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WORKING PAPER

ALIGNMENT OF LOCAL ECONOMIC DEVELOPMENT AND INDUSTRIAL POLICY

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CONTENTS

ABBREVIATIONS

CoGTA	Department of Cooperative Governance and Traditional Affairs
CSP	City Support Programme
DBSA	Development Bank of Southern Africa
DDM	District Development Model
DPME	Department of Performance Monitoring and Evaluation
dtic (the)	Department of Trade, Industry and Competition
GVA	Gross Value Added
IDC	Industrial Development Corporation
IDPs	Integrated Development Plans
IDZ	Industrial Development Zone
IPAP	Industrial Policy Action Plan
MinMec	Minister and Members of Executive Council
SALGA	South African Local Government Association
SEZ	Special Economic Zone
UMIC	Upper-Middle-Income Countries

EXECUTIVE SUMMARY[1]

Since the dawn of democracy, the government has been concerned with economic development and the need to address poverty and inequality. The establishment of democratically elected local governments after 1994 means that effective industrial policy initiatives have to synergise with municipal plans as well as taking their divergent realities into account. The process of collaboration is complicated by the unusually profound spatial inequalities that apartheid entrenched between as well as within municipalities. The democratic transition also increased demands on municipalities, which have to address backlogs in services for historically black communities; continue to maintain adequate infrastructure for established businesses while encouraging emerging enterprise; and in some cases manage extraordinarily rapid population growth, notably in the metros in Gauteng and Cape Town and in the platinum belt.

This paper analyses the linkages between industrial policy and local economic development planning in South Africa in terms of both economics and governance. To that end, the first section outlines the role of four groups of municipalities in the economy: the largest metros (Johannesburg, Tshwane and Ekurhuleni, Cape Town and eThekwini); the five secondary cities in Mpumalanga and the North West that depend on coal and platinum, which have seen an upsurge in the past 20 years; the smaller metros and other secondary cities, where the economic picture is more mixed; and smaller towns in commercial farming and historic labour-sending regions, many of which are struggling.

The second section asks how municipalities can do more to take forward industrial policy. Answering this starts with an understanding of the authority and capabilities of municipalities around economic development, on the one hand, and the nature of industrial policy on the other. The paper considers each in terms of Constitutional mandates and policy aims; the legal framework; and the systems and capacity for engaging with other spheres. In this context, it evaluates the District Development Model, initiated in 2019, which prioritises alignment of national and municipal economic strategies through joint planning at district level. It also reviews the spatial programmes of the Department of Trade, Industry and Competition (the dtic). These initiatives centre on support for special economic zones (SEZs) and, on a much smaller scale, for state-owned industrial parks established as decentralisation points under apartheid. In Section 3, case studies of Makhado, Mbombela and uMhlathuze provide a more textured understanding of the lived realities of local economic development planning.

Section 4 summarises core findings from the analysis, with some recommendations. It concludes that, in South Africa, industrial policy has to identify and support sustainable strategies to reduce the irrational spatial inequalities entrenched under apartheid. The solution, however, cannot be that every district industrialises equally. Industrialisation requires a combination of competitive economic hubs and more specialised secondary cities that account for the bulk of economic activity and hold most of the population. Most territory remains relatively sparsely populated, dependent on agriculture and tourism. For industrial policy, the spatial challenge is thus to define a more sustainable but still necessarily somewhat unequal national economic geography. That in turn requires a more nuanced and evidence-based understanding of the extremely divergent potential of different regions.

A strategy on spatial development to inform industrial policy is particularly important because of the powers of municipalities under the Constitution. South Africa's semi-federal system provides for elected local governments but limits their authority and capacity to develop and implement economic strategies. It requires the national government to lead on industrial policy, but effectively compels it to negotiate with municipalities providing key local inputs. The primary contribution of local authorities is to ensure quality, reliable, affordable infrastructure for established and emerging

[1] The authors wish to thank Professors Gay Seidman and Heinz Klug for their generous and helpful comments.

businesses and their workers, with efficient but effective regulatory systems to maintain social solidarity, health and safety. For the national industrial policy, a central challenge is to sustain a forward-looking transformation in the face of continuous pressure to maintain sunk investments in both physical and social capital from the apartheid era. That tension leads to tough negotiations including around how much the national government should invest in regions that have limited economic potential. A stronger national perspective on the geographic requirements of industrialisation should help generate better evidence to enable more reasoned debates.

National industrial policy initiatives must also take into account the vastly different resources and capacity of different local governments. Each city's budget mainly reflects its capacity to raise its own revenues. Budgets per resident are still far lower in the historic labour-sending regions and smaller towns generally than in major metros. This reality can lead to a vicious cycle, where municipalities in the most impoverished areas also have the least capacity to carry out their core functions around governance and infrastructure. The extent to which the national government should compensate less industrialised regions, however, has to take into account their actual and potential contribution to national development as well as actual and likely changes in the distribution of the population.

Finally, for the past 25 years South Africa has had only limited platforms and mostly ad-hoc systems for engagement on economic strategies, and especially industrial policy, across the spheres of government. There is no regulatory framework to ensure consistent, regular, in-depth engagements with local governments or even with the metros. The dtic's spatial programmes generally link primarily to provincial governments, not to municipalities. Most national departments responsible for economic policy have only very limited capacity in place to engage with municipal governments.

There is no easy way to disentangle this complex web of economic, political and governance imperatives. Five reforms would, however, help improve the local context for industrial policy.

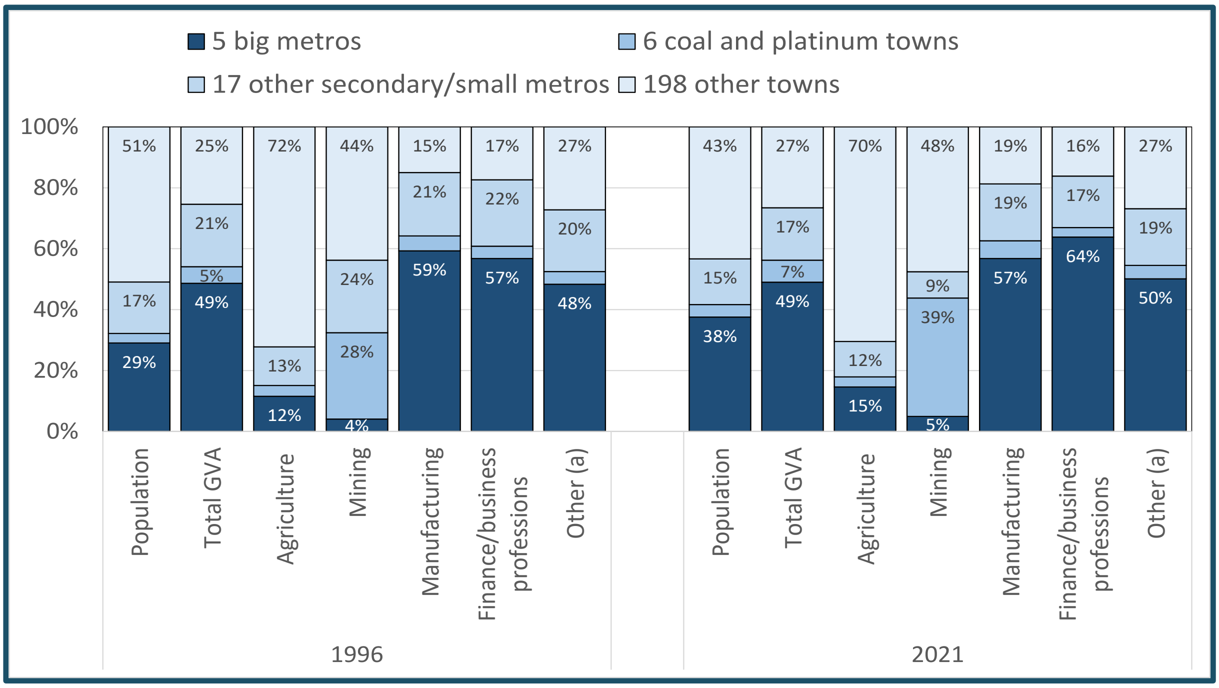
1. As a start, every industrial policy initiative, including national industry strategies like the Master Plans, should lay out the requirements for the affected local governments. The Master Plans should specify the demands on local governments, the costs to them as well as the benefits and risks, and proposals for negotiating them with the relevant authorities.
2. The dtic should develop performance indicators for the quality and reliability of municipal infrastructure for businesses as well as industrial and commercial sites, especially around electricity, freight transport, water, refuse removal, commuter transport and broadband. The dtic could then encourage businesses to report where they face critical infrastructure shortfalls, and allocate resources from its spatial transformation programme to help address them.
3. The dtic should institutionalise and capacitate more platforms for consistent and substantive engagement across the spheres, especially industrial policy, with due regard for stakeholders' capacity. Engagements should seek a degree of genuine buy-in to national industrial policy from provincial and local authorities, as the basis for effective alignment around key projects.
4. In the longer run, industrial policy should identify the main competitive economic centres, the role of secondary cities, and the realistic potential for historically rural districts to fit into national and international value chains as well as meeting local needs. That is, it should have a more concrete vision of the spatial end-state for industrialisation in South Africa. It should provide the evidence needed to respond effectively to short-sighted or unrealistic lobbying by provincial and local authorities, as well as shaping priorities for the SEZ and industrial parks programmes. The spatial vision would help the dtic to identify priorities for engagement with key local governments – mostly metros and some secondary cities – rather than trying to engage with all 52 district plans.
5. Municipal support for industrial policy should centre on fulfilling their main mandates under the Constitution. That in turn points to a focus on ensuring adequate, affordable infrastructure for industrial and commercial sites as well as for households, plus local licensing and zoning for health, safety and sustainable communities.

1 THE CONTEXT: SOUTH AFRICA'S DIVIDED ECONOMIC GEOGRAPHY

Since the dawn of democracy, the government has been concerned with economic development and the need to address poverty and inequality. Industrial policy has been central to efforts to promote a more diverse and competitive economy that promotes inclusion through much stronger small business and job creation. The establishment of democratically elected local governments after 1994 means that effective industrial policy initiatives have to synergise with municipal plans as well as taking their divergent realities into account. The Municipal Systems Act No. 32 of 2000 requires local governments to develop Integrated Development Plans (IDPs) that, among others, include initiatives to develop the local economy with a focus on job creation.

The process of collaboration is complicated by the unusually profound spatial inequalities that apartheid entrenched between as well as within municipalities. The historic labour-sending regions overall – the former so-called "homelands" – are particularly impoverished. They vary significantly in their potential role in industrialisation, however, ranging from remote and arid communities in the north west to dense peri-urban settlements around KwaZulu-Natal and Gauteng. In addition, after 1994, the economies of many secondary cities experienced significant disruption. Causes included the decline in gold mining and steel production, paired with the rapid expansion in the platinum belt; the opening of the economy with the end of apartheid, which boosted agriculture and tourism but increased competition for other industries; the end of apartheid subsidies to industrial estates in "border areas" from 1994 to 2016; and the deepening climate crisis.

Graph 1. Population and value added in total and by sector, by type of municipality, 1996 and 2021



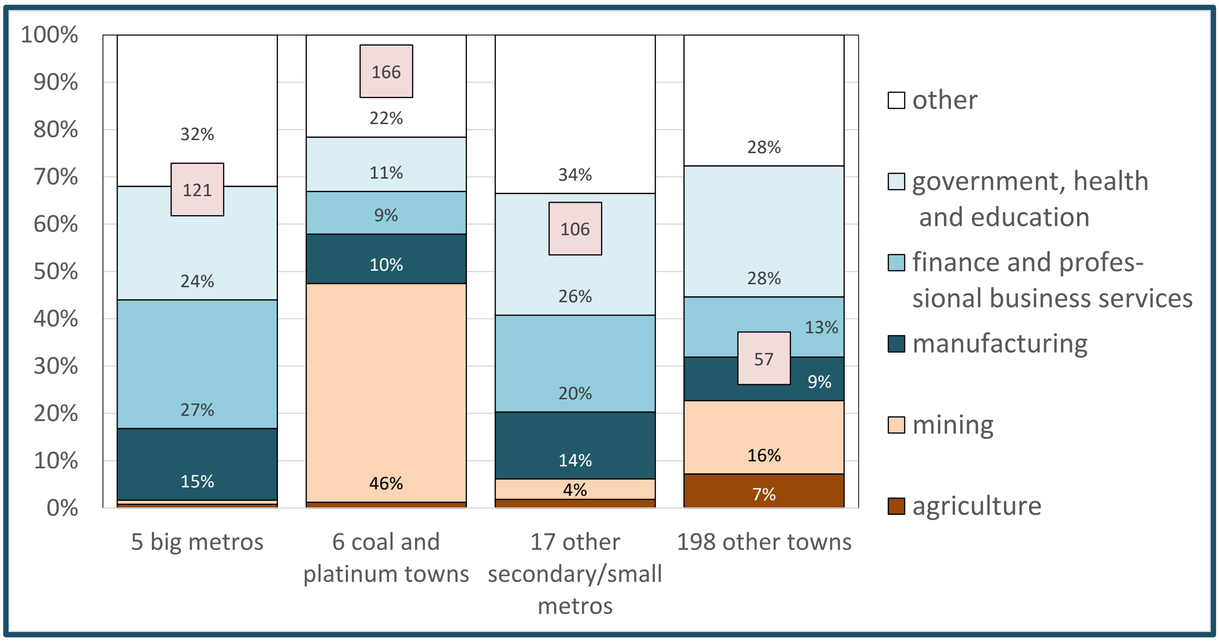
Note: (a) Construction, retail, logistics, general government, social services, cleaning and security. *Source:* Calculated from Quantec. EasyData. Interactive dataset. Regional service; figures for gross value added in current rand. Downloaded at www.quantec.co.za in December 2022.

Graph 1 underscores South Africa's persistent geographic inequalities. The five large metros now account for 40% of the population (up from 30% since 1996) but almost half of national value added, over 55% of manufacturing, and 64% of financial and professional business services. Six secondary cities have economies centred on coal and platinum. They hold only 3% of the population, but account for almost 40% of all mining and 7% of national value added. The remaining 17 secondary cities hold

15% of all South Africans and have relatively diverse economies as a group, although individually many are dependent on a few sectors. Finally, the remaining towns, which number almost 200, held 43% of the population in 2021, down from 51% in 1996. They account for 70% of agricultural value added and almost half of mining, but under 20% of manufacturing and financial and business services. (Graph 1) Annexure A lists the municipalities by category. The definition of secondary cities derives from the Treasury classification.

The different categories of municipality have widely divergent production structures and value added per resident. The highest production per person in 2021 emerged in the coal and platinum towns, thanks to soaring commodity prices in the wake of the COVID-19 pandemic. Value added per person in the large metros was 20% higher than in other secondary cities, and twice as high as in the smaller, mostly rural towns in commercial farming and historic labour-sending regions. (Graph 2). The metros' relatively diverse economies meant that they were less affected by global commodity prices than other towns.

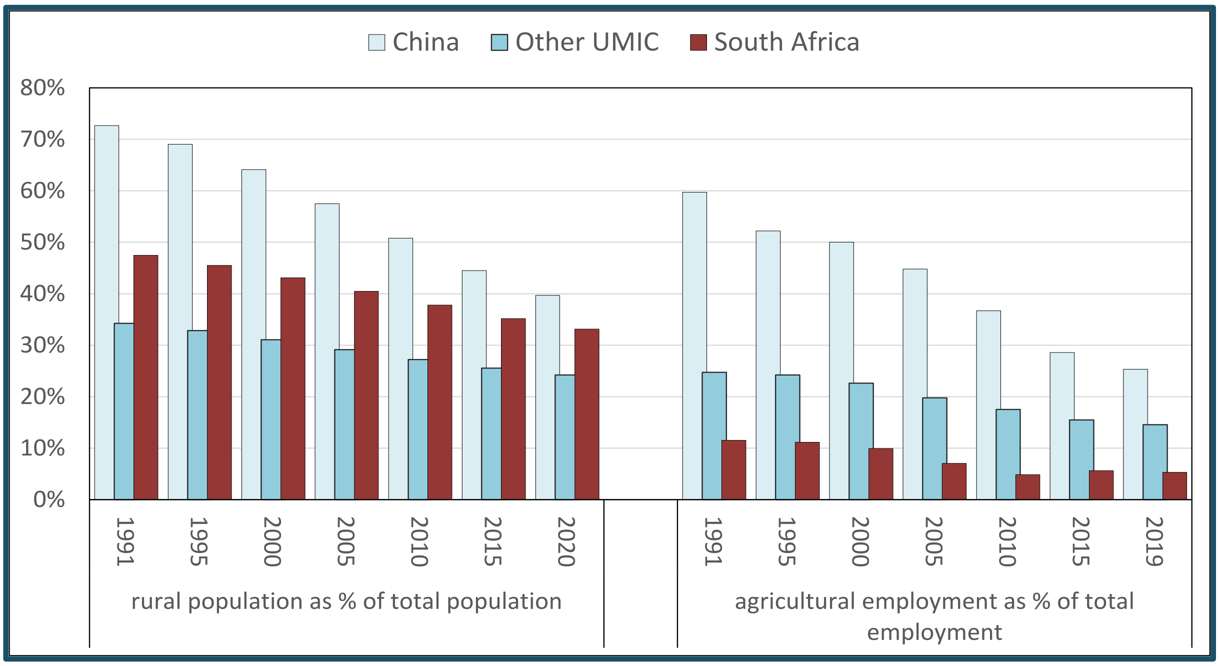
Graph 2. Structure of value added and value added per resident by type of municipality, 2021 (2011 boundaries)



Note: (other) construction, retail, logistics, cleaning and security. *Source*: Calculated from Quantec. EasyData. Interactive dataset. Regional service; figures for gross value added in current rand. Downloaded at www.quantec.co.za in December 2022.

Benchmarking South Africa against other upper-middle-income countries underscores the extraordinary spatial impact of apartheid citizenship policies. As Graph 3 shows, South Africa had an unusually large rural population for upper-middle-income countries excluding China, but a much smaller share engaged in agriculture. This was associated with an unusually low level of both employment and self-employment overall. From 1994 to 2021, only around 40% of the working-age population in South Africa said they had gainful employment. The international norm was about 60%. Moreover, in the early 2020s, self-employment contributed only 17% of employment in South Africa, compared to 46% in China and 31% in other upper-middle-income countries. The difference was mostly due to the destruction of African farming. In South Africa, rural self-employment contributed only 4% of total employment, compared to 20% in other upper-middle-income countries.

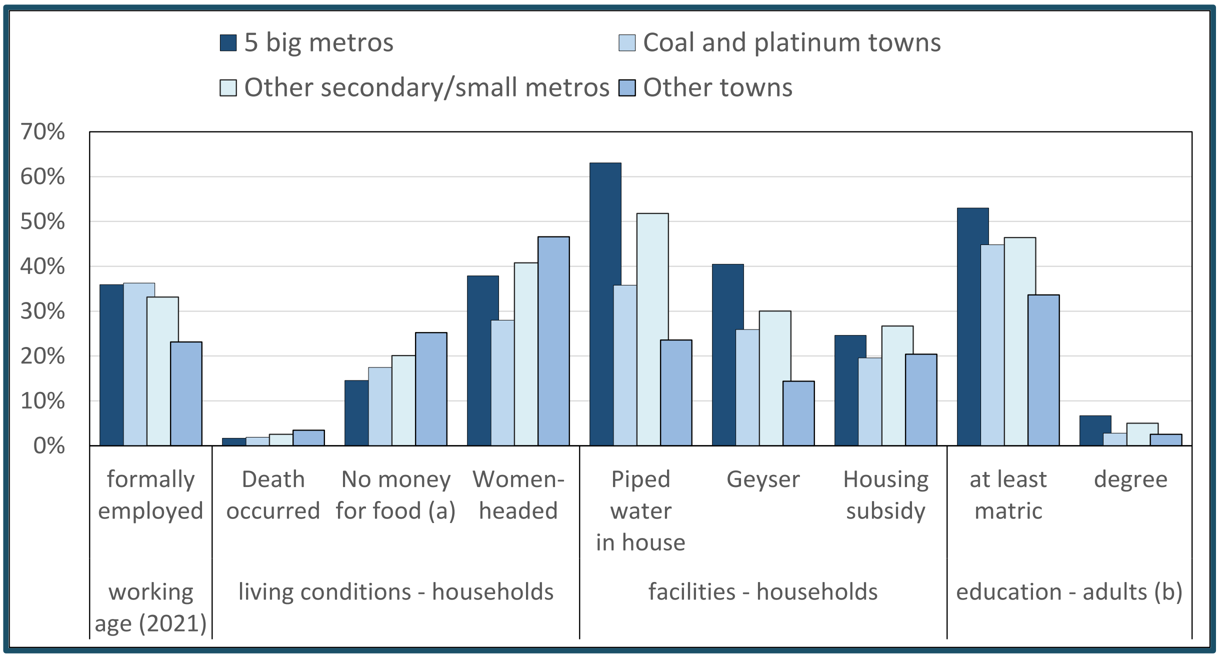
Graph 3. Share of population living in rural areas and of employment in agriculture, China, South Africa and other upper-middle-income countries (UMIC)



Source: Calculated from World Bank. World Development Indicators. Interactive dataset. Accessed at www.worldbank.org in December 2022.

The different economic situations of metros, platinum and coal centres, other secondary cities, and smaller towns profoundly affected the employment opportunities and living conditions of their residents. As Graph 4 shows, residents of small towns in the commercial farming and historic labour-sending areas were less likely to have formal employment or to have matric or higher education than in larger cities, and more likely to go hungry. They generally had worse municipal services.

Graph 4. Indicators of socio-economic conditions by type of municipality, 2016



Note: (a) Ran out of money to buy food in past 12 months. (b) Aged over 25. *Source:* For formal employment share of working-aged adults in 2021, calculated from Quantec. EasyData. Interactive dataset. Regional service. Accessed at www.quantec.co.za in December 2022. For other indicators, calculated from Statistics South Africa. Community Survey 2016. Electronic dataset. Downloaded from Nesstar facility at www.statssa.gov.za.

The persistence of apartheid geographic inequalities after the transition to democracy posed a quandary for efforts to link local economic development and industrial policy. At the level of governance, the challenge emerged in the difficulty of aligning municipal plans while driving industrialisation at the national level. Two critical questions emerged.

- First, industrial policy necessarily engaged with the spatial inequalities entrenched by apartheid residential policies. Above all, apartheid laws left the historic labour-sending regions with limited economic potential and activity, but significant populations. That said, industrialisation inevitably relies on a handful of urban centres that are large enough to support dynamic clusters, logistics centres, and economies of scale. From this standpoint, a successful industrial policy cannot seek homogenous growth across the country. Rather, it requires an objective understanding of which areas of the country can articulate successfully with national and international value chains. As industrial policy pursues changes in the national structure of production, it needs to clarify the impact on different parts of the economy and where new clusters would be viable.
- Second, industrial policy measures needed to respond to the challenges facing secondary cities. These towns had significant resources compared to the rest of the economy, which represented substantial historic investments for South Africa. In effect, they constituted areas of sunk capital. In these cases, national industrial policy should seek to identify viable new industrial clusters, together with efficient and effective strategies and measures to promote them.

Significant governance problems needed to be overcome to address these challenges. Local economic development programmes and industrial policy fall under different spheres of government, with separate sets of instruments and constitutional mandates. They necessarily play out at municipal level, but there is only a broad legal requirement that they align. Neither the Constitution nor the laws governing industrial policy and local economic development initiatives set up systems to enable municipalities to integrate their measures consistently with national programmes, or vice versa. The available platforms for engagement and consultation are patchy, meet only irregularly, and have limited technical support. This opens the door to disjunctions and blockages that can limit their impact, or even make them counterproductive. Setting up consistent platforms for engagement would, however, require that both national departments and local governments dedicate significantly more time and resources to the process.

The governance challenges are aggravated by the extraordinary demands on South African municipalities, which make it hard to focus on the needs of economic stakeholders. These demands include the following.

1. Municipalities inherited extraordinary differences in infrastructure between historically black and white areas. A core task was to extend and improve basic services in working-class areas that often had little or no electricity, water, sanitation or refuse removal. The task was made harder by the high expectations set by the "European" standards provided in historically white communities. But those communities had only a tenth of the national population. Moreover, they mostly remained in the high-income group, making it easier for most households to pay for services. In practice, municipalities ended up providing worse and sometimes wholly inadequate services for lower-income communities, leading to continual contestation and protests.
2. Economic centres experienced extraordinary population growth as people from historic labour-sending regions sought new opportunities and communities. Service delivery came under stress as some municipalities experienced an extraordinary increase in population while others faced

declining demand but also shrinking revenues. According to Quantec estimates,[2] Johannesburg, Tshwane, Ekurhuleni and Rustenburg (in the platinum belt) doubled in size from 1995 to 2021, while Cape Town, several mining towns in Limpopo, the North West and Mpumalanga, and parts of the Western Cape expanded by 80%. In contrast, 20 municipalities in the Eastern Cape plus three in other provinces (KwaZulu-Natal and the Free State) saw a net decline in population. Overall, the population did not grow at all in areas with so-called "traditional" leaders and land ownership, while the rest of the country almost doubled. Fifty municipalities, including all of the largest metros except eThekwini, grew more than 50% from 1995 to 2020; their average size was over 500 000, and together they expanded by 90%. The other 184 municipalities collectively grew 20%, with individual towns ranging from a population decline of 24% to an increase of 49%. In this group, the average municipality had fewer than 200 000 residents, although it included four metros – eThekwini, Gqeberha, Buffalo City and Mangaung. Generally, population growth was above the norm in Gauteng and new mining centres in the north of the country, and lower than average in the Eastern Cape and the Free State.

3. Given limited resources, municipalities often faced a trade-off between extending services to households and maintaining and expanding bulk infrastructure and services to business. The result was often deterioration in services for industrial and commercial sites, especially in smaller towns with less resources per capita. Very high levels of Eskom loadshedding in the 2020s added to the challenge by deterring investment in general; encouraging businesses (and richer households) to go off grid, reducing municipal revenues from electricity sales; and damaging municipal equipment.

This working paper explores ways to improve synergies between local economic development strategies and industrial policy. In that context, it identifies the scope for industrial policy instruments to unlock local economic development rather than leaving it to chance.

The paper uses a combination of qualitative and quantitative data. The quantitative data relates to economic trends, including the structure of local economies as well as municipal income and expenditure. It derives from a number of databases, including Quantec, the National Treasury's City Support Programme (CSP), as well as National Treasury and individual municipality websites. The qualitative data comprises a literature review and stakeholder engagements. As part of the research, interviews were undertaken with local economic development practitioners, industry associations, and dtic officials. Case studies of three municipalities are covered in the report. These municipalities, Makhado, Mbombela, and uMhlathuze, were selected on the basis of being relevant secondary cities.

[2] Calculated from Quantec. EasyData. Interactive dataset. Regional service. Accessed at www.quantec.co.za in December 2022.

2 INDUSTRIAL POLICY AND MUNICIPAL ECONOMIC STRATEGIES: MANDATES, SYSTEMS AND CAPACITY

Industrial policy provides crucial context for municipal economic development initiatives, as well as shaping a range of infrastructure and industrial projects in specific localities. How then should municipalities take forward industrial policy? Answering this question starts with an understanding of the mandates and capabilities of municipalities around economic development, as well as the nature of industrial policy. These are each considered in terms of policy aims; the legal framework; and the systems and capacity for engaging with other spheres. From a spatial standpoint, both strategies have been profoundly shaped by the inequalities entrenched under apartheid, which affect both the nature of local economies and the technical and financial resources available to address constraints. A final section summarises the links between local economic development and industrial policy and the role of municipal governments in that context.

2.1 Local economic development

The Constitution gives municipalities few responsibilities for industrial policy. Laws and policies have, however, increasingly expected them to drive local economic development and job creation. In this context, the focus on integrated planning at district level from 2019 aimed to promote co-ordination between national, provincial and local governments. As of 2022, however, the process had only just completed pilots in a handful of districts. To succeed as hoped, it would require a major, albeit as yet uncosted, increase in resourcing to enable all spheres of the state to engage in meaningful planning.

2.1.1 The constitutional framework

National policies and legislation on local economic development generally suggest that local governments have very broad powers and responsibilities around the economy.

> *Local economic development is an adaptive and responsive process by which government, public sector entities, citizens, business and non-governmental sector partners work collectively to create better conditions for innovation-driven inclusive economic development that is characterised by knowledge transfer and competence building; employment generation; capacity development; investment attraction and retention; image enhancement and revenue generation in a local area in order to improve its economic future and the quality of life for all. – CoGTA 2017:14-15*

In contrast to this vision, the Constitution allocates economic strategies primarily to the national sphere. That decision aimed to enable the democratic state to redistribute resources to address the inequality that apartheid entrenched between regions. The Constitution sought to prevent richer municipalities from blocking fiscal transfers and, generally, to facilitate the reallocation of government capacity and resources to poorer communities and regions. The provisions on the municipal and provincial share in national revenues explicitly required the national authorities to redistribute resources spatially as well as from rich to poor.

The Constitutional system of economic governance provides the following:

- The national government is responsible for critical economic functions as well as national and most bulk infrastructure.
- Elected municipal governments form a separate sphere of government, responsible for their own development and planning processes. Still, although the Constitution refers broadly to municipal government's responsibility for their communities' "social and economic development," it gives them almost no power to regulate or restructure the economy. They retain near total control over

municipal infrastructure, including roads, water and electricity as well as tariffs. In consequence, municipalities can affect the production structure through their strategies for providing and maintaining critical services for businesses. They are also responsible for local trading licences and zoning, mostly to protect health and safety and maintain local infrastructure. These powers give local authorities significant scope to support industrialisation - and to impede it. Still, the limited economic mandate for municipalities means that outside of the metros, few have dedicated agencies or budgets to support priority economic clusters, industrial and commercial sites or small businesses.

- The Constitution gives provinces almost no explicit economic responsibilities. It essentially expects them to concentrate primarily on education, healthcare and housing plus provincial roads. As noted in section 2.2.1.1, however, several provincial development agencies inherited industrial sites from the former so-called "homelands," as well as owning and operating SEZs.

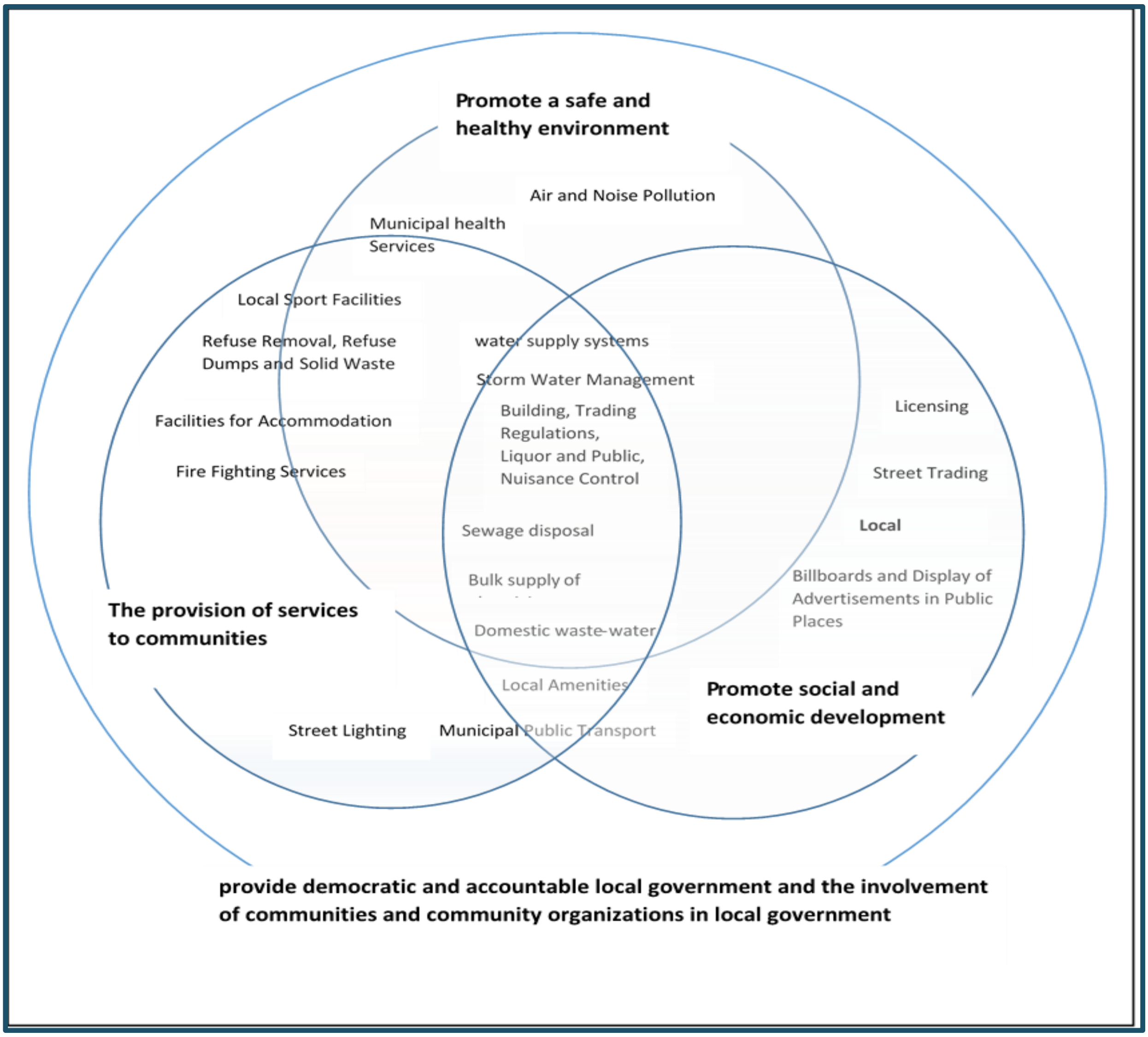
The Constitutional division of labour between the spheres builds in tensions for local governments. On the one hand, it limits their competencies and resourcing for economic policy. On the other, it provides for directly elected municipal governments. Inevitably, local representatives face pressure from their constituencies to drive economic development despite their narrower responsibilities under the Constitution.

2.1.2 Local economic development and integrated development planning

To fulfil the municipalities' Constitutional mandate, the Municipal Systems Act No. 32 of 2000 requires them to publish IDPs. These plans focus heavily on the provision of infrastructure. The core aims are to maintain and expand municipal services in ways that overcome the huge inherited inequalities in municipal spending. At the same time, most large metros and many secondary cities had to provide for rapid in-migration from poorer regions.

Economic growth is a subordinate objective in the IDP process. (See for instance CoGTA 2022a:28-9). The Municipal Systems Act requires only that the plans include "the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs." (Paragraph 26c). The 2001 regulations on municipal performance management under the Act go somewhat further. It sets seven key reporting areas, including "the number of jobs created through municipality's local economic development initiatives including capital projects." The other six indicators relate to access to and investment in household services (but not their cost or quality, or support for business sites); employment equity; and fiscal responsibility. The Department of Cooperative Governance and Traditional Affairs (CoGTA) began to revise these indicators in the late 2010s, aiming primarily to align them with the United Nations' sustainable development goals. Figure 1 illustrates the secondary status of economic plans in the IDPs.

Figure 1. Municipal IDP functions and local economic development



Source: TIPS.

In practice, the IDPs often did not integrate local economic development initiatives consistently in plans for infrastructure allocation, and some incorporated contradictory visions for the local economy. (See Makgetla 2021b:9 ff). As the 2016 State of the Cities report pointed out, "city teams often shape their individual development strategies in separate silos, with limited interaction and co-ordination". (SACN 2016:90-91) Weak co-ordination of basic city functions around economic priorities often resulted in inadequate maintenance of critical infrastructure for local producers as well as contradictory signals for investors.

This situation reflects both history and the Constitutional framework. Most municipalities did not inherit systems to link infrastructure and regulatory decision-making to economic policies. For many localities, strategic economic requirements came second to the immediate stress of keeping up with escalating household demand. As CoGTA summarised in 2014, "Economic development has tended to remain marginal to the core municipal tasks of providing basic services." (CoGTA 2014:69). It added that local economic development initiatives have often proven to be both unrealistic and fragmented, as well as aligning poorly with national and provincial strategies. As a result, local economic development initiatives often remain at the level of a broad vision, with limited real-world impact, as the case studies in Section 3 illustrate.

Because the metros have substantial incomes from rates and tariffs, they have resources to develop capacity for economic initiatives irrespective of Constitutional provisions. Other municipalities, especially in the historic labour-sending regions, have far less scope to raise revenues themselves. National government subsidies for new infrastructure only partially compensate for the difference in own revenue. In 2020, the metros brought in six times as much revenue per resident as towns in the historic labour-sending regions, and twice as much as other municipalities. (Calculated from National Treasury 2020)[3].

The limits set in the Constitution as well as municipal resource constraints have increasingly run into demands that elected local governments do more to promote economic development. As the dtic experience with SEZs and industrial parks illustrates (see Section 2.2.1.1), national policies and laws often anticipate significant contributions from local government without providing additional resources for consultation, planning or implementation. The 2006 National Framework for Local Economic Development, as updated in 2018, argues that local economic development initiatives should:

a. Address poverty, inequality and unemployment with a particular focus on youth and enhance the quality of life for all citizens through the development of innovative, inclusive and competitive local economies.
b. Support the potential of local economies to grow and develop the national economy.
c. Raise greater awareness of the significance of regions, metropolitan municipalities and localities as focal points in generating national prosperity.
d. Intensify the support for local economies in realising and building their economic potential.
e. Diversify employment and the creation of decent work for communities.
f. Strengthen intergovernmental co-ordination for the planning of inclusive economic development between government and non-governmental sectors.
g. Facilitate the adoption and adaptation of innovation systems and economies of technical change. (SACN 2019:14)

2.1.3 The District Development Model

In 2019, the national government adopted the district development model as a way to forge a new relationship between municipalities and other spheres of government. The model centres on the requirement that every district, each of which encompasses four to seven separately elected municipalities, develop integrated plans. As of early 2022, CoGTA expected all 44 districts and eight metros to develop this kind of plan in by March 2023. As discussed in section 2.2.2.1, the dtic hoped to use the planning process to strengthen municipal contributions to SEZs and industrial parks.

As articulated by CoGTA documents and its website, the district development model had two core objectives. First, it aimed to pool technical capacity and encourage co-operation on bulk infrastructure at district level. This process was particularly important for towns in the impoverished labour-sending regions that had comparatively limited resources and deep backlogs left by apartheid. Second, it required that all government activities be captured in a holistic One Plan at the district level. CoGTA expected the process to identify the economic potential of each district and to crowd in private investment based on improved government services and co-ordinated initiatives. (CoGTA 2022a:3)

[3] Towns in historic labour-sending regions are here defined as having over half of households in these areas according to Quantec EasyData regional service. Accessed at www.quantec.co.za in 2021.

CoGTA was charged with driving the district development model in collaboration with the Department of Performance Monitoring and Evaluation (DPME) and the Department of Public Service and Administration. It adopted ambitious targets. In particular, it expected that all three spheres of government, including national state-owned corporations, would operate "like a single unit in relation to achieving developmental objectives and outcomes in these district and metropolitan spaces over a multiyear period and over multi-term electoral cycles". (CoGTA 2022b). The One Plan would encompass an integrated plan and budget for each district (CoGTA 2022a:29). As with the IDPs, the main focus was on infrastructure provision, but the plans were also expected to include local development initiatives.

CoGTA blamed the lack of co-ordination across the spheres of the state, as well as the failure to engage constructively with the private sector, civil society and communities, on a "deep-rooted silo mentality." (CoGTA 2021; see also CoGTA 2022a:28). This approach ignored a critical contradiction. Any kind of government co-ordination imposes immediate costs for the agencies involved, in terms of time and resources for engagement as well as the need to compromise. In contrast, even if the programmes succeed, the rewards often take years to materialise. South Africa's profound economic inequalities mean that absent a strong dispute-settlement system disagreements around priorities, and consequently resourcing for implementation, can lead to deadlocks and inordinate delays in taking any action at all.

In the same vein, the district development model did not discuss how to manage conflicts over priorities and spending between the local governments within each district. After all, every project necessarily benefits some communities more than others, and elected officials are bound to fight for projects in their constituencies.

Through March 2021, CoGTA undertook three pilots (in OR Tambo in the Eastern Cape; the Waterberg in Limpopo; and eThekwini in KwaZulu-Natal), with the Development Bank of Southern Africa (DBSA) as its implementing agency. In each case, the DBSA-led process identified around 15 "catalytic projects", with the total cost estimates ranging from R14 billion in OR Tambo, an impoverished labour-sending region with a population of 1,5 million, to R132 billion in eThekwini, a leading metro with close to four million residents. The catalytic sites included a road linking to Durban and Port Elizabeth and an aquaculture site in OR Tambo; a commercial development and mall in the outer west area of Durban; and a DBSA innovation hub in Modimolle in the Waterberg. Only eThekwini had a unit to manage the catalytic projects, however. The other two districts relied entirely on national departments and agencies for design and implementation.

Despite these challenges, CoGTA reported that the pilots established "DDM [District Development Model] Hubs" that institutionalised "seamless co-ordination to utilise human and capital resources effectively, by promoting and facilitating co-operative decision-making, aligning priorities, budgets, policies and activities across interrelated functions and sectors." (CoGTA 2022a:29) Its evaluation report, however, noted that the relevant departments had not committed to fund the catalytic projects identified in the pilots, so most were still in the planning stage. (CoGTA and DPME 2022:14ff) Moreover, the pilots showed that, even where plans were developed, they had only a "limited impact on inter-governmental relations", with modest effects on budgetary priorities or the deployment of technical capacity. (CoGTA and DPME 2022:19) The risk, CoGTA noted, was that the process would become just another level of planning rather than encouraging stronger alignment and action.

The pilots apparently did not attempt to quantify any objective constraints on the implementation of the district development model. Possible blockages include, among others, the cost of time and resourcing for the planning process; the effectiveness of the platforms and systems established for collaboration across the spheres; and the capacity of municipalities outside of the metros to engage meaningfully in the process. By extension, the pilot process did not point to measures to mitigate these kinds of objective obstacles. Instead, CoGTA hoped to improve communication, enforce compliance; and use more sophisticated planning techniques to overcome the shortcomings in alignment and budgeting that emerged in the pilots. (CoGTA and DPME 2022:19-21)

For 2022/23, COGTA budgeted R12,6 million for "integrated districts and regional spatial planning", or an average of around R250 000 per district. (CoGTA 2022a:47). By March 2023, it planned to gazette regulations under the Intergovernmental Relations Framework Act No. 13 of 2005 that would require all state agencies to collaborate in the districts' One Plan processes. The deadline had been delayed by two years. CoGTA also expected to establish the planning process in every district in 2022, around nine months later than initially targeted. (CoGTA 2022a:41 and 122). In line with its overall approach, it pointed to a lack of political support as the main obstacle to implementation, again without suggesting any objective constraints. (CoGTA 2022a:77). Yet its proposals would require national departments like the dtic to engage on 51 separate district plans. Moreover, weak economic and social data at the district level made planning processes much harder.

As of the third quarter of 2022, COGTA reported that six metros and 33 districts (out of 45) had some kind of One Plan. The department itself had completed, but not published, a draft report on the integration of local economic development plans into the process. (DCOG 2022:6)

It was unclear how the district municipalities would cope with their additional responsibilities under the new model. The average district municipality had a budget of around R600 million in 2022. Of that, 70% derived from national transfers and grants, and around 40% went for remuneration. In contrast, the average local municipality, excluding the metros, budgeted over R750 million, with under 30% from transfers while the rest came from their own revenue. They spent around 30% of their budget on employees.

2.1.4 Emerging themes

Four themes emerge from evaluation of local economic development.

- The elected governments in municipalities face pressure to promote economic development, although they directly control only the provision of infrastructure and some permits and licences related mostly to health and safety. Beyond that, municipalities can advocate for local economic interests with national and provincial agencies and departments, and consult with local stakeholders to ensure increasingly efficient and effective economic development strategies. The platforms and systems for them to engage on economic strategies remain largely ad hoc and under-resourced, however.
- Apartheid economic inequalities are a critical factor behind inequalities in government capacity. This leads to a vicious cycle. Municipalities in historically impoverished regions lack capacity to identify economic opportunities and secure alignment with other state agencies to drive economic development within their space. Metros and to a lesser extent secondary cities have significantly more resources, but nonetheless are often over-extended.
- The district development model aims to pool resources between municipalities as well as improving alignment. As currently envisioned, however, it appears to centre primarily on requiring districts to generate integrated plans. That approach fails to address the objective constraints on both industrialisation and economic governance in historically impoverished regions. It does not specify significant efforts or budgets to step up capacity in towns and districts in historically underserved regions. Nor does it establish better defined and resourced platforms for engagement between government agencies. As a result, it risks generating more paper plans that have little impact on spatial inequalities.

- For national departments like the dtic, the district development model requires significantly more capacity for engagement with the envisaged 51 district One Plans. Historically most economic departments, including the dtic but also the departments of mineral resources, tourism, small business development and public enterprises, had no provincial offices, much less systems to engage consistently with all district municipalities.

2.2 Industrial policy

2.2.1 Aims and programmes

Industrial policy seeks to advance priority sectors and industries, supporting their growth and performance through a range of measures. The aim is to change the structure of production and ownership in ways that achieve national aims. Those aims vary over time and between countries. In different periods and places, they have included levelling up historically deprived regions; cushioning local economies from declines in dominant industries; promoting a broad shift from agriculture to manufacturing employment; encouraging small business and job creation; and/or supporting exports.

The use of industrial policy in both the Global North and Global South at different times and for different purposes means that there is no one formula. Rather, industrial policy denotes a pragmatic approach to changing microeconomic systems, and in particular the structure of production, in cases where the market will not solve national socio-economic problems. It provides an alternative to the argument that governments should just “get the fundamentals right”. That approach would leave production and ownership systems to the market, limiting economic measures to fiscal, monetary and trade policy; ensuring predictable property rights (“the rule of law”); and cross-cutting government services such as education and infrastructure. In contrast, industrial policy argues that government must use an array of industry-level instruments to bring about structural changes that are required for inclusive and sustainable growth. Relevant measures may include trade policy; incentives and credit; the provision of infrastructure, training and information about opportunities; competition policy interventions; and/or support for emerging enterprises and innovative forms of ownership, as with broad-based black economic empowerment and co-operatives.

To succeed, industrial policy has to align and co-ordinate a broad range of interventions around priority sectors. From this standpoint, industrial policy is distinguished by efforts to tailor all government strategies to meet the needs of specific industries and economic clusters.

South Africa’s industrial policy has aimed principally to reduce dependency on commodity exports by upgrading and diversifying manufacturing and services; to promote small business and black ownership; and to scale up decent work. The government adopted the National Industrial Policy Framework in 2007, implemented through three-year rolling Industrial Policy Action Plans. In 2020, the dtic replaced the action plans with separate industry master plans.

In South Africa, industrial policy instruments are largely national, cross-cutting competencies. Sector strategies necessarily play out, however, at local level. For instance, the auto industry, the flagship of South Africa’s industrial policy, is located exclusively in the metros (excluding Mangaung). The steel value chain, from refineries to smelting and basic metal products, is also located primarily in the metros, but Emfuleni at Vanderbijlpark, Saldanha Bay, and Steve Tshwete at Middelburg have major steel mills. The sugar master plan most directly affects sugar-growing areas in rural and peri-urban KwaZulu-Natal and Mpumalanga. Because farming areas and smaller towns typically depend on a few dominant industries, they tend to be more affected than metros by industrial policy decisions around individual industries.

2.2.1.1 The dtic's spatial programmes

In 2022, the dtic's targeted outcomes included "policies that promote spatial transformation, enabling more balanced growth between rural and urban [areas] and between provinces." (the dtic 2022b:17) The department's spatial transformation branch had two main programmes: SEZs[4] and critical infrastructure. The critical infrastructure programme mostly financed upgrades for state-owned industrial parks (essentially the historic "border areas" established under apartheid) and more recently digital hubs. Both programmes entailed close co-ordination with the provinces, which formally owned all but one of the recognised SEZs and all of the industrial parks. Engagement with the relevant municipalities appeared to be less consistent.

The dtic's budget for infrastructure investment support – almost exclusively capital transfers to SEZs and industrial parks - came to R1,8 billion in 2022, an 80% increase in real terms over the mid-2010s.[5] Around 85% of the transfers funded SEZs through provincial agencies. The capital transfers for SEZs and industrial parks accounted for around 15% of the dtic's total expenditure in 2022, up from under 10% in 2014 and 2015.

2.2.1.2 SEZs

Internationally, SEZs essentially incentivise investment by promising enclaves of excellent governance and infrastructure for competitive formal producers, especially exporters. They are particularly important in countries that have significant deficiencies in their overall regulatory frameworks and government services. (See Makgetla 2021a). If National Treasury agreed, SEZs in South Africa could also provide some tax incentives to investors; as of 2022, six SEZs qualified. The programme was expected to help decentralise manufacturing, which remained heavily concentrated in Gauteng, Cape Town and eThekwini. (the dtic 2022a:5ff)

The dtic committed to establishing at least one SEZ in every province. As of 2022, the Eastern Cape and Gauteng had two each. The SEZ in Limpopo, which is discussed in the case study on Makhado, was foreign owned, by Chinese companies. In 2022, the dtic reported that four SEZs – all located in metros – accounted for 80% of investors, around 90% of total investment and jobs created, and half of the dtic disbursements under the programme. (See Table 1). Of the remaining SEZs, one was in a metro; two were in secondary ports; three were in historic industrial decentralisation areas set up before 1994 to justify apartheid residential policies; and one was in a historic labour-sending region. A few focused on defined clusters, notably the relatively new Tshwane Automotive SEZ, but most effectively accepted investments in any industry. Half of reported SEZ jobs were in auto and agro-processing, with another quarter in other manufacturing, mainly chemicals. The rest split mostly between logistics and business process outsourcing. (the dtic 2022a:15-16)

[4] The initial spatial programme of the dtic was to establish Industrial Development Zones. This programme was transformed into the Special Economic Zone programme with the passing of the Special Economic Zones Act No 16 of 2014.
[5] Deflated using CPI average for the year to March.

Table 1. Overview of SEZs as of third quarter 2022 (a)

MUNICIPALITY	SEZ	OPERATIONAL INVESTORS (NUMBER)	OPERATIONAL INVESTMENT (R MNS)	JOBS CREATED	DTIC DIS-BURSEMENTS (R MNS)	DTIC ASSESS-MENT	NATURE OF AREA
Gqeberha	Coega	54	11 187	8 019	2 329	viable	metro
eThekwini	Dube Trade Port	45	2 183	4 057	289	viable	metro
East London	ELIDZ	40	5 646	3 223	2 101	viable	metro
Ekurhuleni	OR Tambo SEZ	2	359	2 322	480	potential	metro
Tshwane	Tshwane Auto SEZ	3	360	625	3 173	viable	metro
Atlantis	Atlantis	3	655	323		potential	historic decentralisation area
Saldanha Bay	SB IDZ	16	295	190	950	potential	secondary port
Maluti a Phofung	MAPSEZ	4	1 025	164	342	struggling	historic decentralisation area
Richards Bay	RBIDZ	2	352	90	745	potential	secondary port
Nkomazi	Nkomazi SEZ	n.a.	n.a.	n.a.		struggling	historic labour-sending area
Makhado	Musina Makhado SEZ	n.a.	n.a.	n.a.		struggling	historic decentralisation area

Note: (a) Figures on investment and the dtic disbursements are cumulative since sites were recognised. *Source*: the dtic. Status Update on the Implementation of Special Economic Zones and Industrial Parks. Presentation to the Portfolio Committee on Trade, Industry and Competition. 2 May 2022. Accessed at https://static.pmg.org.za/220503_-_the_dtic_SEZ_PC_Presentation_Final.pdf in December 2022.

The dtic estimated that, taken together, the SEZs had attracted R22,5 billion in investment and generated 20 000 jobs since their establishment. The dtic alone had disbursed R10,5 billion to them. (the dtic 2022a:13) These figures do not include tax subsidies or expenditure by provinces and municipalities. The costs could be high for provinces and cities, which provided infrastructure, sometimes at a reduced price to SEZ investors. As of 2022, for instance, Limpopo had committed R600 million to provide bulk infrastructure for the Musina Makhado SEZ, with construction expected to start in May. (the dtic 2022a:19). In 2022, the dtic transfers to provincial authorities for SEZs totalled R1,6 billion, or 15% of its total budget.

In 2022, the dtic found that several SEZs suffered from inadequate municipal service delivery and infrastructure funding. It also noted that some provinces did not take on the required leadership role as the owners and operators. (the dtic 2022a:42). In response, it aimed to include municipalities as well as provinces on boards, and encourage them to provide increased financial support through direct funding; rebates on infrastructure tariffs; and a push to ensure that municipalities reinvested all of the tariffs from SEZs there, rather than using them to provide services to other residents or businesses. (the dtic 2022a:44)

2.2.1.3 Industrial parks

The critical infrastructure programme, established in 2016, provided funding to supplement provincial and municipal investment in state-owned industrial parks. In 2022, the dtic's only role in the industrial parks was to provide security, fencing and basic works, with the DBSA as its implementing agent. The provincial government owned and managed the parks, mostly through their development agencies (which in turn were mostly established as "homeland" agencies before 1994) (the dtic 2022a:32). The affected municipalities provided most infrastructure - roads, water, electricity and refuse removal. Only provincial agencies and the dtic reported to the portfolio committee on the industrial parks programme. (See for instance PMG 2022)

As of 2022, the dtic had supported 13 industrial parks, with work underway in Vulindlela, Babelegi, Phuthaditjhaba, Ekandustria, Garankuwa, Nkowankowa and Dimbaza. By 2021, the industrial parks programme had spent a total of R870 million. (dtic 2022a:32). The dtic reported that the industrial parks taken together employed 40 000 people, but the figures for Isithebe – a quarter of the total – appear to be a rough estimate. The dtic concluded that "The existing Industrial Parks [programme] has not produced significant change in terms of jobs, investment or regional industrialization." (dtic 2022a:40)

The dtic blamed poor outcomes primarily on poor management and inadequate maintenance of buildings and infrastructure. (the dtic 2022a:40). But the location of the parks also appeared to represent a major obstacle. All of the industrial parks supported by the dtic to date originated as subsidised border industry areas under apartheid. (the dtic 2022a:32) That is, they were not selected because of their potential for integrating regions into national and global value chains or meeting local needs. This approach led to persistent economic challenges. In the case of Dimbaza, the Eastern Cape Development Corporation found that weak demand for both commercial and industrial space was low due to the "distance between the area and Qonce Central Business District, followed by quality of accommodation offered (old factory design which does not meet the demands for blue-chip tenants) and lastly security". (ECDC 2022:4). It found that 10 of the 24 tenants were funeral homes or social institutions such as churches and schools; the rest were mostly in clothing and textiles. (ECDC 2022:8). At Ekandustria (near Bronkhorstspruit, almost an hour away from Tshwane) the industrial park was 50% empty and was able to collect only around two thirds of invoiced rents in 2019, before the COVID-19 pandemic. In 2020/21, the level dropped to 60%. The park also has large arrears on its electricity payments, which go to Tshwane, leading to threats of cut-offs. (MEGA 2022:3-4)

These experiences accord with concerns around the long-term viability of the apartheid "border industry" sites that go back well before 1994. In contrast, the National Treasury programme to revitalise industrial parks focuses on metro areas, explicitly because of their crucial role in national growth. As of 2021, it had four pilots – Wadeville in Ekurhuleni; Devland in Johannesburg; Babelegi in Tshwane; and Jacobs in eThekwini. It operated the programme in collaboration with the dtic which, however, did not mention it as part of its own industrial parks strategy. (See National Treasury 2021:12).

The dtic has begun to introduce digital hubs in the industrial parks, targeted mainly at young entrepreneurs. As of 2022, it had established hubs in Botshabelo and Isithebe. In both these cases, it collaborated with the relevant municipalities as well as provincial development agencies and private businesses. (the dtic 2022c:69).

2.2.2 Legal framework

Despite South Africa's commitment to industrial policy, as of 2022 it had not adopted a law to define what it should achieve or how it should be developed. By extension, only the broad mandates in the Constitution and the Intergovernmental Relations Framework Act No. 13 of 2005 guided related engagements with provinces and municipalities.

The dtic did not have a formal policy governing the industrial parks revitalisation programme. In contrast, the Special Economic Zones Act No. 16 of 2014 defined the roles of the national and provincial governments. Just about any public or private entity, including municipalities, can apply for the Minister of Trade, Industry and Competition to designate a SEZ. They have to show that the project will advance industrial development and align with other national policies, and be viable in economic, financial and governance terms. When the dtic designates a SEZ, the project owner has to set up a public corporation to develop a strategic plan and manage it. National Treasury effectively determines access to tax incentives on a case-by-case basis. The Act provides that the dtic delegates a single board member to each SEZ.

2.2.3 Platforms and systems for engagement with municipalities

The dtic had limited procedures in place to ensure engagement on projects with municipalities, even where they were significantly affected by sectoral strategies. The main platform for engagement was through the MinMEC (Ministers and Members of Executive Council), which included representation from the South African Local Government Association (SALGA), usually through metros. In addition, individual SEZs and industrial parks engaged more or less consistently with municipalities. The dtic hoped to improve collaboration around these spatial initiatives through the District Development Model, which is discussed in section 2.1.3.

The MinMEC relates to all of the dtic's work, not just industrial policy measures. It has historically met without substantive technical engagements in advance. At the level of officials, regular engagement on industrial policy takes place primarily through the economic and infrastructure cluster at national level, where only national departments participate. Neither the Industrial Policy Action Plan (IPAP) nor the Master Plans involved significant interaction with municipalities around national strategies or sometimes even with municipalities hosting specific projects.

In 2022, the relevant municipality often, but not always, participated directly in governance structures and financing of state-owned SEZs. As noted, the dtic also had a representative on SEZ boards. The Industrial Development Corporation (IDC), which falls under the dtic, established a National SEZ Project Management Unit that, as of 2022, was actively engaged in seven SEZs in an effort to "accelerate investor mobilization and breaking ground". Its contributions ranged from securing upgrades in rail transport to the coast for the Tshwane Automotive SEZ to signing up investors to developing concepts for new SEZs. (the dtic 2022a:29).

The role of municipalities in industrial parks was apparently even more inconsistent, in part because of the lack of a defined policy. The dtic argued that many industrial parks were not a priority for provincial development agencies, and that many lacked any coherent government structure. It also found that communities around the parks did not see them as a significant opportunity. (See the dtic 2022a:41).

2.2.4 Policy responses

In 2022, the dtic argued that the current governance systems for both SEZs and industrial parks led to weak and inconsistent management, inadequate funding and fragmented engagement with investors.

It therefore proposed development of a new spatial industrial development model. It hoped both to amend the SEZ Act to strengthen its role in governance, and to use the District Development Model to provide a platform for ensuring more integrated and strategic local industrial policy measures.

The dtic argued that the new spatial industrial development model would aim to identify opportunities in “all (underdeveloped) districts in the country”, with measures going beyond SEZs and industrial parks. In that context, it expected to “facilitate strategic and broad-based partnerships”, apparently with both provincial and local governments and agencies as well as private investors. (the dtic 2022a:47)

This approach explicitly sought to address the constraints on individual regions, rather than establishing a national spatial strategy. Thus, in 2022/23 the dtic planned to identify “viable Spatial Development initiatives in every district”. (the dtic 2022a:53). The risk was that it could end up downplaying the objective differences in the economic roles of different districts, which arose in part from the apartheid history of artificial overcrowding in poorly resourced areas, and in part from the spatial differentiation inherent to industrialisation. No country has industrial centres in every district. Rather, industrial policy needs to frame its programmes in a realistic spatial division of labour.

In this context, continued large-scale rural-urban migration seems unavoidable. As Graph 3 shows, the share of the rural population in industrialising economies has generally shrunk sharply. This trend has been even more pronounced in South Africa since 1994 because apartheid rules artificially inflated the population in under-resourced rural areas while systemically undermining African smallholders. A national vision for the economy will have to promote sustainable projects in historically impoverished regions, but also be realistic about likely population movements.

As part of its new approach to spatial transformation, the dtic planned to amend the SEZ Act to increase its role in governance. It committed to more consistent work with investors and with all spheres of government. (the dtic 2022a:12; 2022b:59). At the same time, it planned to integrate its interventions into the One Plans proposed for the district development model. It also foresaw improved monitoring of its activities in all 52 districts and metros, including both activities and financing. (the dtic 2022a:53).

2.3 The role of municipalities in industrial policy

Table 2 compares and contrasts national industrial policy with local economic development initiatives. The two policies diverge most obviously in spatial coverage and the instruments available for implementation. More fundamentally, the national policy has to shape a viable national economy, which requires reduced spatial inequalities while necessarily promoting some highly competitive national economic centres. In contrast, local economic development initiatives aim to maximise prosperity within a municipality, given the inherent constraints caused by geography, especially the distance from markets and the availability of resources such as water and mining riches, as well as past investment in production, infrastructure and education.

Table 2. Comparison of national industrial policy and local economic development initiatives

	NATIONAL INDUSTRIAL POLICY	LOCAL ECONOMIC DEVELOPMENT INITIATIVES
Scope	National value chains and industries.	Local value chains and industries.
Core outcomes	The greatest possible sustainable economic growth and diversification, job creation and inclusion for the entire country.	The greatest possible economic growth and diversification, job creation and inclusion within the municipal area.
Core strategies	Maintaining and growing competitive centres in the economy, especially in manufacturing and high-level services, while simultaneously improving inclusion through investment in human capital, broad-based empowerment and support for small businesses.	Identification of potential to meet local demand and/or fit into national or global value chains, and on that basis promotion of productive investment within municipal boundaries; support for small and black-owned businesses, including through land reform and improved township industrial and commercial sites.
Main levers	Identifying long-term changes required in productive and ownership structures; industrial financing, incentives and provision of infrastructure; investment promotion; national procurement and supplier development; legal requirements especially around empowerment and standards; small business finance; trade policy; education and skills development; innovation support.	Location of infrastructure, especially funding of industrial sites (including SEZs) and logistics, for large formal businesses, new clusters, township enterprise and farms; investment promotion to attract projects to municipality; procurement from within municipality and from black-owned enterprise; engagement with national agencies to secure and/or finance industrial and infrastructure projects.
Consultation	Other departments and agencies; business at national and sectoral level; provinces on SEZs and industrial parks; engagement with municipalities, even metros, only where required for specific projects.	IDP requires consultation with citizens and stakeholders, including business; historically limited platforms for consultation with national departments and agencies, leading to ad hoc relationships; district development model requires engagement within districts and with other spheres.
Management	National departments and agencies, with limited forums for engagement with other spheres.	Metros have dedicated local economic development units, but most towns rely on consultants to draw up plans; co-ordination with infrastructure and other local government functions often weak.

	NATIONAL INDUSTRIAL POLICY	LOCAL ECONOMIC DEVELOPMENT INITIATIVES
Main strengths	Able to engage with value chains that operate at national and global level; resourcing and institutional capacity for dealing with economic issues; access to most policy levers; national perspective permits more strategic decisions on location of projects.	Closer to businesses, especially small businesses that operate only within the municipality; more direct accountability to voters; power over infrastructure and local regulations that are often crucial for producers.
Main weaknesses	Silos around sectors and functions at national level; contestation over objectives and instruments (especially on national spatial outlook, and trade-offs between export industries and inclusive growth); inadequate resourcing especially given divergent interests and contestation by industry, class and region.	No direct control over factors affecting value chains outside of municipality, which are often critical for large formal producers, such as the electricity grid, national logistics and trade tariffs; do not control critical policy decisions even within municipal space, e.g. infrastructure provision and pricing; lack of capacity as not historically a core function for municipalities.
Role of planning	IPAP and more recently Master Plans aim to promote co-ordination at national level and with dominant businesses; spatial policies not directly linked to Master Plans and do not target a national spatial division of labour.	Local economic development initiatives aim to ensure infrastructure anticipates needs and promotes new industries, but often delinked from IDPs and inadequately resourced. District One Plans aim to improve alignment across spheres as well as consultation with stakeholders.

Source: TIPS evaluation based on review of laws, local economic development initiatives, IPAP and Master Plans, and municipal budgets.

Municipalities have a crucial baseline role in maintaining a support environment for established and emerging enterprises by providing adequate infrastructure and regulatory frameworks as well as supportive conditions for employees (especially housing, affordable commuter transport, recreational opportunities, and access to education and skills). They can also promote new economic activities, but that requires the ability both to identify realistic opportunities and to engage consistently with public and private stakeholders. From this standpoint, the core municipal roles include the following:

- Provision of economic infrastructure and municipal services in ways that maintain and attract industry. Ideally this function should align with national industrial policy initiatives. It should both ensure that established businesses have access to reliable, affordable infrastructure of adequate quality, and establish new commercial and industrial sites and services for emerging enterprises in townships and farming areas. In the early 2020s, critical tasks including helping local businesses to develop sustainable, affordable and clean off-grid solutions, typically solar, to deal with loadshedding; ensuring smooth traffic conditions around industrial and commercial sites; and securing reliable water and sanitation.
- Designing regulatory requirements to minimise delays and support new investments. Inherited regulations were often geared only to high-end, established formal enterprise, and may be unaffordable and excessively burdensome for emerging firms. In many cases, municipalities lack capacity to implement the by-law procedures for licensing and inspections, leading to delays and unpredictable decision-making. The result is widespread avoidance of requirements altogether. In

these cases, a review of the regulations is warranted to identify where the desired aims, typically around health and safety for communities, workers and consumers, can be achieved more efficiently.

- Planning housing developments and the extension of infrastructure in ways that support a productive, peaceful and lower-cost labour force. A crucial step is to reduce the burden of commuting in terms of time and money for workers and, by extension, their employers. Critical strategies include densification and, where that is not possible, ensuring reliable and affordable routes from working-class areas to economic hubs. In addition, ensuring that workers have adequate household services promotes more consistent and productive relations in the workplace.
- Working with local education and training providers, both public and private, to co-ordinate with employers to ensure adequate skilled staff. Closer ties with between local business and education institutions allows for responsiveness to skills needs, internships and apprenticeships, and possibly funding or equipment for the training institutions.

In practice, in many cities, the poor quality electricity supply for industrial sites, inadequate roads and delays in licensing and land-use decisions have prevented industrial investment and even led to disinvestment from existing factories. The deterioration of municipal infrastructure increases the cost of doing business in municipalities, can lead to community service delivery protests, and ultimately drive producers away from a municipality. The box below outlines the experiences of Clover and Astral as an example.

The impact of municipal infrastructure on the local economy: Two examples

Clover Industries

In June 2021, Clover decided to close its cheese processing facility in Lichtenburg in the North West, the country's largest cheese factory. The decision came after long-standing water and electricity disruptions, poor maintenance of access roads, and overall poor service delivery. Interruptions to water and power affected the pasteurization of milk, cheese making, and other manufacturing processes, while poor roads limited both access to raw materials and transport for finished products.

The Ditsobotla municipality encompasses the former Lichtenburg and Coligny municipalities and Biesiesvlei council. Ditsobotla, is primarily rural, with a population of around 180 000 that amalgamates commercial farming centres with historic labour-sending regions. The Clover facility was one of its largest manufacturing plants. In 2019, Ditsobotla budgeted R2 500 per resident, compared to a national average of over R6 000. It raised R1 800 per resident from rates and tariffs, or around 40% of the national average of R4 500. The rest of its spending was funded by various national transfers and grants. The town had a disclaimer on its annual audits from 2018 to 2021, with a history of extraordinarily poor governance and corruption.

Clover said it had made numerous attempts to engage the Ditsobotla municipality without significant improvement. By December 2022, it had relocated its cheese production to Queensburgh in eThekwini, where it already had a factory. It argued that eThekwini (which had a budget of almost R10 000 per resident in 2019 and own revenues of just under R7 500) was far more supportive than Ditsobotla. Clover's overall strategy was to consolidate production on a few plants in larger economic centres because smaller towns like Ditsobotla had proven incapable of ensuring reliable services.

Clover's relocation cost Lichtenburg over 300 jobs and threatened the sustainability of upstream businesses and farms. The move cost Clover an estimated R1,5 billion.

Astral

Astral Chicken, one of the largest poultry companies in South Africa, has operations in Standerton in the Lekwa municipality in Mpumalanga, a commercial farm town on the edge of the Vaal. The factory employs over 3 500 workers and processes more than two million chickens per week. For that purpose, it requires 5,5 megalitres of water a day. In the mid-2010s, however, Lekwa's water infrastructure began to fail, although it had an adequate allocation and Astral provided some funds for maintenance. Lekwa reportedly lost around three quarters of its supply to leaks and illegal connections, and its purification system was in a state of disrepair. In addition, it endured repeated power cuts, which Astral said cost it almost R40 million from 2016 to 2021.

Lekwa was far more prosperous than Ditsobotla, with per-person expenditure and own revenue at around the national average. Still, in 2021 the courts had placed the municipality under administration, largely because of its failure to maintain infrastructure specifically for Astral. It owed more than R400 million to the Department of Water and Sanitation (and more than a billion to Eskom), and had received a disclaimer on its audit for the past three years. The disclaimers were due to material misstatements in its accounts and poor performance, notably around infrastructure provision.

These circumstances significantly affected production at Astral, which ended up with interruptions, high overtime payments and lower production levels. In 2017, Astral reached a legal settlement under which Lekwa would provide at least four megalitres a day – a figure significantly short of normal operational needs at Astral's Standerton plant. In 2019, however, the water supply fell below the agreed amount, with a week of no water at all, compelling the plant to cut production by half. With support from national departments, Astral and Lekwa agreed that the municipality would guarantee two megalitres a day while Astral would be allowed to pump the remaining 3,5 megalitres itself from the Vaal through 2021. The company invested R50 million in its own water treatment facility. Nonetheless, as of 2022, problems with the supply for its factory persisted.

Astral stayed in the municipality, attempting to resolve the challenges through engagement, support measures, legal action and ultimately taking over the services itself. It argued, however, that large additional costs due to poor infrastructure maintenance affected its competitiveness.

In addition to ensuring an overall conducive environment for business, municipalities can identify new economic opportunities based on the available evidence. Possibilities include diversification into new clusters; support for local businesses; and development of new industrial or commercial sites. The challenge is to identify realistic long-run prospects including in historically marginalised and impoverished regions, where they may be modest at best and disappointing at worst. The district development model aims to help establish a vision for each district, but it is not clear how it will incorporate national spatial imperatives, which are also not clearly defined.

Municipalities can also leverage national initiatives to advance local economic development. National agencies and departments provide the bulk of infrastructure funding in the historic labour-sending regions, as well as controlling crucial decisions affecting national value chains. In the absence of well-defined and resourced platforms for engagement, however, securing alignment requires a lot of time and patience.

The following table sums up municipalities' potential for utilising the main levers employed in industrial policy. Their strengths lie in the use of infrastructure and licensing to reduce costs to priority enterprises and clusters. They have only limited financial and institutional capacity for implementing industrial policy, however, and no direct influence over national tax subsidy and incentive programmes; trade policy; education; and national infrastructure such as roads, Eskom or Transnet.

Table 3. Municipalities' scope for employing industrial policy levers

INDUSTRIAL POLICY LEVER	EXAMPLES	COMMENTS
Provision of infrastructure	Transport, energy, communications and water infrastructure, and commercial and industrial sites including in townships.	Municipalities generally do not control bulk or national infrastructure, but they can have a significant impact on logistics, access to reliable electricity, and the quality and location of industrial and commercial sites. That in turn can have a determinant impact on business decisions.
	SEZs and industrial parks.	SEZs and industrial parks are designated by the dtic and mostly fall under provinces. In some cases, municipalities are not included in governance and do not incorporate SEZs consistently in their planning processes.
	Subsidies for electricity and freight to incentivise specific new activities.	Municipalities could in theory use their mark-up on electricity tariffs to support industrial policy, but that has rarely happened in practice. They can reduce the cost of freight by improving roads for key enterprises and transport hubs or ports. They can only lobby Transnet, however.
	Reducing the cost of living for workers and supporting peaceful, cohesive and productive communities.	Municipal plans have a significant impact on commuter costs for workers, through densification of housing or by improving public transport. Other municipal services (water, roads, electricity, refuse removal and maintaining recreational spaces) are critical for ensuring peaceful and productive communities.
Targeted education and training programmes	Specialised training programmes for new activities.	Some municipalities have developed programmes to facilitate the entry of young people into the labour market, but they have not generally sponsored technical training programmes.
	Provision of skills for new activities through general and higher education.	Municipalities are not responsible for general or higher education. They can, however, play a significant role in supporting local universities.
	Extension services for emerging producers for instance in township economies.	Few municipalities have the capacity to provide extension services, but some support innovation hubs.

INDUSTRIAL POLICY LEVER	EXAMPLES	COMMENTS
Ensuring efficient and supportive regulatory frameworks	Regulatory reforms to reduce unnecessary delays and costs.	Municipal regulations determine zoning and land use, and often trading licences, mostly based on health and safety requirements as well as urban planning objectives. Sometimes regulations adopted from other jurisdictions require capacity that municipalities cannot afford, for instance through excessively complex permit procedures.
	Unblocking strategic projects and clusters.	Municipalities can fast-track zoning, infrastructure and licences for strategic projects and new clusters.
Identification of opportunities	Published plans, policies and strategies for municipal industrialisation.	Some local economic development initiatives include proposals for restructuring and diversification, but they are often not aligned with national strategies or the local IDP. Many articulate a vision but no steps to achieve it. The district development model aims to frame municipal local economic development proposals and ensure their alignment both with neighbouring municipalities and with other spheres.
	Advice and extension services that indicate opportunities to entrepreneurs.	Some metros but very few other towns have dedicated investment promotion agencies.
	Forums with entrepreneurs at regional or sectoral level.	Municipalities often convene this kind of forum, but they face a number of challenges: (a) ensuring consistent co-ordination with national agencies, without which business may lose interest; (b) capacity to follow up on decisions; and (c) head offices for many businesses are located in Gauteng or the Western Cape, not locally, which may limit partners' decision-making power.
Development of appropriate market institutions	Private and non-profit marketing enterprises sourcing from small producers.	Municipalities are responsible for fresh food and street trading sites, and could presumably assist with some of their marketing.
	Marketing co-ops, village co-ops and cluster agencies.	Municipalities support marketing co-ops and agencies through provision of sites, infrastructure and licences.

INDUSTRIAL POLICY LEVER	EXAMPLES	COMMENTS
	Incubators for small business that provide services and advice.	Municipalities could assist incubators for instance by assisting with sites and possibly funding.
	Development finance agencies designed to serve small and medium enterprises.	Few local governments have development finance agencies of any kind.
Modifying ownership	Support for emerging enterprise.	Municipalities can support township enterprise above all by supplying infrastructure, commercial and industrial sites, incubators and innovation hubs, and by directing procurement toward them.
	Empowerment standards for individual or collective ownership.	Municipalities can use Broad-Based Black Economic Empowerment standards in their preferential procurement requirements, but it is not (yet) required.
Trade policy	Trade agreements and measures to prevent unfair trade practices.	Municipalities have no direct control over trade agreements, and rarely engage with the policy processes. Some metros have their own export promotion programmes, including to attract business process service projects.
Finance	The IDC	Municipalities could work with the IDC to co-ordinate funding in line with their industrialisation programmes.
	Incentives	As with the IDC, municipalities could work with the dtic to target incentives to priority projects.
	Tax subsidies	Municipalities could reduce rates for desired enterprises, but only metros and secondary cities have significant own revenue. If municipalities bid against each other for investments, they may end up making unaffordable promises. National tax subsidies are based on fixed criteria that cannot be influenced by municipalities.

Source: TIPS evaluation based on review of laws, local economic development initiatives and municipal budgets.

3 CASE STUDIES

This section reviews the experience of three local municipalities around local economic development: Makhado (Limpopo), Mbombela (Mpumalanga), and uMhlathuze (KwaZulu-Natal). All three municipalities are secondary cities, with populations of over 400 000 people; Mbombela has almost 700 000. All are fairly distant from the metros and none are predominantly mining towns.

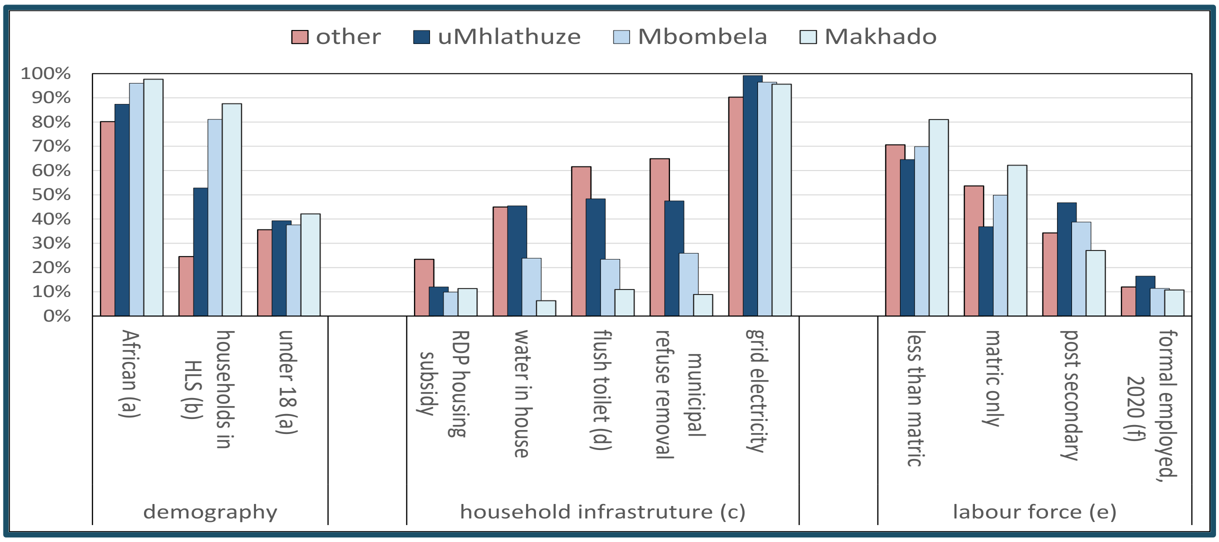
The section first locates the three case studies in the national economy in terms of population and economic structure. It then reviews the relationship between their local economic development initiatives and national industrial policy, based mainly on engagement with officials and participants combined with a review of their IDPs, local economic development plans, and other documents.

3.1 The case studies in the national landscape

The three municipalities fit very differently into the national spatial economy, with major consequences for their economic potential. In each city, most of the population lives in historic labour-sending regions, but they are integrated differently into national and global value chains. UMhlathuze includes Richards Bay, which is a major transport hub, especially for coal exports, as well as the national centre for aluminium refining and fabrication (based on local electricity and imported bauxite). Mbombela covers Nelspruit and several smaller agricultural and tourism towns as well as much of the former KaNgwane "homeland". Makhado is in a predominantly agricultural area, surrounded by commercial farms and impoverished former so-called "homeland" regions.

As noted, economic data on municipalities are almost entirely extrapolations from national data benchmarked to population and employment surveys. The Community Survey provides data on population by municipality for 2016; Quantec estimates, however, differ significantly from those findings. That said, Quantec is one of only two sources to provide consistent figures for municipal economies.[6]

Graph 5. Demography, household services, education levels and employment in case study municipalities compared to the rest of the country, 2016



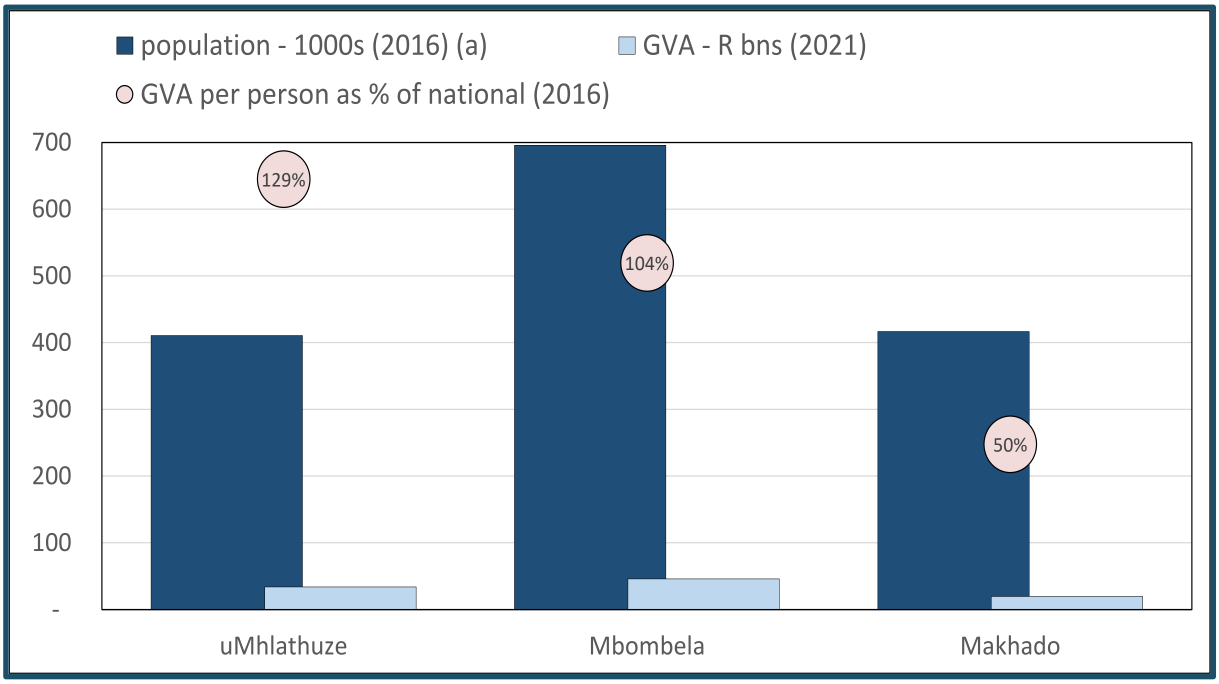
Notes: (a) Percentage of population. (b) HLS = historic labour sending regions. % of households. (c) % of households. (d) May be outside of house. (e) Education data is percentage of population aged 25 to 64. (f) Quantec estimate. Percent of working-age population (15 to 64). *Source:* Calculated from Statistics South Africa. Community Service. Electronic dataset. Downloaded from Nesstar facility at www.statssa.gov.za; and Quantec. EasyData. Regional service. Interactive dataset. Accessed at *www.quantec.co.za* in December 2022.

[6] The other is IHS Global Insight, which CoGTA uses for its district profiles.

As **Error! Reference source not found.** shows, the legacy of apartheid underinvestment in the historic l abour-sending regions meant that the cities studied lagged other areas in government services, except for electricity. Still, according to Quantec estimates, the share of the working-age population with a formal job was above the national average in uMhlathuze, and both there and in Mbombela a relatively high share of people over 25 had post-secondary education.

Taking into account the caveats about municipal economic data, the following graph compares estimates for the three cities for population, gross value added (GVA) and gross value added per person as a percentage of the national average. Both uMhlathuze and Mbombela had higher value added per person than the rest of the country, but Makhado lagged far behind. Value added grew faster in the three municipalities than the national average until 2011, when it began to fall behind as commodity export prices dropped through the late 2010s. Taken together, the three municipalities contributed around 2,5% of the national GDP (based on Quantec estimates) but held 2,7% of the population (according to the Community Survey).

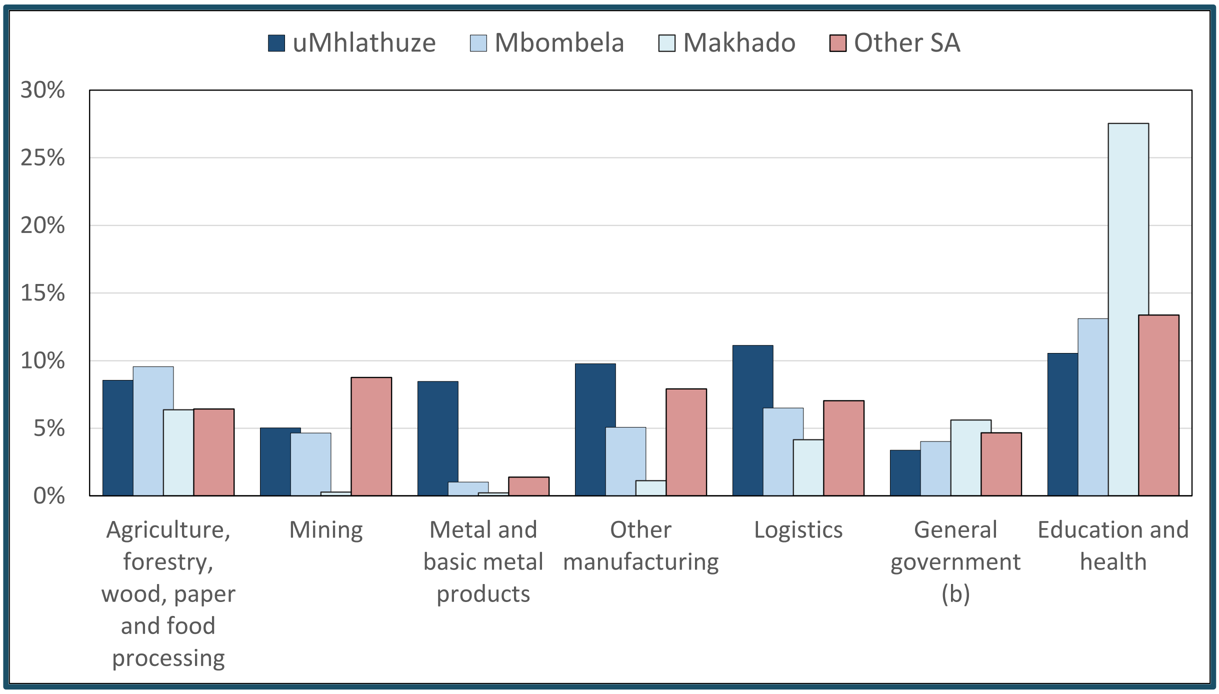
Graph 6. Population, gross value added and gross value added per person as percentage of national average in uMhlathuze, Mbombela and Makhado



Source: For population, Statistics South Africa. Community Survey. Electronic database. Downloaded from Nesstar facility at www.statssa.gov.*za*; for gross value added, Quantec. EasyData. Regional Service. Interactive dataset. Accessed at www.quantec.co.za in December 2022.

All three municipalities depended less on mining than the average in South Africa. Beyond that, their lead economic activities varied markedly. (Graph 7). In Makhado, general government services plus education and health contributed an unusually large share of the economy. This is the norm for the historic labour-sending regions because of the very low level of private production. In contrast, uMhlathuzi's economic profile reflected its strengths in aluminium refining (not mining, because the ores are imported) and fabrication, as well as its role as the terminus for Transnet's coal export lines from Mpumalanga. Mbombela relied unusually heavily on the agricultural and forestry value chains. The data do not separate tourism as a separate category, so the graph understates its importance for the municipality.

Graph 7. Share of gross value added by industry, 2021 (a)



Note: (a) Quantec estimates based on various sources. *Source:* Calculated from Quantec. EasyData. Regional service. Interactive dataset. Accessed at *www.quantec.co.za* in December 2022.

UMhlathuze and Makhado each have a designated SEZ. The Richards Bay SEZ in uMhlathuze is well established, with significant investment in infrastructure by the state and by companies in production on that basis. The SEZ connects to the Richards Bay port, making it well positioned for exporters. In contrast, the Musina-Makhado SEZ, which was the only privately owned SEZ as of 2020, has made less progress. It was established by Chinese companies primarily to refine metals mined in Limpopo. A centrepiece was a large coal-fuelled electricity plant which, however, was bogged down in controversy. In 2022, the owners indicated they would shift to solar power. Still, despite strong support from the provincial economics department, the SEZ was unable to get environmental approvals as of early 2022. (See Makgetla 2021a).

The revenues available to the municipal governments correlate strongly with their economic base, although transfers from the national government provide a partial offset. The total budgets for Mbombela and uMhlathuze exceeded R3 billion in 2020/21, with Makhado at approximately R900 million. The metros averaged almost R30 billion in annual expenditure, but only nine other cities spent over R3 billion. In per-person terms, uMhlathuze budgeted R7 500; Mbombela R4 500; and Makhado R1 700. In Makhado, only 42% of revenue came from its own rates and tariffs, with the rest from the municipal share in the national budget and conditional grants of various kinds. For Mbombela, 70% was from rates and tariffs, and in uMhlathuze, almost 90%.

The location of each city in South Africa's economy affected their population growth, which mainly reflected in-migration from the historic "homeland" areas. In 2016, 60% of the uMhlathuze population lived in former "homeland" areas, compared to 85% in Mbombela, and 90% in Makhado. The population of uMhlathuze climbed 3% on average from 1996 to 2016, while Mbombela grew 1,9% a year and Makhado 0,9% (using 2011 boundaries). Nationally, 30% of the population lived in former "homelands" and the population grew 1,6% a year from 1996 to 2016. Makhado lost around a fifth of its population to boundary changes in 2016.

3.2 Local economic development planning processes

As required by law, the three municipalities have IDPs and local economic development initiatives. Analysis of these documents, particularly for Makhado, suggests that they focus on projects rather than improving the business environment or partnering with other spheres of government to support regional development. Moreover, there is often no follow through on some of the proposed projects and even projects requiring several years to succeed change from year to year. This has led to one respondent describing the local economic development projects as “wishful thinking because there are no feasibility studies conducted on the projects”. Even when the feasibility studies have been completed, municipalities often do not allocate the funds needed to move forward. Both the document analysis and interviews also suggest that the municipalities do not have a consistent reporting mechanism, so it becomes difficult to assess the current status or development stage of the projects.

Makhado’s local economic development strategy encompasses almost every sector of its economy, without much clear prioritisation. It says it has eight strategic thrusts: micro, small, and medium enterprise; infrastructure; agriculture; forestry; investment attraction; tourism; manufacturing; and mining. In effect, that covers virtually every existing activity in the area.

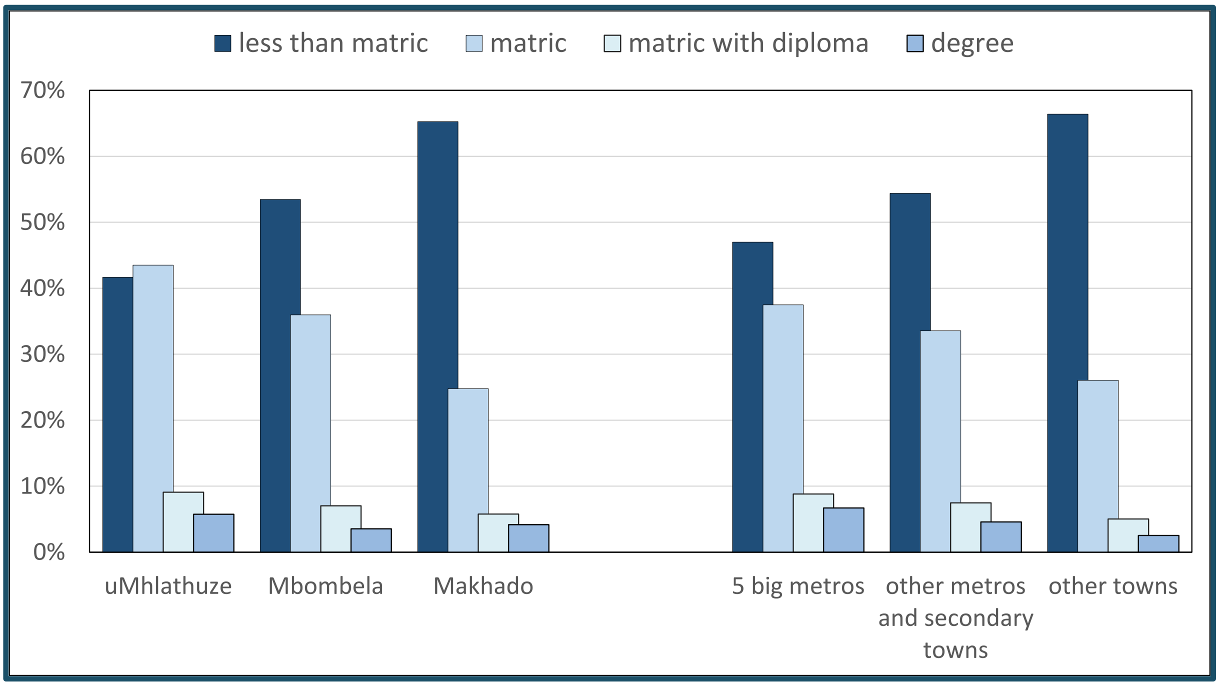
Mbombela has high-level plans that set an overall aim of being “an efficient and enabling municipality with exceptional infrastructure development” but also suggest specific local economic development projects, including an incubator for small and medium business, installing solar geysers, and promoting rainwater harvesting.

The approach taken in uMhlathuze is notably different, presumably reflecting the municipality’s higher level of industrialisation and greater resourcing. The municipality reports it has established a Manufacturing Cluster to encourage interaction between municipal officials and companies. This approach has seen co-development of projects, including: gas to power; ship repair; an airport relocation; beneficiation of existing mineral resources; and manufacturing of automotive components.

The SEZs in uMhlathuze and Makhado are particularly visible sites for articulation between industrial policy and local economic development initiatives. In practice, however, the interviews with municipal officials suggested that they receive little financial or technical support from the national or the provincial government. The gap is particularly striking for Makhado. The municipal local economic development plan does not mention the SEZ at all.

Municipal officials expressed concerns about low levels of education and training in the local labour force, which affect both the skills base for established firms and the ability to attract new investors. In the event, education levels were below the norm for secondary cities in Makhado, but higher than usual in uMhlathuze and at the norm for Mbombela. (Graph 8). That said, South Africa generally still has lower skill levels than other upper-middle-income countries.

Graph 8. Education levels in uMhlathuze, Mbombela and Makhado compared to other municipalities, 2016



Source: Calculated from Statistics South Africa. Community Survey 2016. Electronic database. Downloaded from Nesstar facility at *www.statssa.gov.za*.

All three of the municipalities had either public or private education providers. It appears, however, that these institutions have no platform to engage with local employers. The municipality does not facilitate this kind of interaction.

3.3 Capacity for local economic development initiatives

Interviewees noted that local economic development units are severely understaffed and lack the skills required to plan and execute local economic development initiatives. In one municipality, officials indicated that it has no one who understands or deals with industrial policy at all. They also said that there were insufficient capacity-building programmes for officials in the municipality who engage on local economic development.

A theme that emerged in the interviews was that outside consultants developed both the IDPs and local economic strategies. Officials felt that the consultants often used a boilerplate framework or template, without in-depth engagement on the specific circumstances and strengths of the municipality and the constraints it faced. IDPs drafted by consultants often became a “box-ticking exercise”, which did not articulate well with the decision-making processes and resource allocations within local government. As a result, they did not advance or accelerate development along the lines anticipated in the Municipal Systems Act.

Among the key findings from the research was the lack of ability by local economic development officials to effectively engage stakeholders even when there were structures and processes in place. This shortcoming related to stakeholders from the business community, institutions of higher learning, other municipalities within the district or the district itself, and structures of civil society.

The officials’ concerns that they cannot effectively engage businesses, community members, other spheres of government and other stakeholders is noteworthy. The collaborative nature of economic development, particularly in a context of scarce resources, requires the dedication of time and resources to strategies and trust building between local economic development officials and potential partners in economic development. The lack of engagement likely leads to missed opportunities and to a failure to resolve key challenges for business, for instance around regulatory burdens or infrastructure quality. The discussion in the box on page 25 on Clover and Astral are examples of where this breakdown has economic development implications.

3.4 Obstacles to implementation

The three municipalities have prioritised industrialisation and included industrial development in their local economic development initiatives. However, implementation remains weak. Only uMhlathuze, already the most economically advanced of the three, has well-thought-out projects and a roadmap on how to implement them.

Four core issues emerge. First, as noted, local economic initiatives focus on discreet projects rather than improving the systems – regulatory frameworks and infrastructure in particular – that would enhance the broader environment for business. Second, most projects do not have a feasibility study. As a result, municipalities cannot build a case for each project in order to attract resources and partners for implementation. Third, monitoring of implementation remains inadequate or entirely absent. Instead of fixing problems with existing plans, they are often effectively forgotten and replaced with new projects in the following year. Last, there is frequently no visible connection between municipal projects, the IDP and national industrial policy, for instance the Master Plans.

4 CONCLUSIONS AND RECOMMENDATIONS

The integration of industrial policy and local economic development in South Africa faces a series of tensions.

First, industrial policy has to identify and support sustainable strategies to reduce the irrational spatial inequalities entrenched under apartheid. Before 1994, a series of regimes designed the historic labour-sending regions carefully to leave out known natural resources and keep Africans far from economic centres. Apartheid citizenship rules then ensured these areas were artificially overcrowded. The solution, however, cannot be that every district industrialises equally. Industrialisation requires a combination of competitive economic hubs, more specialised secondary cities, and relatively sparsely populated agricultural and tourism regions.

For industrial policy, the spatial challenge is thus to define a more sustainable national economic geography. Success requires a nuanced understanding of the extremely divergent potential of different regions. Above all, the historic labour-sending areas have very different resources and prospects for meeting local needs and for linking into national and international value chains. Until more sustainable residential patterns emerge, rural-urban migration in South Africa will remain among the highest in the world.

Dealing with the inherited spatial challenge means national authorities have to derive regional priorities from national needs, and negotiate them with other spheres. A realistic perspective on the role of regions in national industrialisation would enable the dtic and other economic departments to work more productively and sustainably with individual municipalities. It would enable a forward-looking transformation in the face of continuous pressure to maintain sunk investments in both physical and social capital from the apartheid era. It would, however, entail some very tough negotiations especially around regions that have limited economic potential.

Second, South Africa's semi-federal Constitutional system provides for elected local governments but limits their authority and capacity in developing and implementing economic strategies. In effect, the national government is required to take the lead on industrial policy. But it has to negotiate with municipalities that provide key local inputs. Those inputs relate above all to the provision and financing of infrastructure for specific new projects; ensuring adequate services for established and emerging producers; building strong communities for workers; and promoting densification or at least more reliable and affordable public transport.

As elected representatives, local leaders come under pressure to promote broad economic development rather than focusing on getting their core responsibilities around infrastructure and local regulations. The national industrial policy should ensure that the Constitutional mandates are understood and respected. The primary contribution of local authorities is to ensure quality, reliable, affordable infrastructure for established and emerging businesses and their workers, with efficient but effective regulatory systems that maintain social solidarity, health and safety.

Third, local governments have vastly different resources, which affects their capacity for engaging on economic development. Their expenditure levels mainly reflect their capacity to raise their own revenues, which is determined primarily by the state of the local economy. This reality can lead to a vicious cycle, where municipalities in the most impoverished areas of the country also have the least capacity to carry out their core functions around governance and infrastructure. They have even fewer resources to develop viable strategies to encourage new economic activities and businesses, much less to implement them. The extent to which the national government should increase spending in less industrialised regions, however, has to align with their actual and potential contribution to national development as well as their long-run population growth.

Finally, for the past 25 years South Africa has had only limited platforms and mostly ad-hoc systems for engagement on economic strategies, and especially industrial policy, across the spheres of government. There is no consistent series of in-depth engagements with local governments or even with the metros. The dtic's spatial programmes generally link primarily to provincial governments, not to municipalities. Most of the other national departments responsible for economic policy have only very limited capacity in place to engage with municipal governments.

There is no easy way to disentangle this complex web of economic, political and governance imperatives. The five main reforms to improve the local context for industrial policy are summarised below:

1. As a start, every industrial policy initiative, including national industry strategies like the Master Plans, should specify the requirements for the affected local governments. What municipalities are able to effectively do in terms of these industry strategies needs to be clearly articulated. Further these plans should specify what they need from local governments in the way of support. The Master Plans should specify the demands on local governments, the costs to them as well as the benefits and risks, and proposals for negotiating them with the relevant authorities.
2. The dtic should develop performance indicators for the quality and reliability of municipal infrastructure for businesses as well as industrial and commercial sites. The key requirements are electricity, freight transport, water, refuse removal, commuter transport and broadband. The indicators should link to outcomes, for instance setting targets for reliability and cost of electricity that encourage off-grid solutions where required, rather than just aligning with Eskom's loadshedding. The dtic could then encourage businesses to report where they face critical infrastructure shortfalls, and allocate resources from its spatial transformation programme to help address them.
3. The dtic should institutionalise and capacitate more platforms for consistent and substantive engagement across the spheres especially around industrial policy. The systems need to take into account stakeholders' capacity, help manage the unavoidable contestation, and minimise delays in decision-making. The offsetting benefits are the achievement of genuine buy-in to national industrial policy from provincial and local authorities, laying the basis for effective alignment around key projects.
4. In the longer run, industrial policy should identify the main competitive economic centres, the role of secondary cities, and the realistic potential for historically rural districts to fit into national and international value chains as well as meeting local needs. That is, it should have a more concrete vision of the spatial end-state for industrialisation in South Africa. It should provide the evidence needed to respond effectively to short-sighted or unrealistic lobbying by provincial and local authorities, as well as shaping priorities for the SEZ and industrial parks programmes. The spatial vision would help the dtic to identify priorities for engagement with key local governments – mostly metros and some secondary cities – rather than trying to engage with all 51 district plans.
5. Municipal support for industrial policy should centre on fulfilling their main mandates under the Constitution. That in turn points to a focus on ensuring adequate, affordable infrastructure for industrial and commercial sites as well as households, plus local licensing and zoning for health, safety and sustainable communities.

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ANNEXURE A. MUNICIPALITIES IN ANALYTICAL GROUPS

ANALYTICAL GROUP	MUNICIPALITIES		
Large metros	City of Cape Town	City of Tshwane	eThekwini
	City of Johannesburg	Ekurhuleni	
Coal and platinum towns	Emalahleni	Madibeng	Steve Tshwete
	Govan Mbeki	Rustenburg	
Other secondary cities and smaller metros	Buffalo City	Mangaung	Polokwane
	City of Matlosana	Matjhabeng	Sol Plaatjie
	City of Mbombela	Mogale City	Stellenbosch
	Drakenstein	Msukaligwa	The Msunduzi
	Emfuleni	Nelson Mandela Bay	uMhlathuze
	George	Newcastle	Ventersdorp/Tlokwe
Other municipalities	!Kheis	Kgetlengrivier	Ngquza Hill
	Abaqulusi	Khói-Ma	Ngwathe
	Alfred Duma	King Sabata Dalindyebo	Nkandla
	Amahlathi	Knysna	Nketoana
	Ba-Phalaborwa	Kopanong	Nkomazi
	Beaufort West	Kouga	Nongoma
	Bela-Bela	Kou-Kamma	Nqutu
	Bergrivier	KwaDukuza	Ntabankulu
	Big Five Hlabisa	Laingsburg	Nyandeni
	Bitou	Langeberg	Okhahlamba
	Blouberg	Lekwa	Oudtshoorn
	Blue Crane Route	Lekwa-Teemane	Overstrand
	Breede Valley	Lepele-Nkumpi	Phokwane
	Bushbuckridge	Lephalale	Phumelela
	Cape Agulhas	Lesedi	Port St Johns
	Cederberg	Letsemeng	Prince Albert
	Chief Albert Luthuli	Mafikeng	Ramotshere Moiloa
	Dannhauser	Mafube	Rand West City
	Dawid Kruiper	Magareng	Ratlou
	Dihlabeng	Makana	Ray Nkonyeni
	Dikgatlong	Makhado	Raymond Mhlaba
	Dipaleseng	Makhuduthamaga	Renosterberg
	Ditsobotla	Maluti a Phofung	Richmond
	Dr Beyers Naude	Mamusa	Richtersveld
	Dr JS Moroka	Mandeni	Sakhisizwe
	Dr Nkosazana Dlamini Zuma	Mantsopa	Saldanha Bay
	Dr Pixley Ka Isaka Seme	Maphumulo	Senqu

ANALYTICAL GROUP	MUNICIPALITIES		
	eDumbe	Maquassi Hills	Setsoto
	Elias Motsoaledi	Maruleng	Siyancuma
	Elundini	Masilonyana	Siyathemba
	Emadlangeni	Matatiele	Sundays River Valley
	Emakhazeni	Matzikama	Swartland
	Emalahleni	Mbhashe	Swellendam
	Emthanjeni	Mbizana	Thaba Chweu
	Endumeni	Merafong City	Thabazimbi
	Engcobo	Metsimaholo	Theewaterskloof
	Enoch Mgijima	Mfolozi	Thembelihle
	Ephraim Mogale	Mhlontlo	Thembisile
	Gamagara	Midvaal	Thulamela
	Ga-Segonyana	Mkhambathini	Tokologo
	Great Kei	Mkhondo	Tsantsabane
	Greater Giyani	Mnquma	Tswaing
	Greater Kokstad	Modimolle/Mookgophong	Tswelopele
	Greater Letaba	Mogalakwena	Ubuhlebezwe
	Greater Taung	Mohokare	Ubuntu
	Tubatse/Fetakgomo	Molemole	Ulundi
	Greater Tzaneen	Moqhaka	Umdoni
	Hantam	Moretele	Umhlabuyalingana
	Hessequa	Moses Kotane	uMlalazi
	Impendle	Mossel Bay	uMngeni
	Inkosi Langalibalele	Mpofana	uMshwathi
	Intsika Yethu	Msinga	Umsobomvu
	Inxuba Yethemba	Mthonjaneni	uMuziwabantu
	Joe Morolong	Mtubatuba	Umvoti
	Jozini	Musina	Umzimkhulu
	Kagisano/Molopo	Nala	Umzimvubu
	Kai !Garib	Naledi	Umzumbe
	Kamiesberg	Nama Khoi	uPhongolo
	Kannaland	Ndlambe	Victor Khanye
	Kareeberg	Ndwedwe	Walter Sisulu
	Karoo Hoogland	New	Witzenberg
	Kgatelopele	Ngqushwa	

ANNEXURE B: OVERVIEW OF THE MUNICIPALITIES IN THE CASE STUDIES

1 MAKHADO

1.1 Overview and social profile

Makhado is located within the Vhembe district in the northern parts of the Limpopo Province. It is in a major passage between South Africa and the rest of the African continent, with Zimbabwe approximately 100 kilometres distant.

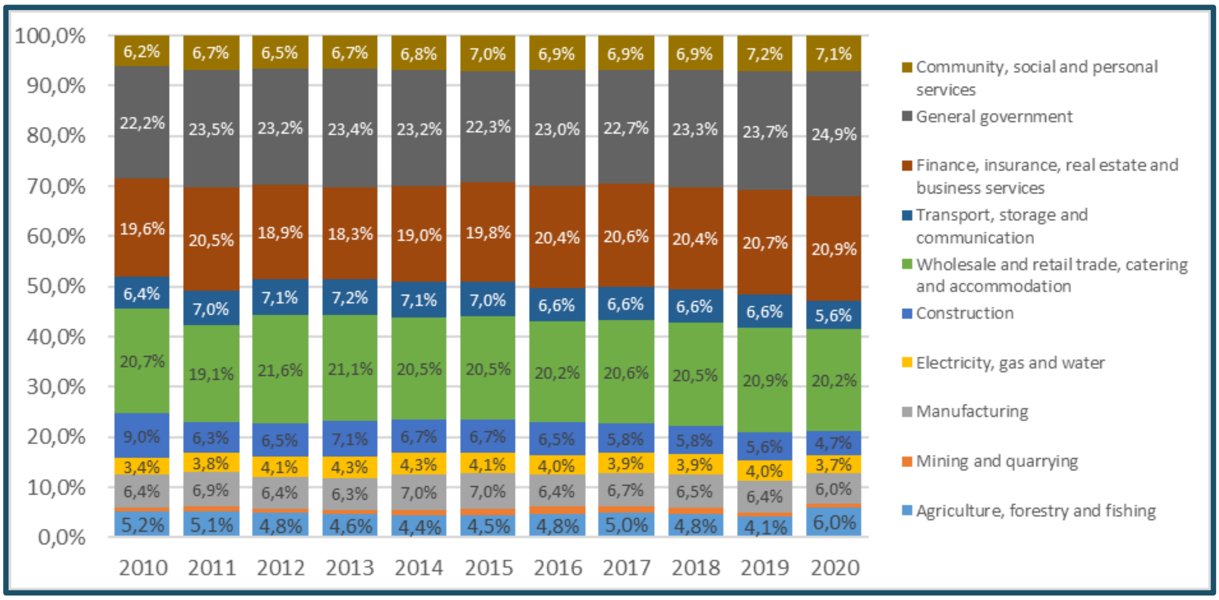
According to the 2016 Community Survey, Makhado had a population of about 415 000, which represented a 4% increase since 2011. The majority of the population in Makhado is younger than 29. Women make up most of the population, accounting for 53% of the total; the national average is 51%. About 98% of the population is African.

In terms of education, a significant portion of the adult population have no schooling or only some primary schooling (26%): 35% of the population has some secondary education, 27% has matric, and only 6% has a post-matric diploma or degree. The only tertiary education available locally comes from mainly private colleges in Louis Trichardt.

1.2 Economic profile

Makhado's biggest economic drivers fall within the tertiary sector, with general government (25%), finance (21%) and wholesale and retail trade (20%) dominating in 2020.

Graph 9. Makhado gross value added by sector, 2010 to 2020



Source: Calculated from Quantec EasyData. Interactive dataset. Accessed www.quantec.co.za September 2022.

1.3 Municipal income and expenditure

In the 2019/20 financial year, Makhado's income came to R769 million, with 42% generated from its own activities and the remaining 58% through mostly national government transfers (i.e. equitable share and other grants). From revenue generated through its own activities, service charges were by far the largest local income generator, at 79% or R256 million. Property rates constituted 10%, or R32 million. The national municipal infrastructure grant, which funds investment in new facilities mostly for households, provided R172 million, representing 73% of transfers.

Makhado's expenditure, similar to other municipalities, goes mostly for bulk purchases of electricity and water and for employment costs and contractors.

1.4 Economic plans

Makhado's local economic development strategy encompasses almost every sector of its economy. As part of its strategy, it has created eight strategic thrusts, focusing on small, medium and micro enterprise; infrastructure; agriculture; forestry; investment attraction; tourism; manufacturing; and mining.

Makhado has a set of plans for specific projects, although none has so far materialised. The plans include efforts to promote local beneficiation of its agricultural and forestry products. It is seeking to establish facilities to process macadamia oils and to package traditional vegetables, as well as a furniture-making plant. It also has ambitions to develop opportunities in eco-tourism and to introduce a general incentive scheme for local production. A review of the annual plans of the municipality noted that proposed projects of this kind often change from year to year with no follow up.

One area of success is in supporting the growth of trade in the municipality by ensuring swift turnaround time for acquiring trade licences. The municipality's turnaround time for a trade licence is between two to three weeks, and it has established a monthly traders market.

To attract investment, the municipality holds an annual Makhado Show to promote business opportunities and showcase local products. The show has also been billed as a platform to highlight the cultural heritage of the area, promote local business, demonstrate available economic investment opportunities, and bring the community together. It is estimated that it attracts 30 000 visitors every year, including local school groups.

In 2017, the dtic designated the Musina-Makhado SEZ, which was expected to centre on metals refining. It is the only SEZ licensed to private operators, which are Chinese mining companies. The SEZ has been promoted heavily by the provincial authorities, but has still made limited progress mostly because it has been unable to obtain the required environmental permits. A recent decision to shift from a large coal-fired plant to solar may assist in this regard.

2 MBOMBELA

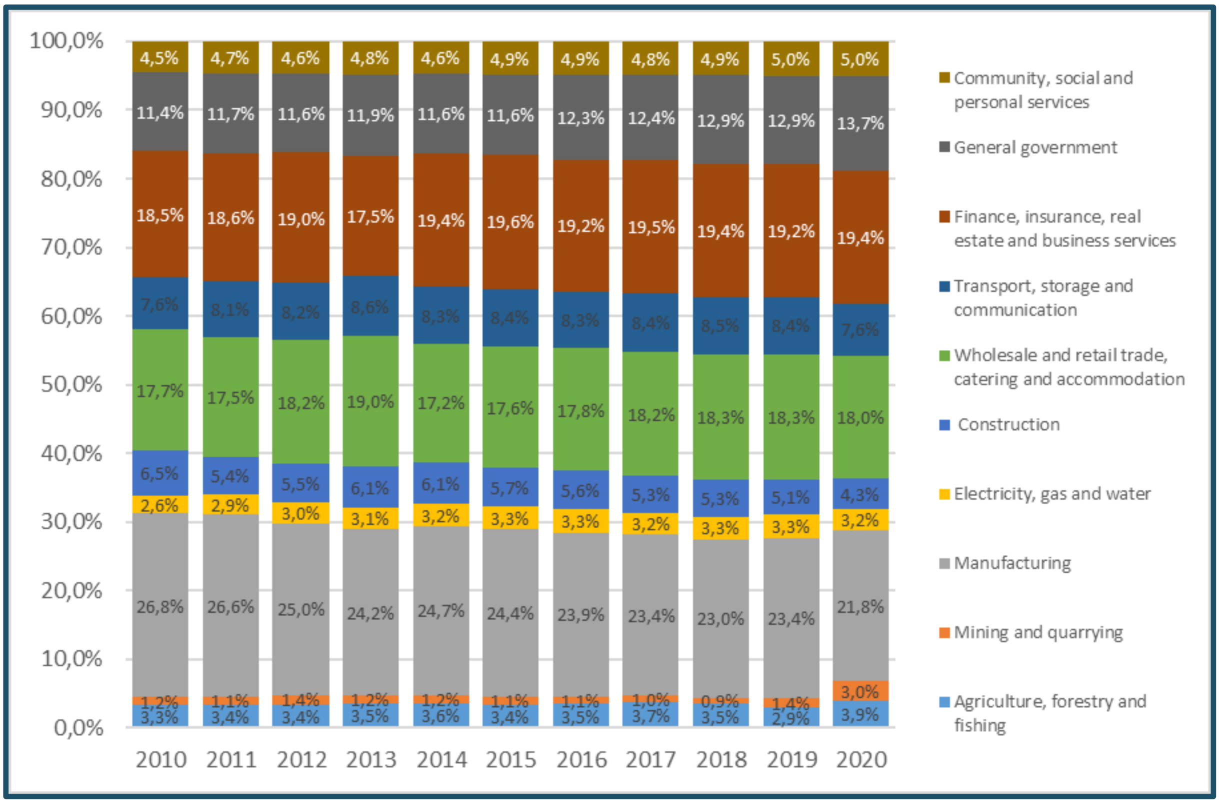
2.1 Overview and social profile

Mbombela is the capital of Mpumalanga, with a population of almost 700 000 in 2016. It recorded an annual population growth rate of 1,2% from 2011 to 2016. The population is 96% African, followed by whites (3%) and Coloureds (1%). In terms of education, 40% of adults had matric, but 12% of residents had no formal education. Some 6% had post-secondary qualifications. The municipality is home to the University of Mpumalanga and several private colleges**.**

2.2 Economic profile

According to the Mbombela (2020:136), the municipality is the largest single contributor to Mpumalanga's provincial economy, accounting for 23% of its growth in 2017. It recorded an annual average growth of 1,5%. As shown in Graph 10, the biggest drivers of its economy are manufacturing (22%), finance (19%) and wholesale and retail trade (18%).

Graph 10. GVA contribution by sector in the City of Mbombela, 2010 -2020



Source: Calculated from Quantec EasyData. Interactive dataset. Accessed www.quantec.co.za September 2022.

2.3 Municipal income and expenditure

In the 2020/21 financial year, the municipality generated a total income of R3,25 billion. Of that, 69% (R2,3 billion) was generated from the municipality's own activities. Rates and service charges accounted for two thirds of Mbombela's own revenue. In terms of transfers, almost half came from the municipal infrastructure grant. The public transport network grant accounted for another 28% of grants; the integrated national electricity programme municipal grant for 10%; and allotment in-kind for 8%.

In 2018 and 2019, the lion's share of Mbombela's budget went for governance and administration (including wages and salaries). Spending on electricity was the second-highest spending item, followed by roads, waste and water management.

2.4 Economic plans

The City of Mbombela developed a local economic development strategy in 2015. The strategy formed the foundation of IDP strategic objectives of 2017-2022. It identified five objectives:

- An efficient and enabling municipality with exceptional infrastructure development.
- An inclusive municipal economy.
- An innovative and technologically advanced municipality.
- Education and skills development.
- Environmentally friendly and tourism municipality.

Manufacturing was identified as one of the sectors for potential development alongside trade, tourism, utilities, and agriculture. The strategy recognised that skills development programmes must adequately prepare residents for upcoming opportunities (Mbombela 2015).

The plan identified strategic local economic development anchor projects. These include:

- Reduction of service delivery backlogs.
- An incubator for small, medium and microenterprise.
- Agriculture beneficiation and development.
- New tourism development in existing conversation areas.
- Organic waste beneficiation.
- Solar geysers in housing development.
- Rainwater harvesting in rural communities and new business developments.
- Hotel development in Barberton.
- Urban renewal and rural development projects.

It is not clear what progress has been made on these measures and projects.

3 CITY OF UMHLATHUZE

3.1 Overview and social profile

UMhlathuze in northern KwaZulu-Natal, which includes Richards Bay and Empangeni, had a total population of 410 000 people in 2016, a 23% increase from 2011. From the municipal reports, 58% of the uMhlathuze residents live in areas that fall under so-called “traditional” authorities and land ownership, while 39% live in urban areas and 3% on commercial farms (uMhlathuze 2020).

The majority of the population is African, accounting for 89% of the population, followed by whites at 6%, Asians at 4%, and Coloureds at 1%. In terms of gender, women account for 52% of the total population. Youth under 30 years old constitute the lion’s share of the population. (uMhlathuze 2020)

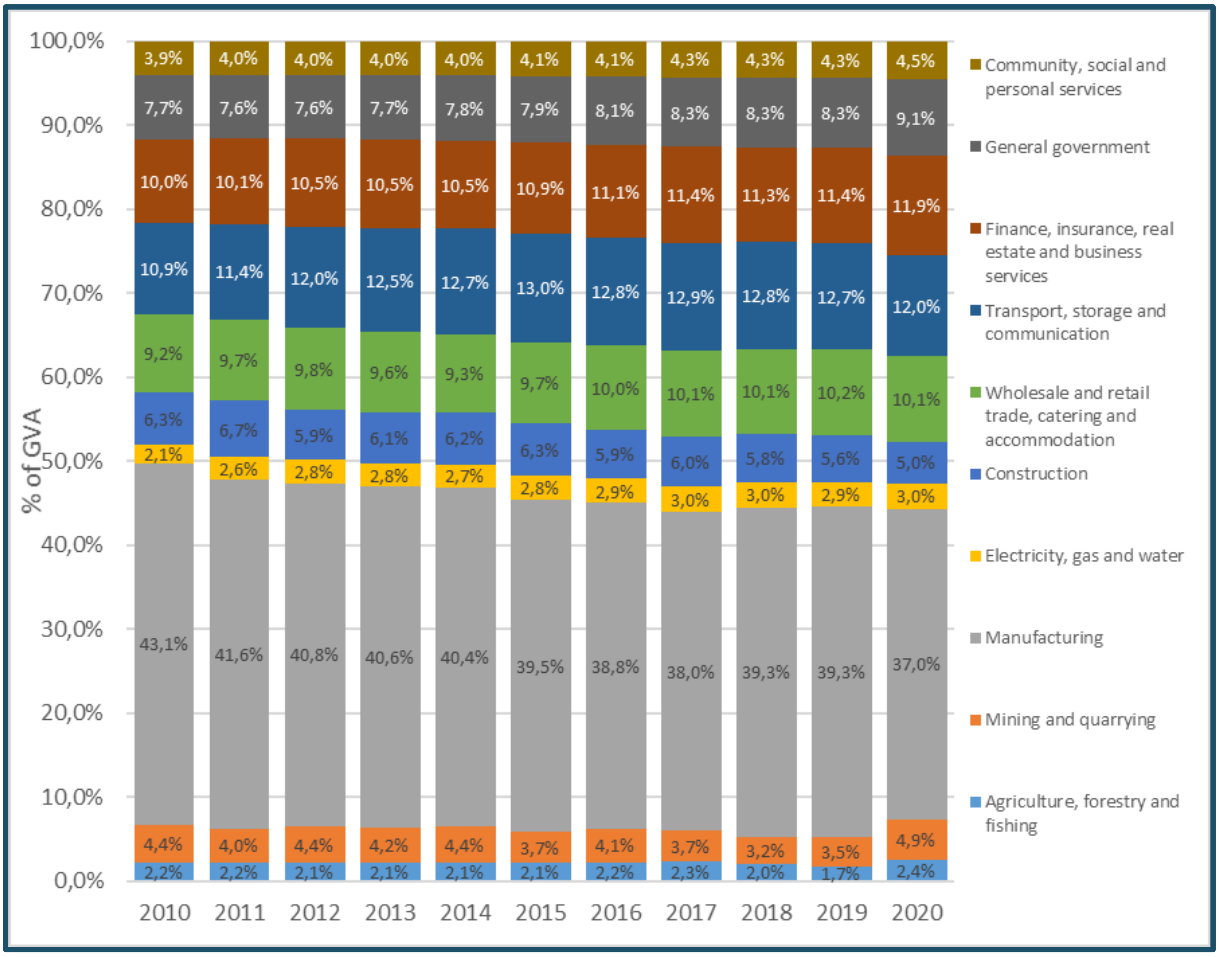
In terms of education, about 80% of the residents in the municipality have completed Grade 9 or higher, while 47% have matric. People with no formal education account for 6%, while those with higher education account for 8%.

The municipality is home to the University of Zululand and to Umfolozi College (uMhlathuze 2020).

3.2 Economic profile

The city is host to the deep-water port in Richards Bay, as well as the Richards Bay Industrial Development Zone. It is the third-largest economy in KwaZulu-Natal, with major corporations such as South32, Sappi, Mondi, Richards Bay Coal Terminal (RBCT) and Bell Equipment, as well as the country’s main coal terminal. As Graph 11 shows, manufacturing is the largest sector in uMhlathuze, accounting for 37% of total GVA in 2020. That is around twice the national average, and mainly reflects the global size of the aluminium refineries.

Graph 11: GVA contribution by sector in uMhlathuze, 2010-2020



Source: Calculated from Quantec EasyData. Interactive dataset. Accessed at www.quantec.co.za in September 2022.

3.3 Municipal income and expenditure

In the 2020/2021 financial year, uMhlathuze generated R3.6 billion in revenue, of which 86% derived from its own activities. As in Mbombela, service charges and property rates generated the bulk of the municipality's revenue, representing 74% and 18% respectively. In terms of government-allocated grants, the Integrated Urban Development Grant contributed 70%, with Water Services Infrastructure Grants being the only other significant grant at 2%.

Spending by the City of uMhlathuze in 2018 and 2019 went predominately for electricity, governance and administration, water and wastewater management, and road transportation.

3.4 Economic plans

UMhlathuze has developed a relatively sophisticated approach to local economic development that includes a range of industrial policy measures. It seeks to create an enabling environment to attract investment that generates economic growth and job creation; provide and maintain the economic and social infrastructure to ensure infrastructure-local economic development economic growth and development; and create more jobs.

UMhlathuze seeks to create an enabling environment by forming economic development partnerships with the private sector; and to hold events to showcase the city's talents, business opportunities and cultural heritage. As catalytic industries, it has identified marine, ship repair and boatbuilding;

agro-processing; the green economy; and tourism. To retain and build manufacturing, it has established a Manufacturing Cluster. The Cluster aims to encourage interaction between municipal officials and manufacturing companies. The municipality intends to work with the private sector to develop manufacturing plants in the following areas:

- Gas to power
- Ship repair
- Airport relocation
- Beneficiation of existing mineral resources
- Manufacturing of automotive components