Hyper-Local

Reappraising Growth Within South Africa's Local Municipalities

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About the Author

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Summary

- **South Africa has an economic growth problem, which, if it is to be addressed, will require a targeted focus on the country's local municipalities which lie outside of the large urban metros.** There are 205 local municipalities across South Africa which are home to 67% of the country's population, 56% of its labour force, and 58% of its unemployed population. These local municipalities account for roughly a quarter of the country's GDP.

- **Local municipalities, however, are confronted by a host of *hard* and *soft* challenges which constrain their growth potential.** These include poor governance, financial mismanagement, and failing service delivery. All of these have a financial impact on businesses from small, medium, and micro enterprises (SMMEs) to large, publicly traded conglomerates. But even those municipalities which perform well across the above domains have difficulties, principally in the areas of human capital and leveraging their successful track record to catalyse economic growth.

- **Failure to address these issues will risk spurring a vicious cycle of low economic growth, but more worryingly, a hollowing-out of South Africa's local municipalities**. Individuals with aspirations and skills will migrate to municipalities where they believe they can secure an economic future. Those municipalities which are unable to address their underlying challenges will therefore remain destinations of weak economic activity and growth, characterised by high levels of unemployment. Larger and more functional (relatively speaking) municipalities will become flush with economic migrants, presenting them with both opportunities and threats. As we have seen elsewhere in the world, this creates fertile ground for populism.

- **Addressing the challenges confronting local municipalities requires a hyper-local approach.** This will involve a set of pro-growth actions tailored to each municipality. These will be anchored according to three pillars:
    - **Active Citizenry:** Civil society actors are a largely untapped resource within local municipalities and need to be further engaged by municipalities, with their expertise and resources leveraged.
    - **Empowered Municipalities:** The relationship between local and district municipalities can be counterproductive; areas where greater autonomy will benefit local municipalities need to be explored and actioned.
    - **Old versus New Economies:** Municipalities must adapt to changing economic landscapes and support nascent sectors as and when opportunities arise. Informal economies are a key example.

- **The Alfred Duma, Midvaal, and Newcastle municipalities are three examples of how the hyper-local model can be applied.** It is important to note that this model does not impose a singular set of recommendations on each municipality. Rather, it seeks to understand the unique dynamics of each municipality and propose growth-oriented actions based on these.

Contents

Introduction

South Africa has an economic growth problem. Since 1994 the nation's GDP has grown at an average rate of 2.4% per annum compared with the 3.8% average for sub-Saharan Africa, while individual output has grown at an average of 1.1% year-on-year in real terms. The average South African's economic output today is the lowest it has been since 2006, with the exception being 2020 when the COVID-19 pandemic ravaged much of the global economy. South Africa's unemployment levels have been increasing steadily since the Global Financial Crisis, with 31.9% of the country's labour force today unable to secure gainful employment, a reality felt most acutely by the youth (those 15-34 years of age) at 44.6%.[1]

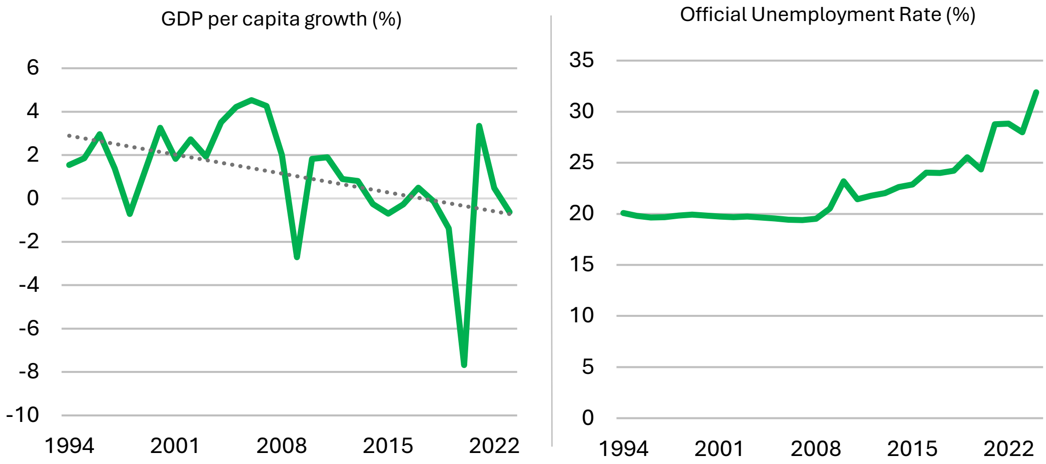

Exhibit 1: South Africa has been stuck in a low growth, high unemployment rut.

Source: World Bank; Statistics South Africa

There has been no shortage of policy interventions aimed at driving economic growth across the country. A major obstacle, however, has been the pace at which these policies have been introduced and then subsequently replaced, leaving little opportunity for the national government to "stick with and implement the policies it came up with."[2] This policy blitz began with the Reconstruction and Development Plan (RDP) in 1994, followed by the Growth, Employment and Redistribution (GEAR) strategy in 1996, the Accelerated and Shared Growth Initiative for South Africa (ASGISA) in 2006, and ending with the National Development Plan (NDP) in 2012. All have sought to reduce poverty and stimulate job creation. It is fitting that South Africa has been described as policy-rich but implementation-poor,[3] a phenomenon which has seen the country unable to lift itself out of a low growth, high unemployment rut.

Perhaps the solution to enabling economic growth lies at a local level, away from the bureaucracy associated with national-level policymaking and the complexities surrounding its implementation. It is at this level, after all, where economic activity fundamentally originates. Many associate the country's economy with the large metropolitan municipalities (metros)—and they certainly are integral—but one cannot overlook the role played by their local counterparts. South Africa's 205 local municipalities are home to much of the country's population – 67% – and roughly half of its labour force.[4] They house many of the country's three million small, medium, and micro enterprises (SMME),[5] commercial and industrial property for conglomerates listed on the Johannesburg Stock Exchange (JSE), together with those of large multinationals. Indeed, local municipalities contribute as much as a quarter of South Africa's GDP.[6]

And yet many of these local municipalities are underperforming due to a series of governance, financial, and service delivery shortcomings, all of which stymie growth from within while deterring external stakeholders from investing. The Auditor-General of South Africa (AGSA) reported that only 18 local municipalities received a clean audit for the 2022/23 financial year, highlighting the scale of these challenges. But even in those municipalities where there is promise – where good governance, sound financial management, and service delivery are evident – difficulties exist. Here, the challenges are less likely to be related to *hard* infrastructure (i.e. roads and sewerage) than they are *soft* infrastructure (i.e. human capital).

Regardless of the challenges confronting South Africa's local municipalities, one thing is evident: they can be remedied. Failure to do so will risk spurring a vicious cycle of low economic growth, but more worryingly, a hollowing-out of South Africa's local municipalities as those individuals with aspirations and skills migrate to metros where they believe they can secure an economic future. Those local municipalities which are unable to address their underlying issues will therefore remain destinations of weak economic activity characterised by high levels of unemployment – local municipalities already account for 58% of South Africa's unemployed.[7] Larger and more functional (relatively speaking) metros will become flush with economic migrants, presenting them with both opportunities and threats. As we have seen elsewhere in the world, this creates fertile ground for populism.

If one therefore accepts that local municipalities have an important role to play in South Africa's economy, together with the belief that many are underperforming owing to a series of impediments which can be remedied, then one should acknowledge that there is both an opportunity and an obligation to spearhead reform. In his 2025 State of the Nation Address (SONA), President Cyril Ramaphosa acknowledged the need for addressing the many challenges confronting local municipalities, adding that the government would "undertake extensive consultation to develop an updated White Paper on Local Government to outline a modern and fit-for-purpose local government system."[8] Minister Velenkosini Hlabisa from the Department of Co-operative Governance and Traditional Affairs (CoGTA) has since gazetted the Discussion Document on the Review of the 1998 White Paper on Local Government. The aim is to "incite fresh thinking, honest reflection, and decisive action toward building a fit-for-purpose local government system."[9]

But rather than repeat the process of creating grandiose strategies or policies, or assuming a one-size-fits-all set of actions can be applied unilaterally across the country's 205 local municipalities, a hyper-local approach is required. This will entail actively engaging a municipality's civil society and making them an ally in the municipality's efforts; empowering competent local municipalities to operate with greater independence from their district counterparts; and understanding nascent economic sectors within a municipality with the aim of supporting them. This approach must be tailored to each municipality's unique economic, social, and political realities.

Drivers and Enablers of Growth: Think Local

When we think of growth within the context of South Africa's economy, we often associate this with the national – or macro – landscape. As a result, our focus turns to the role of the national government, its responsibilities, and performance: "What is *government* going to do to improve GDP growth?" and "How does *government* intend to stimulate job creation?" are questions we are likely to ask. For many, our view on growth is therefore *top-down*. This is certainly justified given the role and responsibility that national government has in shaping the country's economic trajectory, whether it be amending immigration policy to allow the domestic market to access expertise from abroad more easily or in its management of state-owned enterprises (SOE).

But growth is fundamentally a *bottom-up* phenomenon given that it relies on the output and performance of individual businesses, whether they be sole proprietors or large corporates. It is the corner café, the software developer and the steel fabricator who are adding value to South Africa's economy through the goods they produce, the services they offer, and the jobs they create. For businesses such as these to be productive and create value, however, they need to operate within a conducive environment which enables them to succeed. National government has a role in shaping that environment, as shown above, but the fundamental enabler is the local municipality.

Local Municipalities: Untapped Economic Potential

Across South Africa there exist 257 municipalities: eight metropolitan; 44 district; and 205 local, all of which form part of the country's local tier of government (there exist three tiers in South Africa: national, provincial, and local). Despite the attention given to the country's metropolitan hubs such as the City of Johannesburg and eThekwini, the majority of South Africans – 67% – reside across these 205 local municipalities. Perhaps more important is the fact that local municipalities are home to a little over half of the country's labour force and contribute a quarter of its GDP.

Local municipalities are responsible for providing these citizens and businesses with the most basic of services: road infrastructure, water and sanitation, waste removal, and electricity. These services are, without question, the foundational elements necessary for citizens and businesses to prosper. It is no surprise that the country's Constitution outlines the provision of services such as these as a key responsibility of local municipalities. And so, when local municipalities perform poorly, then citizens and businesses suffer; when they perform well, they create an enabling environment for success.

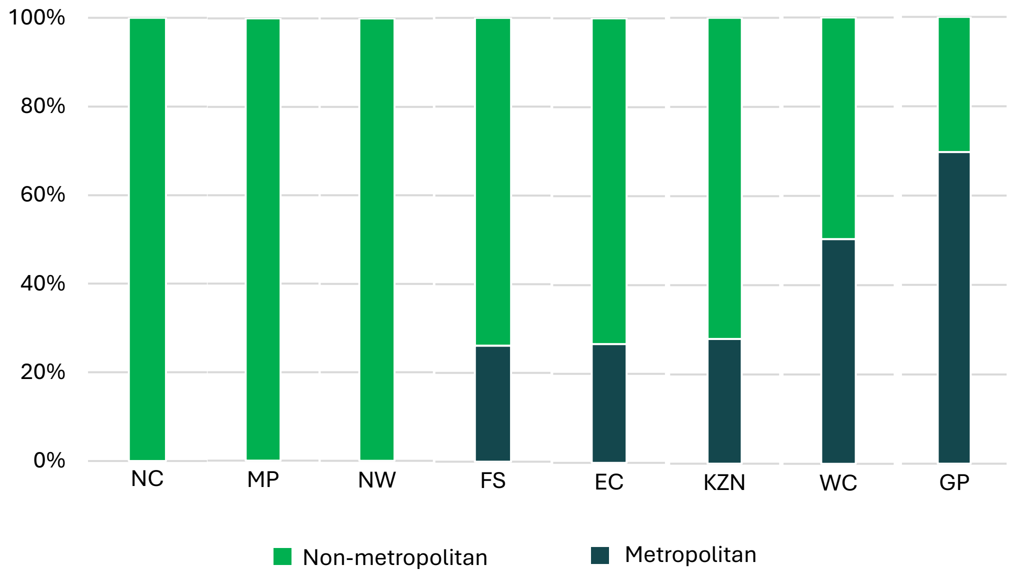

Exhibit 2: Roughly 67% of South Africans reside outside the country's 8 metros

Share of provincial populations living in metropolitan versus non-metropolitan municipalities (%).
Note: Limpopo, Mpumalanga, Northern Cape, and North West have no metropolitan municipalities. Their populations are therefore categorised as living in non-metropolitan areas.
Source: Author's calculations using data from Statistics South Africa.

Beyond basic infrastructure, a key responsibility for local municipalities is to promote social and economic development as outlined in Chapter 7 of the Constitution. Since 2008 this has been packaged under the banner of Local Economic Development (LED). In theory, LED is a collaborative relationship between public, business, and non-governmental sectors whereby each stakeholder contributes towards addressing the social, economic and material needs of a community. Within the context of South Africa, this has traditionally involved both pro-poor and pro-market approaches. Examples of initiatives include investing in hard and soft infrastructure, promoting inward investment, and developing business clusters.

The *2018-2028 LED Framework* published by CoGTA has emphasised the need to "launch a radical battle against poverty, inequality and unemployment," as one of its strategic objectives. A 'radical battle' is certainly necessary: South Africa's unemployment crisis has worsened over the years, reaching an official rate 31.9% by the end of 2024 with the youth (those 15-34 years of age) most adversely affected at 44.6%. Most of the country's unemployed can be found outside the eight metropolitan areas except for the cities of Johannesburg and Cape Town, where the number of unemployed outweighs those in employment. This is understandable given the economic opportunities – both perceived and real – which exist within these two major hubs; data from Statistics South Africa identifies the search for economic opportunities as a key driver of internal migration with the country, with a significant number of people moving from rural to urban areas.[10]

South Africa's local municipalities are where economic growth begins and where growth-oriented strategies should be aimed. This is especially true when considering the various localised challenges confronting them.

The Deteriorating Performance of Local Municipalities

Every year, the AGSA releases a report assessing the performance of the country's metropolitan, district, and local municipalities, measuring the quality of auditees' financial statements, performance reports, and the status of their compliance with key legislation. In her 2022/23 report, the AGSA announced that "existing infrastructure has not kept pace with the country's growing demands, and there is a backlog in both constructing new infrastructure and maintaining the existing infrastructure needed to provide basic services," while also adding, "businesses are closing because of persistent challenges with water, electricity and road infrastructure, further hampering economic development."[11]

Only 18 of the 166 audited local municipalities were awarded a clean audit in the most recent report. Clean audits do not guarantee a flawless municipality; they simply indicate that a municipality's financial statements and performance report give a transparent and credible account of its finances and its performance against set targets.[12] That being said, they are a strong indicator of which local municipalities demonstrate accountability, integrity, and diligence, all of which increase the likelihood of improved municipal performance.

Additionally, one can assess local municipal performance based on the number of service delivery protests which occur across the country each year. These grew from 27 in 2008 to 193 in 2022, suggesting a continued deterioration in local municipal performance.[13] Data from local government elections also provides valuable insights. The ANC has seen its electoral support fall from 59% in 2000 to 46% in 2021, resulting in the party losing outright control in 40 local municipalities (councils).[14] It has since conceded that "people are disappointed in the ANC with the slow progress in fixing local government, in ensuring quality and consistent basic services, in tackling corruption and greed."[15] Polling in the first quarter of 2025 indicates that 69% of registered South African voters believe their municipality is going in the wrong direction, with infrastructure and corruption the top two problems.[16]

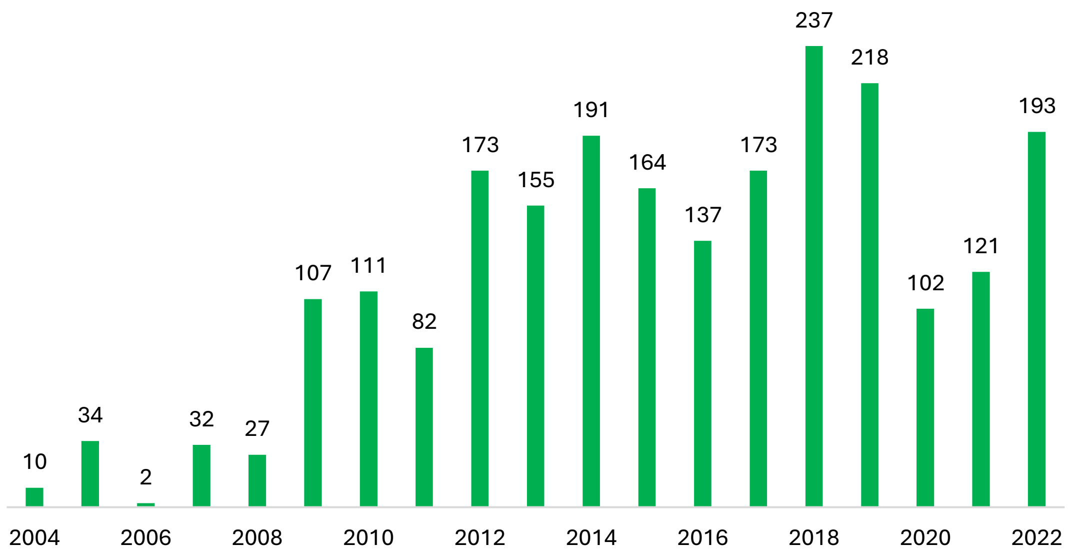

Exhibit 3: Service delivery protests in South Africa have grown rapidly since 2004

Recorded service delivery protests

Source: Municipal IQ

What are the causes of this deterioration across South Africa's local municipal ecosystem? The South African Local Government Association (SALGA) has attributed this reality to poor political leadership and weak administrative management; inefficient systems and processes to enable service delivery; ineffective utilisation of financial resources and an inability to collect revenue, and insufficient fiscus allocation; and finally, degenerating infrastructure and non-existent or poor services provided to local communities.[17] In essence, local municipalities can be assessed according to governance and financial management, both of which have a direct impact on service delivery.

For an illustration of how poor governance and financial mismanagement affect service delivery, one need only look at the troubled relationship between local municipalities and Eskom. Annual results for the year ended March 2024 reveal South Africa's municipalities (including metros) to be Eskom's largest debtors as they owed the power utility R74.4 billion.[18] However, local municipalities have proven the largest culprits: of the 10 largest debtors, local municipalities accounted for eight, with their combined debts in November 2024 totalling R45.3 billion. One such municipality is the Emfuleni Local Municipality in Gauteng, which, as of August 2024, owed Eskom R8.1 billion. The reasons for the municipality's inability to pay the power utility for bulk electricity have been attributed to years of unchecked corruption, mismanagement, and a "blatant disregard for the communities they swore to uplift."[19]

	Debt, ZAR billion	
Municipality	**March 2023**	**November 2024**
Emalahleni Local Municipality	7.4	9.9
Maluti-A-Phofung Local Municipality	7.2	8.6
Emfuleni Local Municipality	5.9	8.1
City of Tshwane Metro	1.1	6.7
Matjhabeng Local Municipality	5.3	6.3
City of Johannesburg Metro	-	5.3
Govan Mbeki Local Municipality	3.7	5.2
Lekwa Local Municipality	1.9	2.6
City of Matlosana Local Municipality	1.4	2.3
Ngwathe Local Municipality	1.7	2.3

Exhibit 4: Eight of the ten largest municipal debtors to Eskom are local municipalities

Billions of rands

Source: Eskom

Indeed, in 2023 the municipality had collected R4.5 billion from electricity consumers but failed to pay Eskom as it used the money to fund other municipal operations.[20] Eskom has been cutting the supply of electricity to the Emfuleni municipality as far back as 2018 when the municipality's arrears stood at R900 million. A court ruling in 2023 enabled businesses and households to bypass the municipality and settle their debt with Eskom directly. Efforts have been made to rectify Eskom's debt crisis: in February 2023 the National Treasury introduced the Eskom Municipal Debt Relief Programme which aims to resolve the power utility's debt obligations and the associated finance costs. However, as of September 2024, Eskom conceded that the initiative was "yielding minimal results with most of the municipalities failing to comply with the conditions."[21]

And yet irregular, fruitless and wasteful expenditure at the hands of local municipalities remains high, raising concerns around financial sustainability and reinforcing the argument that it is not a lack of funding which constrains local municipal growth, but rather, it is weak levels of governance and financial mismanagement which are to blame. Since the 2016 financial year, the AGSA has found irregular, fruitless and wasteful expenditure at the hands of local municipalities to be R17 billion greater than that of metros.[22] In her 2021/22 report, the AGSA summarised the financial situation in clear and simple terms: "Local government is losing billions of rand each year because of poor decisions, neglect or inefficiencies."[23]

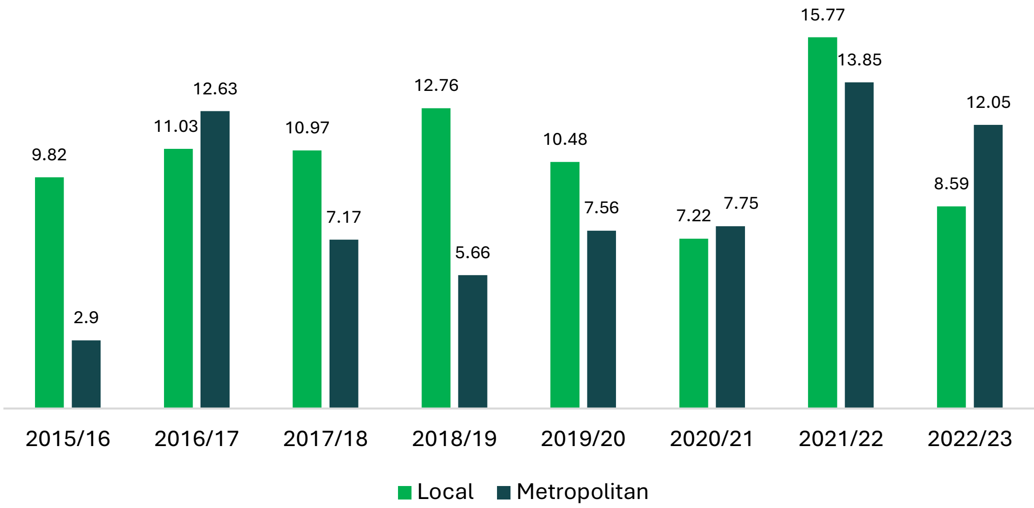

Exhibit 5: Irregular, fruitless and wasteful expenditure at the hands of local municipalities has historically outweighed that of metros

Billions of rands

Source: Auditor-General South Africa; Author's calculations

The Cost of Doing Business at a Local Level

The performance of local municipalities has a direct impact on the ability of businesses to operate. As was previously posited: businesses are drivers of growth, and local municipalities are enablers.

Previous research conducted by the Brenthurst Foundation has quantified the impact of local municipal performance on SMMEs. Of the SMMEs surveyed, 60% reported losing revenue due to the performance of their local municipality, with 77% being in the country's worst-performing municipalities (those with disclaimed audits) and 33% located in top-performing municipalities (those with clean audits). Additionally, 93% of SMMEs surveyed in municipalities with disclaimed audits reported having to invest in systems such as boreholes and generators to offset municipal shortcomings, compared with 45% of those operating in municipalities with clean audits.[24] But it is not only SMMEs who suffer at the hands of poor-performing municipalities.

In 2021, Clover moved its cheese production facility from the Ditsobotla Local Municipality in the North West province to the eThekwini Municipality in KwaZulu-Natal following a litany of service delivery failures.[25] The Ditsobotla Local Municipality has consistently received a disclaimed audit since the 2017/18 financial year, with its most recent audit being categorised as outstanding due to financial statements not having been submitted on time.

Growthpoint Properties – the country's largest commercial property owner with a market capitalisation of R42 billion on the JSE – has also criticised the poor levels of service delivery in many of the municipalities where its 300 portfolio properties are located. A central concern for them has been the increase in municipal rates despite scant improvements in service delivery.[26]

Astral Foods, South Africa's largest poultry producer boasting a market capitalisation of R7.78 billion on the JSE, has linked deteriorating business performance with municipal dysfunction. They specifically identified the local municipalities of Lekwa (Mpumalanga) and Matjhabeng (Free State) as being problematic as both have failed to provide reliable and affordable electricity and water services to the company, forcing it to invest in backup generators and boreholes. In 2021 Astral obtained a High Court order requiring government to intervene in the Lekwa Local Municipality and, together with the Treasury, prepare a financial recovery plan. The Lekwa Local Municipality was given a qualified audit in 2022/23, an improvement on its previous disclaimed audit.

The Imperative for Change

South Africa's local municipalities present tremendous opportunities when considering where and how growth can originate for the country. The challenges confronting these municipalities, however, are manifold. Cutting this Gordian Knot will be a priority – not only for local stakeholders – but for the national government if it is to achieve real growth for South Africa. Failure to do so will result in a greater set of economic, social, and political challenges for the nation.

A deteriorating economic landscape at a local level can have a cascading effect on a society. A poor-performing municipality discourages significant brown and greenfield investment, that is to say, investment from existing businesses within a local municipality as well as from external sources. The pool of economic opportunities will as a result remain largely stagnant, creating a sticky labour market in which those with jobs will be reluctant to pursue new opportunities—in part because there are few available—but also because there is no real economic upside in doing so. Without new jobs being created and with existing roles not being vacated, new and younger jobseekers will be excluded from the local job market, contributing to the country's unemployment rate. These individuals have three options. They either remain unemployed, waiting for an economic opportunity to present itself; they can attempt to create an economic opportunity for themselves – be it formal or informal – which will be difficult given the existing malaise within the local economy; or they can move to a different area in pursuit of employment.

Those individuals who opt for the third option will migrate to those municipalities with a strong pull factor, typically larger and more economically active metros. This influx subsequently places strain on existing infrastructure which, depending on the locale, might already be struggling to meet the demands of the existing population, thereby presenting a social threat. The cities of Johannesburg and Cape Town illustrate this phenomenon. The former is the centre of the South African economy, accounting for 16% of the country's GDP and has historically been the primary destination for many in search of economic prosperity. From 2016 to 2021, Gauteng recorded a net migratory flow of 865 000, with an estimated net migratory flow for the period 2021 to 2026 being 745 000.[27] While many will move to other parts of the province, one can assume that the largest share will be drawn towards the City of Johannesburg owing to its economic significance. This influx places tremendous strain on already feeble infrastructure across the metro with some estimates suggesting the city requires R221 billion in upgrades across key road, power, and water infrastructure.[28] The City of Cape Town is another example as it has seen its reputation as a desirable destination grow over the years owing to its governance track record, high standards of service delivery, and economic prospects. With the aim to invest R43 billion in infrastructure over the next three years,[29] the city is cognisant of the need to not only deliver for existing residents and businesses but to also ensure that it can accommodate a growing population which is estimated to reach five million by the end of 2025.[30]

All of this presents a political threat. As the economic landscape across South Africa's local municipalities continues to deteriorate, coupled with mounting social pressures stemming from migration, opportunities are created for populist rhetoric and actors to ascend. A populist leader will derive their democratic credibility from the policies they pursue, policies which are likely to be geared toward meeting the demands of the masses.[31] Whether these policies are feasible or even practical is not relevant; what matters is whether they can captivate the electorate and convince them that they will deliver what the people want and need. Across South Africa's local municipalities the angle of attack for populists is simple: exploit peoples' grievances, a reality which will become easier absent any course correction to address the underlying issues confronting local municipalities.

The status quo therefore cannot sustain itself. South Africa will be unable to drive real economic growth if it is solely reliant on a handful of municipalities for economic delivery. The pie needs to be grown with more local municipalities becoming economically active and attractive. Growth at the macro level begins at the micro level and if this is to be achieved then a new approach towards local municipalities is necessary.

Reappraising Growth at the Local Level

Many of South Africa's local municipalities are not working, making economic growth a distant reality. If South Africa is to reverse its poor economic growth trajectory and avoid the many dangers which loom ahead, then attention must be given to the local landscape. What can be done differently and how can this be achieved? There are three themes to consider when assessing how local municipalities can function better: active citizenry, empowered municipalities, and old versus new economies.

Active Citizenry

As South Africa's local municipalities have declined many citizens and organisations have stepped forward to try and arrest further deterioration. This concept of 'active citizenry' takes various forms: from Residents' Associations to Urban Improvement Precincts (UIP) and business chambers, all of which champion the interests of their communities and members. The interventions can span from the basic upkeep of municipal attractions and landmarks to replacing municipal shortcomings in the form of refuse removal and road repairs. All of these have an impact – big and small – on local municipalities.

Southbroom, situated on KwaZulu-Natal's southern coast and part of the Ray Nkonyeni Local Municipality, is an example where active citizenry has taken shape and delivered for citizens and businesses alike. The Southbroom Property Owners Association (SPOA) serves as a UIP and is a Section 21 not-for-profit entity, and exists to provide supplemental municipal services within the community. SPOA members pay R387 each month, generating an annual budget of R3,300,000 for the organisation which is subsequently distributed among various local entities including the Southbroom Community Policing Forum and Southbroom Ratepayers Association (SRA).

A central element of the SPOA's success is the fact that the community is small and tight-knit, comprising some 1,100 properties but only about 600 permanent residents, thereby making it easier for civil society to coordinate and manage its affairs. Another successful aspect has been the approach towards community relations: "You need to adopt a collaborative approach and not be confrontational" says Eric Annegarn, Chairman of the SPOA, when describing how the organisation engages with local municipal officials. Part of this approach has seen the community employ a 'village manager' whose job is to proactively build rapport with municipal workers and manage the daily affairs of the SRA.

Similar initiatives can be seen elsewhere in South Africa. In Springs, part of the City of Ekurhuleni, businesses and the wider community have collaborated on a series of upliftment projects aimed at restoring the town's memorials and attractions. The centrepiece of this community-led action has been the R600,000 restoration of the town's war memorial. The recipe for success: "Less talk, more work and, crucially, no politics."[32] The eThekwini Ratepayers Protest Movement (ERPM) is another example of active citizenry. Residents and businesses of eThekwini have been plagued by perennial water challenges over recent years; it is estimated that 40% of water is lost due to damaged municipal infrastructure while a further 10% is not correctly billed for.[33] As one activist representing a different organisation has argued, "eThekwini has been hijacked by mafias and gangster politicians. Taxpayers' money is in the hands of individuals who prioritise self-enrichment over public service."[34] The ERPM has since brought a series of demands to the municipality, calling for greater oversight of water-related budget allocations.

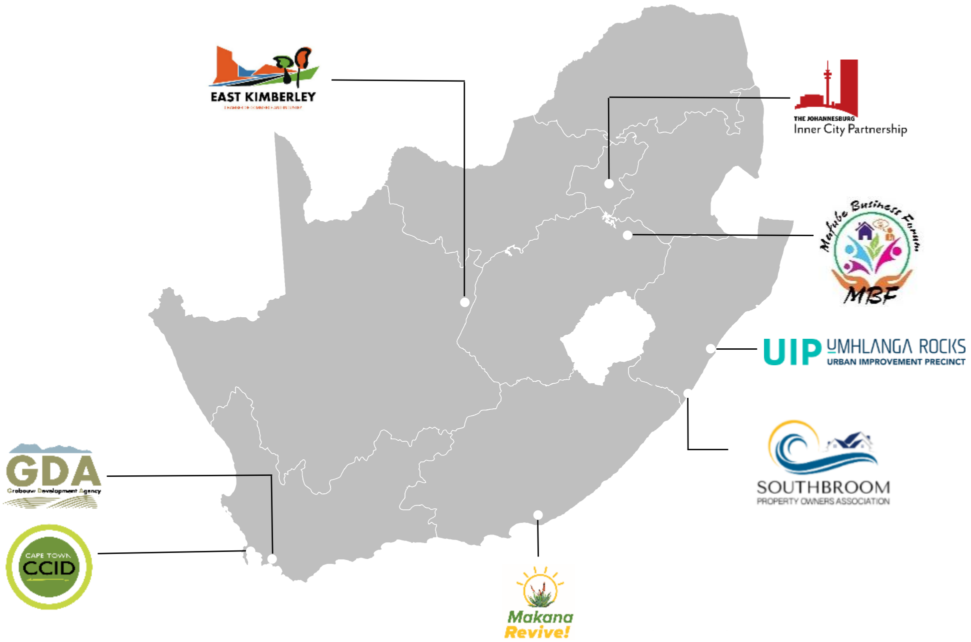

Exhibit 6: Map of citizen- and business-led initiatives across South Africa

Note: This map is for illustrative purposes. It does not represent all citizen- and business-led initiatives in South Africa.
Source: Author's construction

While these interventions can prove beneficial for local municipalities – and in some instances vital in preventing complete collapse – they are not without their limitations. For all the goodwill shown by these civic initiatives, they lack the authority and resources of their local municipal counterparts, thereby curtailing their ability to address many core issues confronting a local municipality. This is particularly true when considering major infrastructure obstacles which require multimillion-rand interventions. The other challenge is replicating this model in areas where financial resources are scarce. While members of urban-based Section 21 entities can afford to pay their maintenance fees each month in addition to their other monthly expenses, consider that there are municipalities where significant numbers of residents do not pay rates and who often struggle to make ends meet – how can they be expected to pay an additional sum each month towards financing a local UIP?

Active citizenry should exist to supplement the work of local municipalities, not replace it. Citizens and businesses are shareholders in their municipalities; they have a vested interest in its wellbeing and performance and should therefore have a voice in how things are managed and operated. This cannot be limited to local government elections every five years, however. Local municipalities can benefit greatly from the insights, expertise, and resources offered by an active citizenry: informal trader representatives can advise municipal officials on where targeted interventions would catalyse economic opportunities for traders; a UIP can resurface a key stretch of road, thereby saving the municipality funds which can be channelled elsewhere; and business chambers can provide the municipality with insights on where improvements can be made to benefit the local business community while also supporting efforts to attract new investment. While harmonious relationships like this already exist between local municipalities and their communities, many continue to operate in silos which diminishes the potential impact they can have. When reappraising local municipal growth, local municipalities must work more closely with their communities in identifying and addressing impediments to growth.

Empowered Municipalities

The number of total state employees – including military, police and state-owned enterprises along with national, provincial and local government – has doubled since the end of apartheid to just under 1.8 million people.[35] Local government employees (representing metropolitan, district, and local municipalities together with municipal entities) accounted for 20% of this figure – a headcount of 342,048 – as of the 2021/22 financial year. Criticism has been levied against the size of South Africa's civil service, not least because of the inverse correlation between its size and economic growth. At a local level, the same can be said for governance, financial management, and service delivery.

When focusing on local government and the torrid performance shown over recent years (as illustrated by the AGSA), it raises the question as to whether "less is more" – can local municipalities achieve greater levels of success by reducing bureaucracy? Consider the role of district municipalities. In many ways there is significant overlap between local and district municipalities: the former manage day-to-day services for residents and are grouped underneath the umbrella of district municipalities which coordinate broader regional development and support local municipalities where needed. In theory, the local-district relationship is designed to be symbiotic; the aim is to facilitate and ensure equal access to resources and services across all communities, particularly in rural areas where infrastructure is less developed and human capital is scarce. The rationale, therefore, is that pooling together resources will have a wider and more beneficial impact for residents and businesses alike.

However, district municipalities face similar challenges as seen with their local counterparts. Consider the Mopani District Municipality in Limpopo: a six-megalitre Giyani waterworks project, which was intended to supplement the provision of water to 55 villages in Giyani, was still not being used in 2022/23 despite being initiated in 2009. The municipality stands to lose approximately R61 million due to the possible demolition of infrastructure caused by significant structural defects. This contributed to the district's water challenges and hurt its communities. Another example is the Umzinyathi District Municipality in KwaZulu-Natal, which was unable to improve from an adverse audit opinion because it continued to contend with insufficient reconciliations, inadequate reviews of financial information and poor record management. [36] Of the 44 district municipalities audited by the AGSA in her 2022/23 report, 11 (25%) received clean audits.[37]

There is doubt as to whether district municipalities are effectively fulfilling their mandate and providing local municipalities with the necessary support required for them to undertake their functions optimally. Indeed, in some instances, district municipalities are a bureaucratic burden for local municipalities as they impede the timeous delivery of services and lead to the unnecessary use of funds which could otherwise be directed towards infrastructure upgrades, for example. In 2017, a debate was tabled in the National Assembly, questioning whether South Africa should abolish provincial and district municipalities as tiers of local government. It was argued that district municipalities had become "havens of corruption and inefficiency. They have an unnecessary drain on the fiscus, a bottleneck to service delivery and development."[38]

However, dismantling all district municipalities would prove to be a mammoth undertaking, one which would require a deft hand and careful consideration for the political ramifications. A more prudent approach would be to wean local municipalities off from their district surrogates by focusing on empowering those local municipalities which have shown a willingness to operate independently and who, importantly, have the requisite resources and capabilities to do so. This can prove effective in terms of service delivery. For example, a local municipality can operate its own Water Service Authority (WSA) rather than having to rely on the district municipality to provide bulk water services. In so doing, it can expedite the delivery of water to residents and businesses and respond to issues (i.e. maintenance) on time.

Old Versus New Economies

Many of South Africa's cities and towns – today the seats of local municipalities – were built around key infrastructure and industries which in turn sustained a wider economic ecosystem. De Aar, located in the Emthanjeni Local Municipality of the Northern Cape, was established as a key logistics node within the expanding Cape Colony and connected the diamond fields of Kimberley with Cape Town. Makhanda (formerly Grahamstown) in the Eastern Cape's Makana Local Municipality has built its economy around the education sector as it is home to Rhodes University and several of the country's leading schools including St Andrew's College and the Diocesan School for Girls. As a result, many local municipalities in South Africa typify a hub-and-spoke model whereby a town or city (De Aar and Makhanda) acts as the centre from which economic activity originates, attracting labour from the surrounding communities (spokes) while providing direct and indirect economic opportunities downstream (figuratively and in some instances literally).

The challenge for many of South Africa's local municipalities is that these hubs are witnessing changes to their historical economic foundations – in some instances gradually, and in others, rapidly. For some this is man-made; the result of a poorly managed and maintained municipality. For others, it is because of structural issues at a national or global level. Regardless of the rate at which the decline is happening or the rationale behind it, the impact is the same: municipalities whose economies were reliant on a particular sector are experiencing an identity crisis and need to consider what their economic futures can and should resemble.

Consider the Makana local municipality and the impact that a poor-performing municipality has had on its economic hub of Makhanda. The city's education ecosystem alone contributes as much as R1.3 billion to the municipality's economy, which stood at R8.5 billion in 2021.[39] The sector also has a significant spillover effect on others within the city's economy including hospitality and tourism. "Parents would make the journey down [to Makhanda] from Gauteng with their kids ahead of the new academic year," notes one such hotelier, adding that "they would make a holiday out of it; stay three or four days, maybe the week. These are wealthy individuals. Now they're here for a day or two and then back on the road."[40] This is because of the overall decline of Makhanda, a city which has seen its reputation for culture and learning pivot to one characterised by severe water shortages and a municipality which has largely collapsed. The Makana municipality has consistently received a disclaimed audit since the 2019 financial year, racking up a wasteful expenditure bill of R23 million and an irregular expenditure bill of R220 million since then.[41] Needless to say, the AGSA has labelled the municipality as having a "dysfunctional culture that tolerates transgressions and non-performance."[42] This culture has not gone unnoticed as President Cyril Ramaphosa has since authorised an investigation by the Special Investigating Unit (SIU) into allegations of serious maladministration in the affairs of the Makana Local Municipality involving its tender process.[43]

But just as municipalities will need to contend with the headwinds confronting their economies, they will also need to look at the opportunities on the horizon, one of which lies with informal economies – the ecosystem in which for-profit entities are neither taxed by the South African Revenue Service (SARS) nor registered with the Companies and Intellectual Property Commission (CIPC).

Much has been said and written about South Africa's informal economic landscape, and yet exact figures detailing its size remain elusive given the amorphous characteristics it naturally exemplifies. According to Statistics South Africa, the number of people working in this space amounted to 3.3 million in 2024 – roughly a third of the country's workforce. The actual figure is likely to be higher, not least because official studies limit their scope to the working-age population (15-64 years of age); the reality for the informal community is that many who operate within it fall outside this range and are therefore not counted. By some estimates, South Africa's informal sector contributes R600 billion to GDP,[44] with trade and retail being a major sub-sector given the low barriers to entry. Rand Merchant Bank has labelled South Africa's informal economy as a "booming market, rich in opportunity."[45] Meanwhile, Pepkor, the discount and value consumer retail holding company, has noted how the informal space offers a "compelling source of growth and expansion for South Africa."[46]

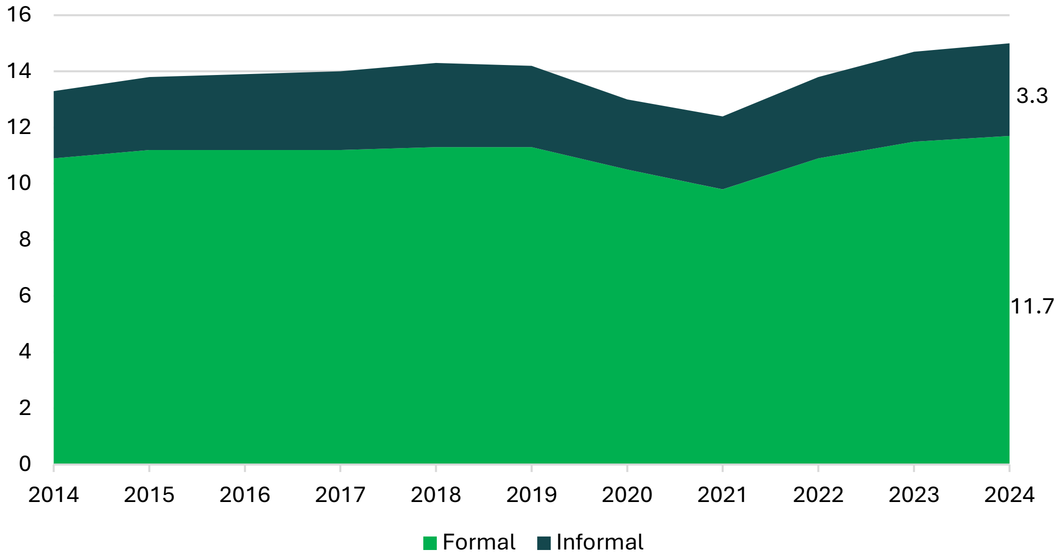

Exhibit 7: Official government figures have South Africa's informal sector headcount at 3.3 million in 2024.

Employment by level of formality, millions of individuals

Note: Data for each year represents Q4

Source: Statistics South Africa

Despite its size and potential, South Africa's informal economy and those operating within it suffer from a myriad challenges, all of which curtail their growth and economic output. For many operating in this space, they simply do not know how to formalise their business and integrate within the wider economy. Many have fallen victim to rogue 'consultants' who offer to help businesses register for a small fee but only to vanish once the payment has been made. This experience has left many informal businesses with their hands burned and disenfranchised with the process of formalising.[47] For others, the process of formalising their business requires too much effort and yields little reward; there is neither a carrot nor a stick. It should therefore come as little surprise that nine out of 10 informal business owners operate without any license, with almost a third choosing to conduct their business from their place of residence.[48]

All of this is not to say that the industries of yesteryear need to be replaced with new, more 'modern' ones. Rather, the key message for local municipalities is one of versatility: they will need to exploit new economic opportunities which present themselves while continuing to support existing industries so long as they provide an economic upside for their municipality.

Hyper-Local in Action

This paper has outlined the prevailing narrative surrounding South Africa's local municipalities, highlighting the many struggles they face and the effects these have on residents, businesses, and ultimately economic growth.

Rethinking economic growth at a local level is necessary and as such, several themes have been introduced as a means of helping identify new pathways for achieving this end. This is an important first step. The danger, however, is that we limit ourselves to a macro-level view of growth by identifying a one-size-fits-all model for addressing key challenges and bottlenecks; what is important is to apply this approach to individual municipalities. It is only by taking stock of the nuances surrounding a municipality that an appropriate growth strategy can be developed.

Three case studies have been selected to illustrate this approach, with each presenting different challenges and ultimately, a different set of ideas for spurring economic growth.

Alfred Duma: The Need to Retain and Regain Business Confidence

Adjacent to the N3 national route which connects Durban with Johannesburg, lies uMnambithi, the seat of the Alfred Duma Local Municipality. The city enjoys a rich history, as is evidenced by the numerous changes to its name: its first recorded name was the Republic of Klip River which was bestowed by Boer settlers, then followed by the name Windsor in 1850 after Britain's successful annexation of the territory, only to become Ladysmith later that same year. This name would last until 2024 when it once again changed, this time becoming uMnambithi which is Zulu for 'the place of the river' and is a reference to the Klip River on whose banks the town was built.

Alfred Duma itself was formed in 2016 following the amalgamation of Emnambithi / Ladysmith Local Municipality and Indaka Local Municipality. The municipality is home to 415,000 residents. Other towns in the municipality include Colenso and Van Reenen, while Ezakheni is a growing town to the east of uMnambithi. A unique characteristic of Alfred Duma is that 70% of the municipality's landmass is rural, with several wards administered by traditional authorities.

Despite vast swathes of Alfred Duma being rural and nearly 64% of all land being used for commercial agriculture, uMnambithi serves as the municipality's economic hub with its main economic contributor being community services owing to the presence of several governmental offices in the town including the Departments of Home Affairs and Labour. But the main economic driver in terms of *real* value-add is manufacturing, accounting for 19.5% of the municipality's economic output. Other sectors include transport (16.9%), trade (13.3%) and finance (11.3%).[49]

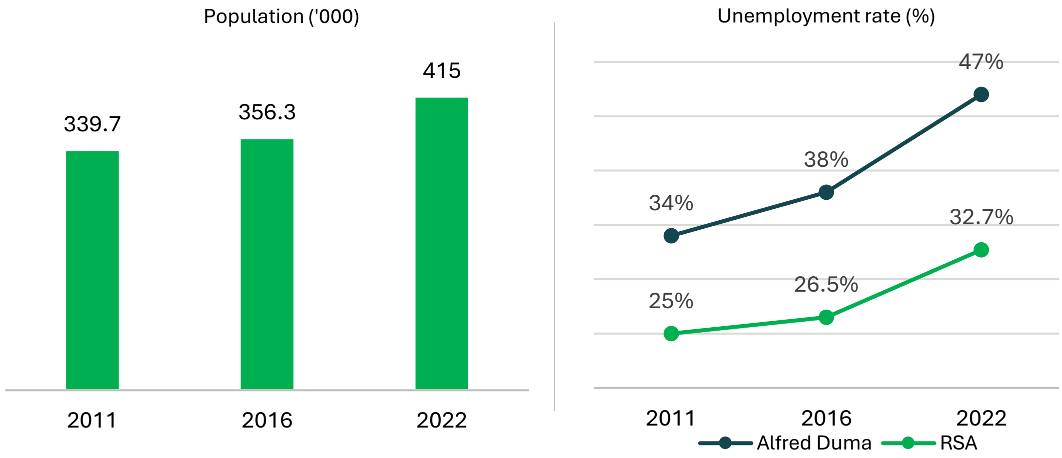

Exhibit 8: Alfred Duma has witnessed steady growth in both its population and rate of unemployment

Note: Alfred Duma was formed in August 2016. Data for 2011 is sourced from Emnambithi/Ladysmith Local Municipality publications. Alfred Duma's 2022 unemployment figure is calculated by applying the growth in the national rate of unemployment from 2016-2022 to the municipality.
Source: Alfred Duma Local Municipality; Statistics South Africa; Author's calculations

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The town of uMnambithi has developed a reputation as being one of South Africa's key textile and garment hubs with previous estimates suggesting that 40% of all manufacturing in the town was linked to the sub-sector.[50] Among the key textile businesses operating in the area today is Durban Overall which was founded in 1991 and produces personal protective equipment and workwear, employing 1,500 staff at its production facilities in the Danskraal Industrial Area, a mere five kilometres from the uMnambithi CBD. A few meters from Durban Overall is Northern Textile Mills (Nortex), the largest producer of terrycloth towels in South Africa which was founded in 1990 and whose head office is in Botswana. The Mauritius-based Pro Textile is the latest and certainly largest textile company to establish itself in uMnambithi following its 2024 decision to invest nearly half a billion Rand into its facilities within the Ezakheni Industrial Estate.

Textiles aside, the town is also home to major manufacturers in the form of Defy and Sumitomo Rubber South Africa (SRSA). Defy was founded in Durban in 1905 but acquired by Turkish multinational household appliances manufacturer Arçelik in 2011 at an enterprise value totalling R2.25 billion.[51] The Defy facility in uMnambithi produces the company's range of refrigerators and freezers and as recently as 2021 underwent an expansion following a R170 million investment which saw a new warehouse constructed in Danskraal.[52] Defy's facilities in uMnambithi directly employ 950 staff. A similar trend followed in 2013 when Japanese-headquartered Sumitomo Rubber Industries purchased the Dunlop brand and marketing rights for Africa, thus taking ownership of the Dunlop facilities in uMnambithi which had originally been built in 1973. The new SRSA company would later invest R970 million as part of a truck and bus radial tyre factory at its uMnambithi facility, followed by a R1.7 billion investment into its existing passenger car radial production facility in 2023.[53] The company currently employs 1,100 people at its uMnambithi facilities and is the largest producer of tyres in Africa with a key market share in Southern Africa, producing 3.1 million units across all of its production lines in the most recent financial year. Tourism has also been an historic driver for the Alfred Duma economy due to its proximity to the UNESCO World Heritage Maloti-Drakensberg Park and several key battlefields including Spion Kop, earning it a reputation for ‘Bush, Berg, and Battlefield’ activities.

Alfred Duma is not without its challenges, however. Despite an abundance of water in the form of the Klip River, access and reliability remain major challenges for residents and businesses alike. Many attribute this to bureaucratic barriers as exemplified by the separation of powers at the local and district levels; the uThukela District Municipality serves as the WSA for Alfred Duma, meaning that it is responsible for the provision and associated maintenance of water and sanitation services while Alfred Duma is solely responsible for stormwater management. This local-district relationship has created a dysfunctional dynamic within Alfred Duma, particularly around maintenance: when a pipe bursts or a new installation is required, it is uThukela who are responsible but oftentimes slow to respond. When they do act, they will only repair the water infrastructure, and it is Alfred Duma who must repair the overhead infrastructure (i.e. road). In instances where uThukela have failed to address critical issues such as a burst pipe, the local municipality will be forced to intervene at a cost which has not been budgeted for.

The poor levels of maintenance at the hands of uThukela led then Minister of Water and Sanitation Senzo Mchunu to invoke Section 63 of the Water Services Act in April 2024, commencing the process whereby his Department would assume control of the uThukela WSA.[54] At the time of writing uThukela District still maintains control over the operations and maintenance of water and sanitation infrastructure. Poor water and sanitation have an impact on the livelihoods of ordinary citizens, especially those in areas where households cannot afford to install backup systems to offset municipal shortcomings. What affects households also impacts business performance, with one business owner explaining how he witnesses higher levels of absenteeism among his staff from the wider Ezakheni area whenever there are water shortages or when the taps run completely dry. Another business owner outlined how his business had installed a three million litre backup system to sustain his production facilities for up to three days if municipal infrastructure collapsed.

Then there are the roads. According to municipal documents, 45% of the municipality’s roads are classified as ‘Good’; 39% are ‘Poor’; 12% are ‘Fair’; and 4% are in ‘Very Bad’ state. Additionally, sidewalks are either in poor condition or are non-existent.[55] Perhaps one of the key issues confronting the municipality’s road network, similar to the shared responsibilities affecting water, is the overlapping set of stakeholders and responsibilities. The N11 is a 773-kilometre national route which begins at the South Africa-Botswana border in Limpopo and ends west of uMnambithi where it meets the R616. This route is managed by the South African National Roads Agency (SANRAL) and passes through the centre of uMnambithi. Then there is the R103, the primary route which connects Alfred Duma with the Inkosi Langalibalele Local Municipality on its southern border. The R103 is managed by the Department of Transport and is the main artery which links the town of Colenso with uMnambithi before it meets the N11. All other roads are managed by the Alfred Duma Local Municipality. Needless to say, maintenance and accountability are difficult to police with this dynamic.

Another example of the challenges associated with external stakeholders is the Ithala Development Finance Corporation, which is owned by the provincial government, and its 640-hectare Ezakheni Industrial Estate which is located 18 kilometres from uMnambithi’s CBD. As with many industrial estates, Ithala’s role as a landlord involves the provision of services including facilities management (security and maintenance) together with basic service delivery including the provision of water and electricity, all of which are funded using the levies paid by tenants. However, when visiting the estate, it is evident that these funds are not being used effectively as can be seen by the pockmarked roads and unkept verges. With an occupancy rate of less than 50%, many of the empty stands have become eyesores; maintenance is seemingly only provided by herds of goats which offer a cost-effective but sporadic landscaping service. One site in particular stands out: Derlon Spinning. The company boasted a textile factory within the Ezakheni estate until a fire destroyed it in 2020. Five years later the husk of the factory (coupled with a handful of goats) is all that remains.

Exhibit 9: The site of Derlon Spinning in the Ezakheni Industrial Estate remains derelict following a fire which destroyed its facilities in 2020.

Source: Author

Moving away from infrastructure, some have voiced their concerns that uMnambithi's once historic strategic advantages, namely its location, are becoming less relevant owing to changing market forces. One logistics operator who services FMCG clients in the northern KwaZulu-Natal region commented on how the growth in distribution centres among large retailers including Shoprite has changed the logistics landscape, with third-party carriers such as his losing market share since retailers are now insourcing the distribution of their goods. This business owner has made 40 retrenchments within the past year and admits that the longevity of his 80-year-old business is in doubt.

Finally, there is an element of complacency within the local municipality; the belief among officials is that large businesses have invested too much and therefore have no intention of leaving despite the challenges listed. This complacency concerns many within the Alfred

Duma business community. As one businessman cautioned when discussing the prospect of Defy or SRSA leaving uMnambithi: “It only takes one of the bean counters at head office to realise the costs and difficulties involved with operating a business here and to decide that they will consolidate their operations. This would either mean downsizing, or worse, shutting their facilities here.” And then there are the exogenous challenges. In today’s uncertain world where tariffs, geopolitics and inflation have a direct impact on a business’s bottom line, it may well be that a business has no choice but to downsize or depart from uMnambithi.

And yet many remain bullish about the municipality’s future, albeit with a hint of realism. You can—and should—only focus on what you control and for Alfred Duma this means prioritising its natural assets and channelling its energy and resources towards supporting its business community. The bountiful supply of water is an obvious asset that the Northern KZN Chamber of Business believes could be exploited more effectively. The diverse manufacturing community within the municipality is another great asset which is enhanced by the pedigree of brands present, allowing for a stronger and more productive manufacturing cluster to develop if given the right mixture of attention and resources. Others spoke about addressing the municipality’s unemployment challenges by establishing a vocational school which cooperates with the local manufacturing community to train a skilled and industry-ready crop of graduates. There is opportunity for Alfred Duma, with one businessman commenting: “It has a lot going for it – we just need to get a few things right.”

At the centre of any strategy for Alfred Duma will be retaining, and if necessary, regaining, the confidence of the wider business community. This is vital if it intends to attract further greenfield investment. A key first step would be for the municipality to have its own WSA independent of the uThukela District Municipality, thereby enabling them to address water issues directly and on time, particularly in those areas of the municipality where access has been historically poor. This would, however, require Alfred Duma to demonstrate the requisite skills and capacity (politically, physically and financially) to undertake such a responsibility. Gaining control of the iThala’s Ezakheni Industrial Estate would be another boon for the business community, provided that the municipal authorities can manage it effectively. Failing this, there would need to be adequate pressure placed on iThala to deliver on its mandate to provide adequate services to its tenants. The focus on service delivery can be buttressed with the support of uMnambithi’s civil society, especially the Northern KZN Chamber of Business. The Chamber, together with business owners, repeatedly expressed their willingness to “chip in” regarding infrastructure maintenance if they could see that the local municipality was equally as invested. The same sentiment was expressed by ordinary residents. One means of formalising this commitment would be for a UIP to be established. Additionally, the uMnambithi business community could be engaged in a proactive manner which offers them greater oversight of municipal activity and spending while simultaneously leveraging their support on key infrastructure matters.

This approach focuses on uMnambithi given its economic significance but can easily be expanded throughout the municipality. The key to achieving this is for municipal authorities in Alfred Duma to actively engage with the wider community through key interlocutors. What is more important will be for them to sustain this approach through quarterly meetings or more regular roundtables. Doing so will ensure greater accountability which in turn will increase the likelihood of delivery. By addressing the core issues affecting the municipality – namely infrastructure – Alfred Duma can strengthen the confidence of its existing business community and begin the process of marketing itself externally. Growing Alfred Duma begins with getting its own house in order.

Midvaal: Capitalising on Success

Gauteng is South Africa's economic engine, contributing 33% of the country's GDP in 2023 and is home to 15.1 million inhabitants. At the centre of the province sits Johannesburg. To its north lies Pretoria, the seat of the executive branch of government; in the east, the manufacturing and logistics hub of Ekurhuleni; and in the west the mining heartland of the West Rand. South of Johannesburg is the Sedibeng District Municipality, within which the Emfuleni, Midvaal, and Lesedi local municipalities are located. Midvaal is roughly the same size as the City of Johannesburg (1,723km^2) and stretches from the southern tip of Alberton to the Vaal Dam where it shares a border with both the Free State and Mpumalanga. Despite its geographic size, Midvaal's population is a mere 2% of Johannesburg's, together with an economy of R12.2 billion (by contrast, Gauteng's GDP for 2022 was an estimated R1.5 trillion).[56] But Midvaal has not built a reputation for its bustling streets nor its economic prowess; it has built a reputation for its good governance, financial stability, and commitment to service delivery.

Today, Midvaal is one of the country's most successful local municipalities. In the 2022/23 financial year it was awarded its tenth consecutive clean audit by the AGSA. It has been described as the country's "best-run municipality"[57] and a "beacon of hope"[58] owing to its governance, financial, and service delivery performance relative to other local municipalities in South Africa. The mayor, Peter Teixeira, attributes much of this success to a strong culture which "speaks to accountability, consequence management, one that has filtered down from the top to all the municipal officials of the municipality."[59] The municipality boasts a unique set of economic characteristics. Half of the municipality's landmass is categorised as agricultural, yet only 1.7% of its economy can be attributed to agricultural output.[60] Some 22.4% of the economy is linked to its primary economic pillar of manufacturing followed by government, and transport and storage, both of which contribute 18.1%. Indeed, Midvaal's value proposition makes it an ideal location for those operating within the manufacturing, storage, and transport sectors.

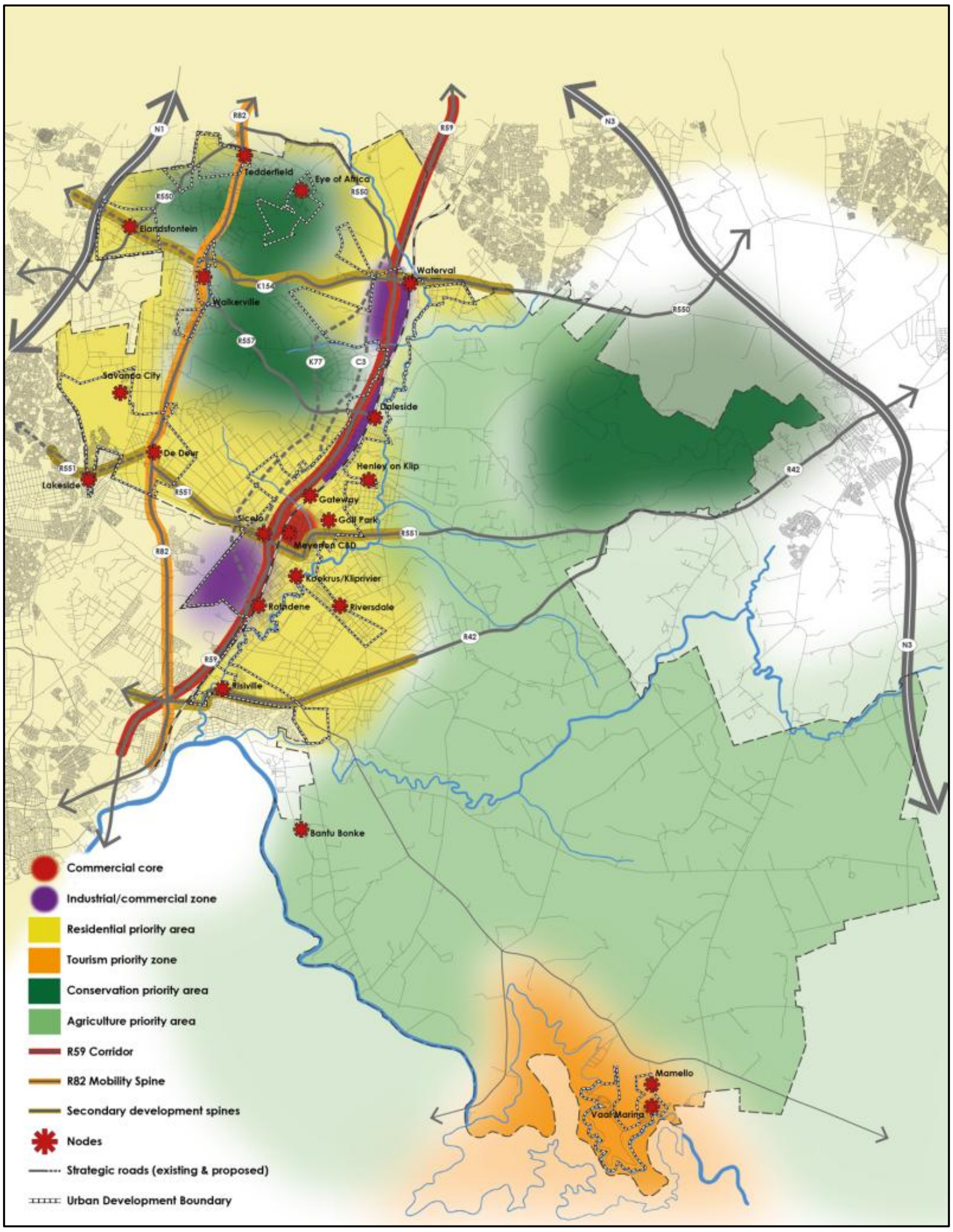

Exhibit 10: Despite its geographic size, Midvaal's existing economic activity is limited to a confined geography.

Source: Midvaal Local Municipality

Midvaal's capital, Meyerton, is 70 kilometres from Johannesburg, 66 kilometres from O. R. Tambo International Airport, and 34 kilometres from Vanderbijlpark. While the market for businesses may not be Midvaal itself, the municipality's proximity to a manufacturing hub in the form of Vanderbijlpark, one of Africa's largest markets in the form of Johannesburg, and the major logistics node of O. R. Tambo precinct, all provide key incentives for a manufacturing, storage, or logistics business. BSi Steel is one of the largest employers in Midvaal and whose decision to locate their Head Office within the municipality and adjacent to the R59 freeway was because of their proximity to both Vanderbijlpark and

Johannesburg, the former being a major source for their flat steel materials and the latter being a key market.

Developing the R59 corridor is a key vision for the municipality as it serves as the primary artery which connects Midvaal with the Emfuleni, Johannesburg, and Ekurhuleni municipalities. “By 2030 I believe the R59 will become the next Midrand,” says one business owner in the logistics sector, describing how the development along the stretch of the N1 freeway between Johannesburg and Pretoria will likely be replicated between Meyerton and surrounding municipalities. A significant development to the corridor came in 2010 when Heineken established a R3.5-billion brewery there, its first in South Africa. Since then, the Dutch brewer has undertaken expansionary developments including in 2022 when it installed a 6.5 MW solar plant adjacent to the brewery, costing R100 million.[61] Also located along the R59 is the Klipriver Business Park which houses companies ranging from the Chinese animal food producer New Hope to plastics packaging manufacturer Novopak. ETTC is a truck dealership located within the business park that services IVECO, FAW, and UD trucks. With a presence in both South Africa and Eswatini, the group saw tremendous value in locating a branch within the R59 corridor due to the volume of logistics vehicles utilising the freeway. The location also places them within proximity to many of the original equipment manufacturers (OEM) whose components they utilise. Developments have also taken place elsewhere in Midvaal. These include the R370-million, 20,000 m^2 Riverstone Mall in Meyerton, the first shopping mall in Midvaal, and the proposed investment of R1.8 billion by Khwelamet into the town’s Metalloys smelter upon completion of its purchase.[62]

On the surface Midvaal appears to be without any challenges: it has consistently demonstrated governance, financial and service delivery excellence, it has an unemployment rate of 18.8% (the lowest in Gauteng), and it has attracted a series of sizeable investments over the past decade. It is true that the municipality is the envy of many across South Africa, but it still faces several challenges in its role as an enabler of economic growth. Rather than struggling to provide basic services to residents and businesses, the municipality is struggling to advance its growth ambitions. From 2012 to 2021 the municipality recorded an average economic growth rate of 0.4%, placing it below those of district, provincial and national averages. As one senior official within the municipality noted, “Unfortunately, we’re not attracting investment as quickly as possible.” The frustration for business leaders and those who believe the municipality can—and should—grow is that Midvaal is not doing enough to translate its governance, financial, and service delivery performance into business and investment success.

Interviews with business leaders in Midvaal suggest a variety of reasons for this inability to “take Midvaal to the next level.” A property developer identified a shortage of skills within middle-management across certain municipal departments as a key bottleneck, highlighting their frustration with the time taken to review planning documents and the various committees through which approval must be secured. While this can be attributed to a shortage of skills, it also highlights another theme which was identified by business leaders, describing the municipality’s approach towards investment as being trepidatious owing to concerns of negatively affecting their clean audit track record with the AGSA. “The municipality is almost scared to make decisions for fear of compromising their governance track record,” said one businessman, arguing that while he did not believe corners should be cut in expediting investments, he believed the current 'box-ticking' approach was causing delays and ultimately friction with investors. Others questioned the sincerity of the municipality's growth agenda, arguing that it is primarily focused on its annual audit performance, something which does not concern investment. "Midvaal [municipality] is in its comfort zone and not capable nor willing to grow to the next level," said a businessman, adding that "it cannot simply focus on the next clean audit; the audit is a means to an end and not simply an end in and of itself."

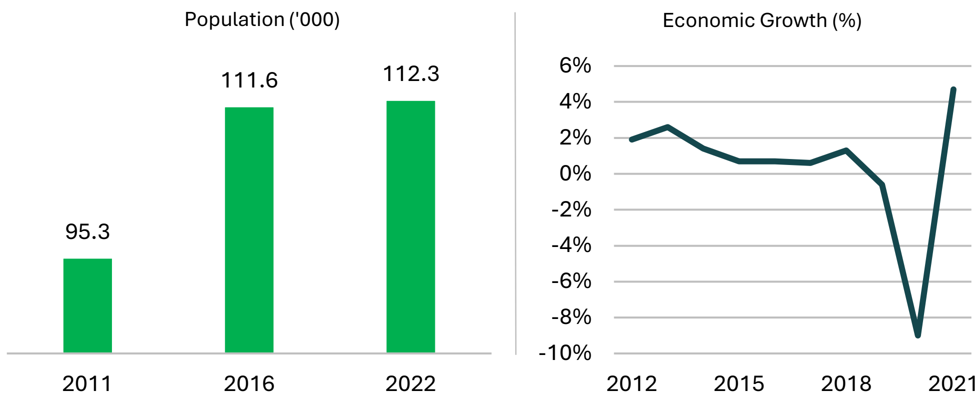

Exhibit 11: Population growth has plateaued, while economic growth has declined steadily save for a rebound after the COVID-19 pandemic.
Source: Midvaal Local Municipality

In some sense, Midvaal finds itself in an awkward position whereby it has created the platform and expectation for growth through its governance, financial, and service delivery success, but requires a different strategy for doing so. It is like a sports team which has grown accustomed to sitting comfortably atop its division but now finds it difficult to adapt to a new and more competitive one. A different approach and mentality is required if it is to grow and succeed.

But this also raises the question: what level of growth is both suitable and desirable for Midvaal, its people, and businesses? As one businessman conceded, Midvaal can be seen as suffering from a *platteland* (countryside) mentality. Not only is this illustrated by the large swathes of agricultural land, but also the lack of traffic lights in Meyerton: the town's traffic system relies almost entirely on four-way stops and traffic circles. The unveiling of Midvaal's first shopping mall this year and the fact that the municipality does not boast a private hospital are all indicative of the speed and comfort at which Midvaal operates, but perhaps also the challenges it faces in attracting investment when considering the various lifestyle, health, and educational deficiencies it suffers from. As part of its 2024/25 Integrated Development Plan (IDP), the Midvaal municipality identified slow economic growth as a threat within its municipal S.W.O.T analysis. It should come as little surprise that in his 2024 State of the Municipality Address, Mayor Teixera identified growth as a key priority, emphasising, inter alia, the municipality's need for "increased cooperation with the private sector, specifically heavy industry to facilitate and expedite growth and investment."[63] How, then, does the Midvaal Local Municipality tackle this objective?

One opportunity lies in understanding the challenges facing the country's manufacturing sector and how Midvaal can successfully exploit these. Several businesses identified neighbouring Emfuleni Local Municipality as a prime example where Midvaal can leverage its comparative advantages and entice businesses to relocate. This will not be easy. Given the capital expenditure businesses would have outlaid, one cannot expect that they will simply uplift their business and relocate to Midvaal en masse. Whether Midvaal becomes the next Midrand will depend on how active the municipality is towards engaging the outside world. Special consideration will need to be given to the current global landscape as it is now entering an "inverted"[64] phase where many of the norms and expectations around trade have been upended. A key ally in achieving all this will be the municipality's business community, principally represented through the Midvaal Chamber of Commerce. The chamber can assist the municipality by gauging the economic 'mood' of the Midvaal business community while also engaging businesses elsewhere in the country. It can also offer much-needed technical expertise to the municipality in the form of developing and executing an investment attraction strategy.

The municipality requires a more proactive approach towards attracting investment, one which puts Midvaal's value proposition in front of investors and which relies less on having the municipality's audit reputation do all the heavy lifting. There was a consistent narrative emanating from the municipality's business community: while the municipality has demonstrated service delivery excellence, it has struggled to demonstrate a business-first mentality in its approach towards sourcing and nurturing investment. If Midvaal is serious about growing its economy through inward investment then it will need a strategy for doing so, and entities such as the Midvaal Chamber of Commerce will prove useful allies in such an endeavour.

Newcastle: Adapting to a Changing Reality

The town of Newcastle in northern KwaZulu-Natal, much like the northern English city of Newcastle-upon-Tyne, boasts a history which is rooted in industry. The town was the fourth European settlement in the province after Durban, Weenen, and Pietermaritzburg. The introduction of rail infrastructure and the discovery of nearby coal deposits in the 1890s saw Newcastle catapulted to new heights as it grew to become an industrial hub within the region. Prospecting for iron ore and coking coal began in 1917, with the town's first blast furnace constructed in 1919, the precursor to Newcastle Iron & Steel Limited. Today, Newcastle owes much of its economy—and identity—to manufacturing. The sector accounts for 23%[65] of the municipality's economic output, with businesses ranging from food and beverage (THIRSTI), to cement, concrete, and aggregate production (Natal Portland Cement), to plastics (Formosa Plastics).

At the centre of Newcastle's manufacturing landscape is steel giant ArcelorMittal South Africa (AMSA). The town of Newcastle's original steelworks was established in 1974 as part of an effort by the state-owned South African Iron and Steel Industrial Corporation (ISCOR) to decentralise industry away from Gauteng and promote development within Natal. By the middle of the 1980s, the ISCOR steelworks employed some 7,000 workers and supported a wider manufacturing ecosystem within Newcastle, including manufacturers of hydraulic equipment for coal mines, stoves and cast iron commodities, drain and stove pipes, doorframes and other components for plant machinery.[66] In 1989, ISCOR was privatised and its shares were listed on the JSE until the start of the millennium which saw a flurry of changes to the company. In 2003 Iscor Limited (the new name for the privatised ISCOR) was acquired by LNM Holdings through a R1.8-billion partial share buy-out, a process which saw the company renamed Ispat Iscor Limited. This was followed in 2004 by the acquisition of LNM Holdings by Ispat Iscor's parent company, Ispat International, at which point the company again changed its name becoming Mittal Steel Company. Finally, in October 2006, AMSA was formed after Mittal Steel and Arcelor merged to become ArcelorMittal.[67] But change is once again happening, this time presenting the Newcastle Local Municipality with an identity and existential crisis as it must contend with a burgeoning population and unemployment crisis, and the anticipated closure of AMSA's long steel production at its Newcastle plant.

The municipality's population has grown 40% between 2011 and 2022, reaching 508,000 and making Newcastle the second most populous local municipality in KwaZulu-Natal after Msunduzi. The majority reside in the towns of Madadeni and Osizweni to the east of the Newcastle CBD, colloquially referred to as 'The East' given how the Ingagane River bisects these communities from the CBD to their west. The second largest community is Charlestown which is located to the north of the town of Newcastle on the provincial border with Mpumalanga. Despite this population boom, the Newcastle Local Municipality has not benefited from a demographic dividend; the municipality's unemployment rate has grown from 37% in 2011 to 45% in 2022.[68]

A growing population and rate of unemployment creates a double-whammy for the municipality: more people lead to increased strain on municipal infrastructure but with few in gainful employment and unable to pay rates, limited resources are available to pursue maintenance and upgrades. Indeed, only six of the municipality's 34 wards are keeping the municipality financially afloat while an estimated 84% of households in the 'East' do not pay their rates.[69] And while there are those indigent residents who cannot afford to pay rates, there are also those who lead middle-class lives but refuse to pay, leading one senior municipal official to concede that there exists a "culture of entitlement" among many of the municipality's residents."[70] "How can we be a caring municipality if we don't have the resources to do so?" asks a senior financial official within the municipality, before adding that "tough" decisions need to be made.[71]

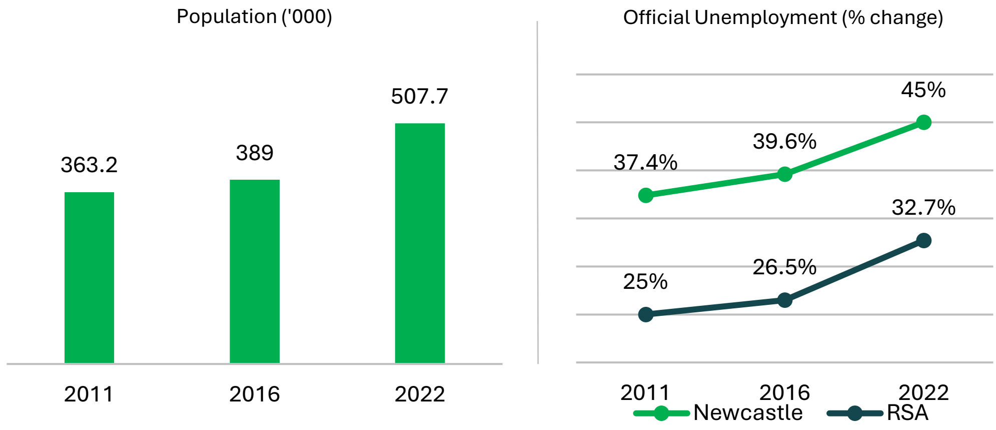

Exhibit 12: Population growth has been matched by a steady increase in the municipality's unemployment rate.

Note: Newcastle's 2016 unemployment figure is calculated by applying the growth in the national rate of unemployment from 2011-2016 to the municipality.
Source: Newcastle Local Municipality; Statistics South Africa; Author's calculations

The Newcastle Local Municipality has initiated several infrastructure projects, cognisant of the need for upgrades and new developments as the population grows. These include the R51 million upgrade to the Madadeni wastewater treatment plant, increasing its capacity from 12 megalitres per day to 36; a R23 million initiative to replace asbestos pipes with new AC piping; and a R11 million road upgrade in Osizweni which involves the construction of piped stormwater infrastructure. However, many of these have been financed using the Municipal Infrastructure Grant (MIG), a funding mechanism overseen by CoGTA which aims to reduce infrastructure backlogs in less affluent communities. External funding is vital for the municipality to pursue these infrastructure initiatives: according to the Newcastle Local Municipality's 2024/25 adjusted budget, R16 million for capital projects was internally funded versus R141 million in external grant funding.[72]

Compounding the demographic challenges and threadbare fiscus is the announcement by AMSA that it will be shutting its long steel facilities in both Vereeniging and Newcastle. Originally earmarked for the first quarter of 2025, AMSA has decided to defer the wind down to 31 August 2025 following a decision by the state-owned Industrial Development Corporation (IDC) to inject R1.6 billion into the steelmaker.[73] No fewer than 2,000 direct jobs would be lost at its Newcastle site were the company to follow through on this decision at the end of August. Meanwhile, others argue that the closure is inevitable and that the national government's "Soviet-style" support for the entity is all that is sustaining it.[74] The factors affecting the commercial viability of AMSA's long steel production are largely beyond the control of the Newcastle Local Municipality but will nonetheless have significant ramifications on it. Firstly, the rail infrastructure which helped catapult the city to industrial heights at the turn of the twentieth century has largely collapsed under Transnet's stewardship and has meant that AMSA relies on trucking its inputs and end products at a premium. As one senior executive within the company noted, Newcastle's location in northern KwaZulu-Natal is no longer viewed as a strategic asset.

Exhibit 13: Newcastle's identity – and economy – risks undergoing significant change should ArcelorMittal shut its long steel facilities.

Source: Author

Then there are the policy decisions which have come to negatively affect AMSA. In 2013, the International Trade Administration Commission (ITAC) introduced the Price Preferential System (PPS) which compelled the country's scrap metal generators and recyclers to sell their scrap metal at a discount to local consumers, thereby increasing the supply of scrap to the domestic market, driving down the price, and ultimately making it affordable for local foundries and mills to compete and grow within the space. Because 80% of AMSA's production costs are tied to raw materials which it imports, it struggles to compete with smaller domestic mills and foundries whose raw materials comprise domestic—largely inferior quality—scrap, leading AMSA CEO Kobus Verster to concede in February 2025 that "you need to address the structural issues or it's a short-term solution."[75]

This, however, is not the first time in which Newcastle has faced a crisis of this nature and been compelled to act. In the 1980s, global steel demand plummeted following the global recession, forcing Iscor to close two of its blast furnaces in Pretoria and bring a premature end to the second and third-phase developments at its Newcastle site. The provincial government, cognisant of the economic backlash this could have on the town, sought to arrest further economic decline by pivoting to Asia as a means of attracting new investment, and possibly, steering the town away from its heavy industrial identity. The result saw a surge in Asian entrepreneurs – mostly from China and Taiwan – establishing light manufacturing businesses in and around the town of Newcastle with a focus on clothing, textiles, and footwear. By 2015 it was estimated that the Newcastle municipality's textile and clothing sector employed 6,500 workers, roughly one-third of its industrial workforce.[76] While this sector has not been without controversy – disputes have become a regular occurrence for business, labour, and the government, leading the Department of Employment and Labour to label Newcastle's textile sector "notorious" and "problematic" owing to poor compliance with the country's labour laws among foreign-owned businesses[77] – it does provide a template for how the municipality can navigate this new reality, not only in terms of what it should do but also in terms of what it should avoid.

One reality of Newcastle's burgeoning population and lack of formal employment opportunities has been the growth in the municipality's informal economy. An estimated 17,000 are employed within space,[78] although the number is likely to be far greater due to the sector's amorphous nature and the strict parameters for measuring it. A clear illustration of this economy can be seen within the Newcastle CBD at the town's main taxi rank, some 450 meters from the municipal offices. It is the heart of the municipality's informal economy which accommodates between 400 to 500 vendors who, according to the Newcastle Hawkers Association, can each generate between R400 and R500 in gross turnover a day. This economy is centred exclusively on trade and services, ranging from the sale of *amagwinya* to household cleaning products to services including cell phone repairs and haircuts.

Newcastle's informal economy, however, is not spared its own set of challenges. On a visit to the CBD's taxi rank, one is confronted by a steady overflow of sewerage from a nearby manhole which shoppers must navigate when moving between stalls. While the odour is certainly a deterrent, the health risks are a major concern considering that many vendors sell produce and other food items. Traders also pointed to abandoned ablution facilities and the taxi rank's refuse area, the latter being a large skip stationed in the corner of the rank; the municipality had been delayed in collecting a backlog in refuse until vendors reported an outbreak of maggots. The Newcastle Chamber of Informal Traders conceded that the "informal economy [in Newcastle] has been neglected." Vendors also complained about the favoured treatment shown by municipal authorities towards foreign traders, citing corruption within the municipality itself. By-laws require traders to operate within designated areas, but foreign traders seem to act with impunity when hawking wherever they deem it to be most profitable. According to the Newcastle Hawkers Association, these traders pay bribes to officials within the municipality's Department of Planning and Human Settlements to secure their immunity.

The struggle between informal workers and a municipality is not unique to Newcastle; the former will often want concessions to be made, allowing them to operate where it is most profitable and convenient for them. In the case of traders, this will either be in dense thoroughfares where they can maximise their profits, or from their residential premises for the sake of convenience. Municipalities will have by-laws to enforce, prohibiting informal economic activities within certain areas. They may also have strict permitting which restricts traders to selling specific goods. There needs to be a middle ground, one built on understanding between both sets of stakeholders. As the leadership of the Newcastle Chamber of Informal Traders reiterated: "People don't mind rules and regulations so long as they stand to benefit." Achieving this shared understanding will require the municipality to listen to the concerns, grievances, and recommendations from representatives of the informal economy, as up until this point they have felt neglected. But equally, informal stakeholders will need to extend the same courtesy to their municipal counterparts as they discuss the challenges they face in accommodating the informal economy.

Consider the following excerpt from a 1996 report on Newcastle's steel industry, published by the Development Policy Research Unit based at the University of Cape Town:[79]

> *The findings of this study do not paint a very optimistic picture for Newcastle in terms of its continued viability as a thriving manufacturing town anchored by an integrated steelworks. The fact that the population has "exploded" beyond all forecasts while job opportunities have shrunk is perhaps the most powerful inhibitor for future economic activity.*

One would be remiss for thinking that this was published in 2025. While the current situation confronting the Newcastle municipality is not desirable, it should not be viewed as catastrophic; the town and wider municipality have adapted to change before and should learn from this experience. Regardless of whether AMSA shuts its long steel production in Newcastle or not, the municipality will need to contend with a rapidly growing population, rising unemployment, and a shrinking ratepayer base. Working to address the immediate infrastructure and service delivery challenges will be vital. So too will be devising a strategy to increase compliance with rates payments in those communities where it is lagging.

A key opportunity lies with the municipality's informal economy: understanding it, supporting it, and leveraging it as a means of stabilising what is a growing set of socio-economic threats. This does not mean that the municipality must concede to every request made by informal businesses and their owners, nor should it abandon the formal business community in favour of the informal. But it will need to understand the realities of this ecosystem and, rather than simply dismissing it – or worse – punishing it, explore ways of sustainably growing it. If done correctly, this approach can lead to greater rates of entrepreneurship, skills training, and business formalisation, all of which can help reduce unemployment and create a more sustainable municipality for businesses and residents alike.

Each case study—Alfred Duma, Midvaal, and Newcastle—highlights how a hyper-local approach can be utilised in addressing a local municipality's economic growth constraints. It is important to emphasise that this approach does not advocate for a single, one-size-fits-all solution; it seeks to understand the localised challenges and opportunities present within a local municipality, and using the resources, expertise, and goodwill from various internal stakeholders, construct a series of actionable measures which can promote economic growth. Alfred Duma has an active business community which has shown a strong interest in working with the local municipality to resolve service delivery issues, provided the latter is willing to collaborate. An opportunity also exists for the municipality to have its own WSA which can see it operate independently from the uThukela District Municipality, further improving its service delivery capabilities. Midvaal, while boasting the title of one of South Africa's best local municipalities, has had difficulty meeting its economic growth ambitions, partly because the municipality lacks the requisite skills in attracting investment. The Midvaal Chamber of Commerce can play a key role in supplementing this deficiency and helping the municipality successfully leverage its reputation. Finally, Newcastle can turn to its nascent informal economy as a means of supporting its growing population while simultaneously addressing its worsening unemployment crisis. This has the potential to create a new class of ratepayers who can support the municipality's anaemic fiscus. This can also be a successful pivot for the town in light of AMSA's proposed downsizing.

Conclusion: A Hyper-Local Approach Towards Economic Growth

South Africa has an economic growth problem. And while there has been no shortage of strategic and policy interventions from the national government aimed at remedying this issue, there has been little to show for it. Addressing the country's economic growth challenge requires greater focus on the local municipal level given that this is the coalface of South Africa's economy: local municipalities are home to 67% of the country's population; roughly half of its labour force; and contribute towards a quarter of the nation's GDP. While businesses within each local municipality are responsible for driving economic growth, it is the local municipality that is responsible for enabling them.

The challenge, however, has been the inability or unwillingness among local municipalities to create this enabling environment for business. One need only look to the Auditor-General of South Africa's 2022/23 report for an illustration of this reality: 18 of the 166 audited local municipalities were awarded clean audits. Poor governance, financial mismanagement, and service delivery deficiencies are commonplace among the country's local municipalities, all of which act as direct impediments to economic growth. Even in those municipalities with clean audits, businesses encounter challenges, although these are less likely to be related to *hard* infrastructure (i.e. roads and sewerage) than they are *soft* infrastructure (i.e. human capital).

Absent any course correction, South Africa risks a future underscored by low economic growth, and more worryingly, a hollowing-out of its local municipalities. This is because those with aspirations and skills will migrate to municipalities where they believe they can secure an economic future. Local municipalities which are unable to address their underlying issues will therefore remain destinations of meek economic activity and high levels of unemployment. This will create fertile ground for populist rhetoric and activity. The challenges confronting South Africa's local municipalities therefore present an economic, social, and political threat to the country at large.

But there remains opportunity (and hope) for change. In early 2025 President Cyril Ramaphosa acknowledged the need for addressing the many challenges confronting local municipalities, adding that the government would "undertake extensive consultation to develop an updated White Paper on Local Government to outline a modern and fit-for-purpose local government system." Since then, Minister Velenkosini Hlabisa from the Ministry of Co-Operative Governance and Traditional Affairs has gazetted the Discussion Document on the Review of the 1998 White Paper on Local Government, with the aim being to "incite fresh thinking, honest reflection, and decisive action toward building a fit-for-purpose local government system."

Kickstarting a fit-for-purpose local government system will be essential in stimulating economic growth across South Africa's local municipalities. Achieving this will require a hyper-local approach: actively engaging a municipality's civil society and making them an ally in the municipality's efforts; empowering competent local municipalities to operate with greater independence from their district counterparts; and understanding nascent economic sectors within a municipality with the aim of supporting them. This approach must be tailored to each municipality's unique economic, social, and political realities. Alfred Duma, Midvaal, and Newcastle are just three examples of how this hyper-local approach can be deployed across the country's 205 local municipalities.

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