the Chief Procurement Officer and the Account General) and the Auditor General. • Develop and agree a practice note to the Public Finance Management Act setting out clear guidance as to the treatment of incentives. • Publish practice note.	National Treasury
9	**Register of Beneficiary Firms**	• Design and implement a single register of all government incentive beneficiary firms. • Maintain the register on an ongoing basis.	National Treasury or SARS.
10	**Review of Tax Incentives**	• Develop terms of reference for review (in line with Davis Tax Commission recommendations). • Procure service provider (if required). • Undertake review and present recommendations to IGICC. • Present final recommendations to Cabinet.	National Treasury and SARS
11	**Review of R&D Incentives**	• Develop terms of reference for review. • Procure service provider (if required).	DST

Step	Recommendation	Action	Responsibility
		• Undertake review and present recommendations to IGICC. • Present final recommendations to Cabinet.	
12	**SETA Standardisation & Cooperation Framework**	• Develop and agree a common budget and programme reporting framework for all SETAs. • Establish a mechanism through which the SETAs can share ideas and collaborate.	Department of Higher Education and Training

Annex 3: Country comparisons

Table 3: International comparison (C = Chile; G = Germany; T = Thailand)

	Country	Practice in comparator countries	Practice in South Africa
1.	T	The roles and responsibilities of each organisation within the incentive framework must be clearly defined; a central investment agency responsible for the administration of all incentives can help to coordinate investment activities for Government and make it easier for prospective investors.	Whereas the largest number of direct incentives are administered by the DTI, these incentives have historically been spread across different agencies and divisions; and outside of the DTI, numerous other departments and entities offer various other forms of business incentives. SARS is responsible for the administration of all indirect incentives, often in collaboration with other departments.
2a.	C	Incentives are tailor-made to be attractive to selected sectors or business activities that the country wishes to promote. Effective targeting requires a selection process based on industry value chain assessments and only those missing links that are critical in the overall industry development receive additional incentive support	South African incentives are targeted at a number of a priority sectors, most notably in manufacturing, agriculture and mining; however, it is not clear whether this prioritisation has been based on a critical assessment of the value chain within these sector and any others.
2b.	C	Incentives extend beyond traditional sectors to promote venture capital and the development of local capital fund management industries. This includes allowing banks to invest up to the equivalent of one percent of their asset base in venture capital through investment fund administrators and subsidiaries.	South African incentives are generally focused on traditional sectors and make use of traditional funding mechanisms. On the other hand, the Government has recently begun to explore new and more innovative funding mechanisms, including through the Jobs Fund.
3a.	G, T	Incentives are offered uniformly to both qualified domestic and foreign investors.	South Africa does not discriminate between domestic and international businesses in the allocation of incentives.
3b.	G, T	More generous incentives are offered to projects that are most likely to generate positive externalities by bringing new technology to the country or investing in less-developed provinces.	Whereas most South African incentives encourage R&D expenditure and some are focused on specific locations (SEZs); most funding is targeted at specific sectors or industries rather than specific economic outcomes.
3c.	G	The amount of support provided is based on the size of the enterprise, with SMEs qualifying for more generous incentives.	Most South African incentives do make special provisions for SMMEs, and numerous incentives have been specifically developed to support small business.
3d.	C, T	The incentive system explicitly seeks to attract or support companies that have global or regional ambitions or linkages (such as regional headquarters), by allowing for some activities outside of the country	The South African incentives system does not explicitly seek to encourage the establishment of international or regional head-quarters in the country.

	Country	Practice in comparator countries	Practice in South Africa
		to qualify for benefits (e.g. R&D); by making it easier for firms to undertake international financial transactions; and by eliminating limits on the hiring of foreign professionals (or providing 1-year resident visas for foreign entrepreneurs).	
4a.	C	M&E is institutionalized and managed to inform and provide feedback to decision-making processes. A mechanism is in place for following up on recommendations.	The Department of Planning, Monitoring and Evaluation facilitates M&E for priority programmes across Government; but there is no institutionalised process in place to evaluate all business incentives and ensure that recommendations are acted upon.
4b.	C	Independent research, and in particular, the use of randomised control studies, is used to assess the effectiveness and impact of government programmes.	Whereas there is some evidence of independent research to assess the impact of specific incentives, most evaluation studies are not rigorous and are usually commissioned after the fact.
5a.	C	The establishment of a National Innovation Council for Competitiveness, a public-private partnership that acts as permanent adviser to the President on matters of science, innovation, education and the knowledge economy.	South Africa has established The National Advisory Council on Innovation (NACI) to advise the Minister of Science and Technology and the Cabinet on the role and contribution of science, mathematics, innovation and technology, including indigenous technologies, in promoting and achieving national objectives.
5b.	T	National plans explicitly target improvements in external and international measures of perception, such as the Transparency International Corruption Index; the Institute for Economics and Peace (IEP) Peace Index and independent competitiveness rankings.	Whereas many Government departments or divisions make use of international indices for strategic purposes, no evidence could be found that the South African Government explicitly targets and tracks its performance against international perceptions’ indices of the business or governance environment in its economic policies and plans.

Annex 4: Case study results

Table 4: The design of incentives

	Specific problem / constraints clearly identified			Aligned with national policy framework			Backed by substantive research		
Case study	Theory of change (or equivalent) clearly articulated	Specific market, institutional or policy failure clearly articulated	Incentive targeted at beneficiary group, not at a specific problem	Target group and specified change reflected in national policy frameworks	Target group reflected in national policy frameworks	No mention of target group in national policy frameworks	Evidence of substantive research (pilot, CBA, SEIA etc.)	Evidence of some research to inform incentive design	No evidence of prior research to inform incentive design
Capital incentives									
1									
2									
3									
4									
New and small business									
5									
6									
7									
Transformation									
8									
9									
10									
Research and development									
11									
12									
13									
Marketing									
14									
15									
16									
Skills and employment									
17									
18									
19									
20									

Table 5: The implementation of incentives

	Transparent guidelines and well-articulated criteria			Efficient systems and processes			Sufficient support, promotion and enforcement capacity		
Case study	Guidelines are publicly available, and all criteria are well-defined and understood	Guidelines are publicly available; some uncertainty around specific criteria	Lack of information on programme guidelines and criteria	Application, approval and payment systems work well and on time	Systems are generally effective; but evidence of blockages and delays	Systems are immature, and processes seriously delayed	The programme is well-resourced by appropriate personnel	There is evidence of capacity constraints in some areas	Programme suffers from serious capacity constraints in critical areas
Capital incentives									
1									
2									
3									
4									
New and small business									
5									
6									
7									
Transformation									
8									
9									
10									
Research and development									
11									
12									
13									
Marketing									
14									
15									
16									
Skills and employment									
17									
18									
19									
20									

Table 6: The review of incentives

	Comprehensive M&E framework			**Detailed performance information**			**Rigorous evaluation process**		
Case study	M&E framework developed & costed during design; outcome indicators clearly defined	Some M&E processes in place prior to implementation; output indicators clearly defined	No indication that M&E processes and indicators defined up-front	Information on programme & beneficiary performance (outcomes) collected & reported annually	Information on programme performance (inputs and outputs) collected and reported annually	Insufficient data collected or reported to assess performance	Independent evaluation conducted, appropriate to programme size, and made public	Internal or 'inappropriate' evaluation conducted; or evaluation not made public	No evidence that a meaningful evaluation has been conducted
Capital incentives									
1									
2									
3									
4									
New and small business									
5									
6									
7									
Transformation									
8									
9									
10									
Research and development									
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Marketing									
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16									
Skills and employment									
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20									

planning, monitoring and evaluation

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