

Article

Ease of Doing Business in Local Government: Push and Pull actors for Business Investment in Selected South African Municipalities

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Abstract: Ease of doing business with municipalities and within municipal areas refers to the simplicity, effortlessness, and extent to which private enterprises can establish and conduct their business. It is influenced by multiple factors such as the conduciveness of the statutory and regulatory framework and the effectiveness of municipal structures and processes, in order to reduce bureaucratic red tape for the simplification of administrative processes such as the registration of business property, the issuing of permits, and access to electricity. Municipalities thus play a significant role in attracting and retaining business investment by establishing a conducive climate for business growth and local economic development. The aim of this article was to analyze the findings of a survey that was conducted to pinpoint business investment pull and push factors in selected municipalities in South Africa. By means of semi-structured interviews, a survey was undertaken with seven target groups. The obtained data were then triangulated with a desktop analysis of sampled businesses (i.e., case studies) that had relocated, mainly due to municipal service delivery failures. The survey revealed the underlying factors that lead to ease of doing business weaknesses, uncovered winning strategies to attract business investment, and proposed measures to enhance municipal business retention praxis.

Keywords: ease of doing business; South Africa; municipalities; entrepreneurship; business development; local investment; economic development



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1. Introduction

In 2020, South Africa scored 67 points in the Ease of Doing Business Index of the World Bank Group, ranking it 84th out of 190 countries. The country had one of the best business environments in Africa. In particular, the attractiveness of South Africa was high in terms of starting a business and protecting minority investors, which obtained 81 and 80 index points, respectively. South Africa's economic freedom score is 59.7, making its economy the 99th freest in the 2021 index. Its overall score has increased by 0.9 points, primarily because of an improvement in judicial effectiveness. South Africa is ranked 9th amongst 47 countries in the sub-Saharan Africa region, and its overall score is above the regional average but below the world average. South Africa's economy remains in the ranks of the moderately free category [1]. However, recent cases involving attempts to ban the foreign ownership of land, attempts to expropriate land without compensation, and rapidly deteriorating municipal services are seriously discouraging business investment. In this regard, the performance of municipalities in South Africa is a key indicator of the country's economic heartbeat. South Africa's 257 local, district, and metropolitan municipalities are the closest governance institutions to the business sector and should establish a conducive environment for economic prosperity and growth. However, there appears to be limited comprehensive and distinctive information available regarding critical success factors

for the promotion, attraction, and facilitation of local businesses. Furthermore, several businesses have relocated due to ease of doing business failures that were experienced in certain municipalities.

Urban areas serve as economic hubs, functioning as pull factors encouraging migration to cities [2]. However, rapid and unplanned urbanization gives rise to congestion and the weakening ability of municipalities to provide public services in the desired quantity and quality. This, in turn, leads to urban push factors such as failing water and electricity supply, the poor maintenance of municipal infrastructure, rising levels of crime, and a higher proportion of urban populations living in slums. Factors such as these make it difficult for companies to start and conduct their business in municipal areas.

The aim of this article was to report on the findings of a survey that was conducted within selected South African municipalities to identify strengths and weaknesses in the drive to attract, facilitate, and retain business investments within their areas of jurisdiction. To this end, investment push and pull factors were uncovered. Based on the survey findings, practical recommendations are made for municipal business investment and retention. The structure of this article is as follows. Section 2 provides a theoretical literature review of contextual and conceptual aspects with particular reference to the role of municipalities in business investment and business regulations in South Africa. Section 3 clarifies the research methods that were utilized and explicates the case study research design, and sampling and data collection methods. Section 4 outlines the empirical results, while Section 5 contains a discussion of the findings, as well as recommendations for municipal business investment and retention.

2. Theoretical Overview

One of the earliest conceptual works on the subject of ease of doing business was by North and Thomas (1973), who argued that barriers to entry faced by businesses hindered economic development. Building on these conceptions, the empirical work of scholars such as Canare [3], Fonseca et al. [4], and Klapper et al. [5] confirms that a higher cost of starting a business discourages potential entrepreneurs from establishing companies.

The World Bank created the Ease of Doing Business Index, which is a collective assessment of different parameters influencing the ease of doing business in a country. Although this index was discontinued as of 16 September 2021, these indicators assist in gauging the performance of municipalities related to ease of doing business issues, such as the issuing of permits, connecting to electricity, registering business property, protecting investors and enforcing contracts, paying taxes, trading across borders, resolving insolvency, and hiring and firing employees [6] (p. 4).

The economic growth potential of a country is directly related to good governance [7–9]. Job creation, labor productivity, balancing energy and materials consumption, technological innovation, increasing exports of goods and services, and actions for attracting investment all fall within the ambits of government. Aghion [10] explained how the governance environment is an important indicator of assessing the ease of doing business. Governments, as governing institutions, determine the conduciveness of the business environment by statutory and regulatory frameworks and general political stability. This is confirmed by the European Commission's Ease of Doing Business report (2017) and studies that were conducted by the European Union during 2021 in countries such as Austria, Belgium, and the Netherlands. Governments are also responsible for operational aspects such as the issuing of business permits, transparent tender processes, access to electricity, adequate transport infrastructure, and the health and safety of customers. The conduciveness of the business environment ultimately determines the investment attractiveness and the overall ease of doing business in a particular municipal area.

2.1. The Role of Municipalities in Business Investment

The role of municipalities in business investment and economic growth is globally recognized. Goal eleven of the Sustainable Development Goals (SDGs), for example, aims to

make “cities and human settlements inclusive, safe, resilient and sustainable”. The United Nations Secretary General has stressed the importance of local government by stating that the operationalization of the SDGs will mainly “take place at the sub-national level”. With 65 percent of the indicators relevant to local authorities, the effective implementation of Agenda 2030 and the SDGs depends on the involvement of various stakeholders, inclusive of business, at the local level. Additionally, the African Union’s Agenda 2063 recognizes that: “Cities and other settlements are hubs of cultural and economic activities, with modernized infrastructure, and people have access to affordable and decent housing including housing finance together with all the basic necessities of life such as, water, sanitation, energy, public transport and ICT” [11] (p. 14). This recognition is furthermore embedded in South Africa’s National Development Plan that aims “to rethink the urban to face the future challenges” and to “grapple with this task and deal intelligently with social exclusion, environmental threats, economic inefficiencies, logistical bottlenecks, urban insecurity, decaying infrastructure and the impacts of new technologies” [12] (p. 284). According to Van der Waldt [2], the realization of this aim is centered on the adoption of local economic development (LED) strategies during the early 1990s in the country. LED offers municipalities and local businesses the opportunity to work together to grow the local economy. It focuses on enhancing competitiveness, increasing sustainable growth, and ensuring that growth is inclusive.

Municipalities’ role in the ease of doing business mainly centers around promoting local investment by establishing a conducive business environment [13–15]. Given this reality, many countries undertook administrative reforms that were targeted at streamlining and lowering the cost of doing and starting a business. These reforms eradicated entry barriers such as lengthy procedures to register businesses [3]. Administrative reforms usually also recognize the link between national and local government. This link is accentuated by the fact that credit rating agencies factor in the risk factors in local government when assessing national sovereign risk [16]. Foreign business investors also usually consider local conditions, inclusive of the municipal infrastructure that is required for production and manufacturing, business support structures, and political stability [17]. In addition, private sector investment benefits from clear and coherent rules—that is, rules that set out and clarify property rights and facilitate the resolution of disputes. These rules enhance the predictability of economic interactions and provide contractual partners with essential protections against arbitrariness and abuse [18]. Private sector investors (both local and international), therefore, require legal certainty or legal recourse should a breach of contractual terms occur. The impartiality of the justice system, free from political and big business interference, empowers investors to seek remedial action in courts should a contractual dispute arise [19] (p. 332). In addition, political commitment and continued government support play an important role in entrenching and empowering the regulatory institutions that were created to promote private sector investment. The regulatory environment and the institutions that were created to enforce regulations should be transparent and accountable, and should monitor the conduct of all role-players, including government [19]. This introduces predictability in business processes, which is vital in providing a stable contractual environment. The private sector especially requires guaranteed protection of property rights to safeguard its investments [20]. In this regard, Cliffe [21] argued that land reform processes in South Africa should be accelerated to reduce economic uncertainty. Land reform in the local sphere is largely regulated by the Draft National Spatial Development Framework [22], which provides an overall picture of the economic development opportunities with the greatest potential in the country from a spatial perspective. This includes the identification of growth nodes, since the relationship between economic growth and the financial viability of municipalities is significant. Growth in the local economy that is served by the municipality impacts on the municipality’s finances in numerous ways. Local government administrators should note that growth and investment improve household incomes, which means that households are better able to pay for the services that are provided by the municipality. Growth and investment also increase the value of property

in the municipal area, which allows the municipality to increase revenue from property rates. The demand for services by businesses and higher-income residential consumers increases, and as these consumers are able to pay at levels above the cost of the service, the revenue that is raised through tariffs for these services increases and gives the municipality a greater opportunity to cross-subsidize low-income residential consumers.

In South Africa, municipalities are legally required to undertake developmentally oriented planning. The Integrated Development Plan (IDP) of a municipality can be regarded as an overarching strategic development plan for a five-year period. The plan must address issues such as municipal budgets, land (spatial) management, the promotion of local economic and business development, and institutional transformation in a consultative and systematic manner. Annual performance reports of municipalities need to provide progress details to municipal stakeholders (e.g., councilors, residents, oversight committees, and local businesses) regarding achieving service delivery targets. In terms of the stipulations of the Local Government: Municipal Systems Act 32 of 2000, the Local Government: Municipal Financial Management Act 56 of 2003, and relevant National Treasury regulations, municipal annual reports must contain both financial and nonfinancial performances for each financial year, outlining the activities that are performed by the municipality. The range of activities that are carried out in a municipality generally has broad economic implications. Activities include the building of infrastructure by way of housing, facilities, and roads; the sale and provision of services such as water, electricity, and refuse removal; property management in the leasing of land and buildings; the provision of services in land use management; and the zoning and rezoning of land. The IDP must also outline strategies to attract investment and retain and support existing local businesses. This obligation is mandated by the Constitution of the Republic of South Africa, 1996, which stipulates that municipalities must structure and manage their administration, budgeting, and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community. Section 155(6)(a) and (7) of the Constitution sets out specific functions that play a significant role in businesses deciding which municipality to invest in, including the following:

- Building regulations;
- Electricity and gas reticulation;
- Potable water and sanitation services;
- Stormwater management systems in built-up areas;
- Municipal planning;
- Municipal public transport;
- Trading regulations.

The business implications of these municipal functions are confirmed by the World Bank [23] in its benchmarking of sub-national governments' doing business reports. These reports focus on four dimensions that are related to municipal activities, namely:

- Dealing with construction permits: The South African performance is better than the average for OECD high-income economies. However, it is 40 percent more expensive than in developing countries [23] (p. 28);
- Getting electricity: Connecting a business to the grid in South Africa is relatively simple, but it takes, on average, 114.2 days and costs 391.5% of the income per capita, making this step longer and costlier than in comparable economies [23] (p. 42). In addition, unreliable electricity supply is one of several domestic factors contributing to the economy's poor growth in recent years;
- Registering property: South Africa has a detailed sequence of procedures that are necessary for a business to formally transfer property titles. The associated time and costs in determining the ease of property registration are significantly lower than in comparable economies;
- Enforcing contracts: The strong and efficient South African judiciary plays a central role in supporting the private sector investments that are necessary for job creation. Good contract enforcement stimulates companies to invest and establish new business

relations. Conversely, poor judicial performance and lengthy trials impose heavy costs on firms, undermine commercial trust, and diminish the public's confidence in the justice system [23] (p. 69).

The financial viability of municipalities and the way in which funding and spending priorities are administered are critical for investment decisions by the corporate sector. In addition, such investment decisions impact on economic growth in the municipal area which, in turn, affects the revenue base of the municipality. A lower revenue base affects a municipality's ability to serve the corporate community by means of quality services and infrastructure. In this regard, the financial viability of a municipality and its spending priorities are important factors influencing locational decisions by potential investors.

2.2. Easing Business Regulations in South Africa

The Ease of Doing Business Bill was introduced in February 2021 and is still under consideration by the relevant portfolio committee. The purpose of the Bill is to provide for the following:

- “Assessment of regulatory measures developed by the Executive, members and committees of Parliament and self-regulatory bodies, so as to consider the socio-economic impact of regulatory measures, including the detection and reduction of red tape and the cost of red tape for businesses;
- to provide for the establishment of an administrative unit to assist the Executive, members of Parliament, committees of the Houses and self-regulatory bodies in the regulatory impact assessment process and to prepare regulatory impact statements;
- to provide for assistance to businesses in overcoming red tape and other challenges;
- to provide for the functions and powers of the administrative unit;
- to provide for mapping of legislation, regulatory impact assessments and the preparation of regulatory impact statements;
- to provide for exemptions; and
- to provide for the evaluation of existing regulatory measures by the Executive and self-regulatory bodies” [24] (p. 2).

The move to introduce the Bill is in recognition of the concerns around red tape, which impacts on the ease of doing business. The Ease of Doing Business Bill provides for the assessment of regulatory measures that are developed by the Executive, members and committees of Parliament, and self-regulatory bodies. Its primary aim is to consider the socio-economic impact of regulatory measures, including the detection of and reduction in red tape and the cost of red tape for businesses, the determination of the regulatory impact assessment process, and the preparation of impact statements. Additionally, it aims to provide assistance to businesses in overcoming red tape and other challenges, and to provide mapping of legislation, exemptions, and the evaluation of existing regulatory measures to that effect [24].

As alluded to earlier, doing business measures the regulatory business environment for small and medium-size enterprises. It assesses whether an economy has sufficient rules to yield positive outcomes for entrepreneurs and increased economic activity. Clear laws and regulations afford entrepreneurs the confidence and opportunities to invest. Rules should be efficient, transparent, accessible, and enforceable. It should be noted, however, that the annual Doing Business Assessment of the South African Local Government Association [25] clearly shows that entrepreneurs face different local regulations and practices depending on where they operate their business. The particular regulatory framework of municipalities may thus lead to different business investment push and pull factor outcomes [26].

3. Materials and Methods

Following a qualitative case study research design, the survey was guided by two key research objectives (RO), namely:

- RO1: To ascertain business investment push and pull factors in selected municipalities;

- RO2: To isolate best practices and make recommendations regarding ease of doing business and business retention in South African municipalities.

Semi-structured interviews were conducted to obtain comprehensive insights into the perceptions, views, and experiences of participants from seven target groups. An interview schedule was drafted and pre-tested (piloted) with a small sample of the target population to validate the content. Purposive and stratified sampling was used with the intention of identifying specific characteristics of the target population. Data that were obtained from the interviews were supplemented by means of a Delphi panel to obtain insight from business and local government experts, as well as an analysis of the case studies (i.e., 4 sampled businesses). Table 1 outlines the sample size per target group.

Table 1. Target groups.

Target Group	Description	Number of Participants	Percentage of Sample Size
1	Organized businesses and other businesses	25	100
2	Senior municipal officials	25	100
3	District and provincial investment development agencies	7	100
4	National and provincial departments (local economic development sector)	8	100
5	South African Local Government Association (SALGA) officials	7	100
6	Municipal entities and agencies	5	83.3
7	Local government and business experts	9	100
	Total (<i>n</i> = 32)	32	

Municipalities were purposively sampled based on (a) a representative of the country's 257 local, district, and metropolitan municipalities, and (b) a representative of the 9 provinces (c) portraying weaknesses regarding business retention and local investment, contrasted with municipalities that (d) generally succeed in applying winning strategies, as far as ease of doing business is concerned. Table 2 lists the sampled municipalities.

Table 2. Sampled municipalities (representing target groups 2 and 6).

(1) Ekurhuleni Metropolitan Municipality	(7) Polokwane Local Municipality
(2) Fetakgomo Tubatse Local Municipality	(8) Rustenburg Local Municipality
(3) Kouga Local Municipality	(9) Sarah Baartman Municipality
(4) Mbombela Local Municipality	(10) Sol Plaatje Local Municipality
(5) Midvaal Local Municipality	(11) uMhlathuze Local Municipality
(6) New Castle Local Municipality	

In addition to the semi-structured interviews and Delphi panels, 4 cases were analyzed by means of a desktop survey. These cases were selected based on their CEOs' expressed concerns regarding municipal service delivery and recent decisions to relocate (i.e., move from one municipality to the next as a result of changing investment conditions). The cases selected were as follows:

Case 1. Astral Foods Limited

- Sector: poultry production;
- Location: Mpumalanga Province;
- Municipality: Lekwa Local Municipality.

Consolidated group key financial indicators—2021:

- Revenue: ZAR 4.1 billion;
- Operating profit: ZAR 781.6 million;
- Employee benefit expenses: ZAR 1.9 billion;

- Total assets: ZAR 7.3 billion;
- Total annual dividend: ZAR 300.1 million.

Astral Foods is one of South Africa's largest poultry producers. The company owns a processing plant in Standerton in the Lekwa Local Municipality. Astral took legal action against the municipality due to severe supply disruptions that were caused by disintegrating infrastructure. Power cuts and water shortages reportedly cost the company around ZAR 62 million in the 2021 financial year. A court ordered the municipality to submit a long-term plan to repair and improve the infrastructure, but it did not yield the desired results. The main reasons that were cited for business relocation were unstable electricity supply with regular power cuts, and water shortages.

Case 2. Clover Industries Limited

- Sector: consumer goods and products;
- Location: North-West Province;
- Municipality: Ditsobotla Local Municipality.

Consolidated group key financial indicators—2020:

- Revenue: ZAR 8.3 billion;
- Operating profit: ZAR 611.0 million;
- Capital expenditure: ZAR 218.1 million;
- Total assets: ZAR 6.2 billion;
- Total annual dividend: ZAR 143.6 million.

Clover announced that it is to close its cheese processing facility in Lichtenburg in North-West Province to move production to an existing plant outside Durban in KwaZulu-Natal. The company attributed the decision to ongoing problems with service delivery by the Ditsobotla Local Municipality. The move is estimated to lead to 330 job losses in the Lichtenburg economy. The main reasons that were cited for business relocation were:

- Unstable electricity supply;
- Unreliable water provisioning;
- Poor quality and maintenance of municipal infrastructure (especially roads).

Case 3. Volkswagen Group South Africa (VWSA)

- Sector: motor vehicle manufacturing;
- Location: Eastern Cape Province;
- Municipality: Nelson Mandela Bay Metropolitan.

Consolidated group key financial indicators—2020:

- Revenue: EUR 222.8 billion;
- Operating profit: EUR 9.7 billion;
- Employee numbers: 662,600;
- Total assets: EUR 497.1 billion.

Volkswagen Group South Africa (VWSA) plans to move its manufacturing plant in Uitenhage, plus some of its component suppliers in an adjacent supplier park, off the national electricity grid. The MD of VWSA confirmed that the company will invest in a biogas facility that uses organic waste to produce electricity. The main reason that was cited for this move was an irregular electricity supply, especially so-called "power spikes" that occur at least once a week. This costs the company millions of rand, significantly impacting profit margins.

Case 4. Famous Brands Limited

- Sector: food services franchisor;
- Location: Gauteng Province;
- Municipality: City of Johannesburg.

Consolidated group key financial indicators—2020:

- Revenue: ZAR 7.8 billion;
- Operating profit: ZAR 912.4 million;

- Capital expenditure: ZAR 173.3 million;
- Total assets: ZAR 6.2 billion.

Famous Brands' CEO, Darren Hele, stated that the group suffers daily from poor municipal governance. The JSE-listed company is considering relocating, mainly due to the following municipal service delivery challenges:

- Insufficient water supply;
- Unstable electricity supply;
- Poor governance (political and administrative) of the municipality;
- Unsatisfactory maintenance of municipal infrastructure, especially roads.

The data that were obtained from the interviews, Delphi panels, and case studies were synthesized and triangulated to operationalize the survey's objectives.

4. Results

In the following section, the outcomes of the responses from the target groups are portrayed based on selected themes.

4.1. Factors Influencing Business Investment Decisions

Figure 1 illustrates the factors that were identified by participants as the most significant in making business investment decisions. The participants clearly preferred to establish businesses that were close to residential areas, from both a customer and an employee perspective. In addition, the existence of business opportunities, service delivery, and the general state of governance and financial management within the municipality also played a major role in deciding where to establish a business.

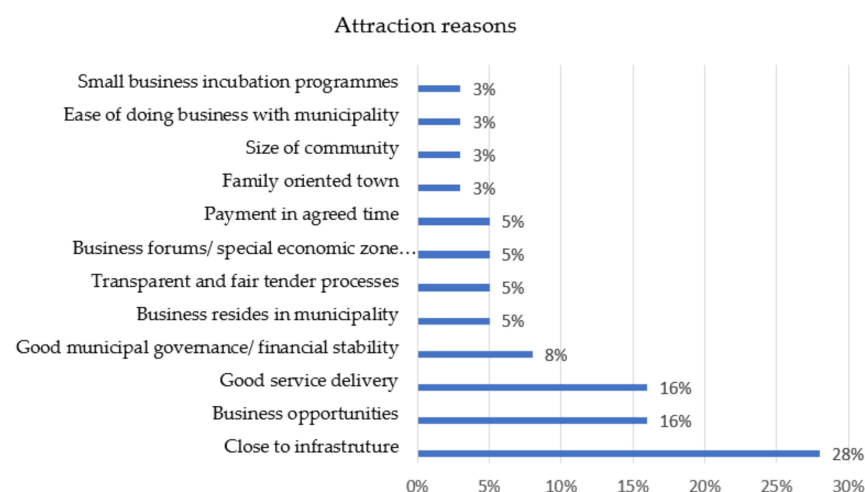


Figure 1. Business investment factors.

The participants were then requested to rate their experiences in terms of attraction and retention based on their interactions with municipalities. The rating scale (Likert type) used was as follows:

1. Very poor;
2. Poor;
3. Average;
4. Good;
5. Excellent.

The following graph (Figure 2) provides insight into their ratings.

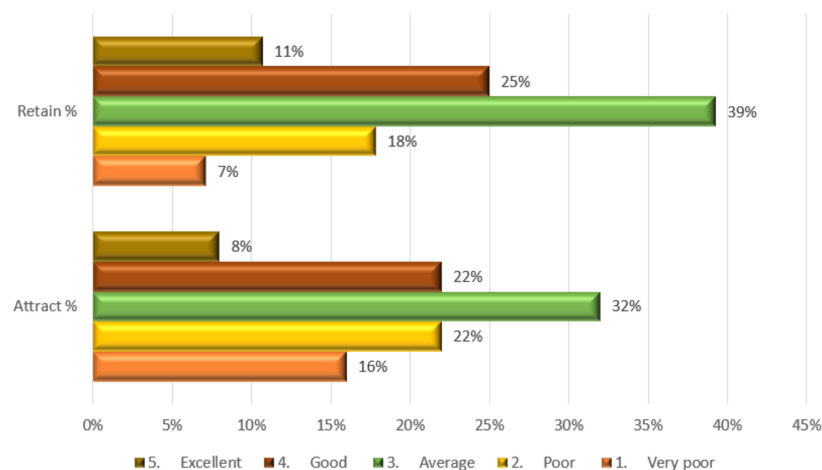


Figure 2. Rating of retention experience.

The responses indicate that 32% of the participants felt that they had an average experience in terms of attraction, and that 39% felt they had an average experience in terms of municipal efforts to retain their business. Interestingly, 38% felt that their experience of a municipality's ability to attract business was either poor or very poor, while 36% felt that municipalities were good or excellent in terms of retaining businesses. The problem, therefore, seems to lie with attracting businesses, which should be read together with the previous responses in terms of the positive aspects that would attract businesses, or the absence thereof. Municipalities should thus focus on those critical aspects which could attract business and investors, such as location, infrastructure, the availability of basic services, transport, market opportunities, and service delivery.

In response to a question regarding the perceived strengths of municipalities to attract (pull), facilitate, and retain business investments, participants cited the following most prominent (frequency of response) strengths:

- Ability to package all services to be investor-friendly;
- Access to funding and incentives;
- Adequate governance and performance-monitoring tools;
- Adherence to supply chain processes and regulations;
- Automation of application processes;
- Availability of economic development incentives;
- Availability of industrial and development land;
- Opportunities for networking across different municipalities and different spheres of government;
- Political stability;
- Business support and retention strategies;
- Quick turnaround time dealing with queries;
- Clear policies, by-laws, and regulations;
- Consistent communication with businesses;
- Coordinated effort between units to address issues;
- Credible IDPs and Service Delivery and Budget Implementation Plans;
- Database of job seekers;
- Dedicated business development support unit;
- Development of business hubs;
- Functional, effective, and efficient council;
- Incorporation of small, medium, and micro-enterprises in large tenders;
- Location of the municipality;
- Reliable basic service delivery;
- Specialist skills, e.g., trade and investment, LED, planning, and financial advice;
- Positive relations between council and businesses.

4.2. Municipal Weaknesses in Retaining Businesses

The participants were requested to reflect on weaknesses that would negatively affect their choice or experience of a municipality in terms of ease of doing business. Their responses are listed below:

- Bureaucratic red tape;
- Corruption and financial mismanagement;
- Lack of safety and security;
- Non-involvement of small, medium, and micro-enterprises in the design of municipal business development strategies;
- Unavailability of land/property;
- Failing municipal governance structures;
- Failure to address business concerns and challenges in a timely manner;
- Failure to address basic service delivery issues;
- Inadequate access to accurate and relevant statistics and information;
- Lack of a municipal business retention strategy;
- Lack of dedicated and well-defined mechanisms to support business;
- Lack of financial support (e.g., start-up costs);
- Lack of human and financial capacity to support business growth;
- Lack of institutional mechanism to fast-track investor applications;
- Lack of monitoring and evaluation of ongoing economic projects;
- Lack of political will and a sense of urgency;
- Lack of trust between the private and public sectors;
- Lack of vision and awareness of what drives investment decisions;
- Limited access to best-practice tools to enhance business performance;
- Poor support for women and youth;
- Non-compliance with supply chain management procedures;
- Poor collection of revenue;
- Poor marketing and packaging of municipal value proposition;
- Poor stakeholder communication and relationship management;
- Lack of business capacity-building programs.

4.3. Rating of Ease of Doing Business

The participants were requested to rate their experiences in terms of business attraction and retention based on their interactions with municipalities. Figure 3 illustrates their responses.

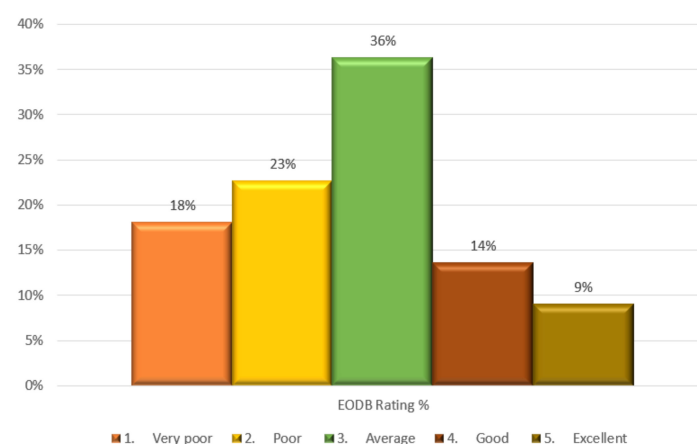


Figure 3. Rating of ease of doing business.

The graph illustrates that more than a third (36%) of the respondents rated their ease of doing business experience as average. It is, however, concerning to note that 41% of the respondents had a less than positive experience, with 23% rating the experience as poor and 18% rating the experience as very poor. Only 23% had a good (14%) or very good (9%) experience.

4.4. Challenges Faced by Businesses

According to the participants, some of the major challenges that are faced by businesses when establishing themselves in the municipality relate to a lack of financial support, crime and corruption, and a lack of business opportunities (Figure 4). In addition, insufficient business support by knowledgeable municipal officials, limited access to zoned and prepared land, human and technical resources, and poor service delivery further hamper the growth and success of their businesses.

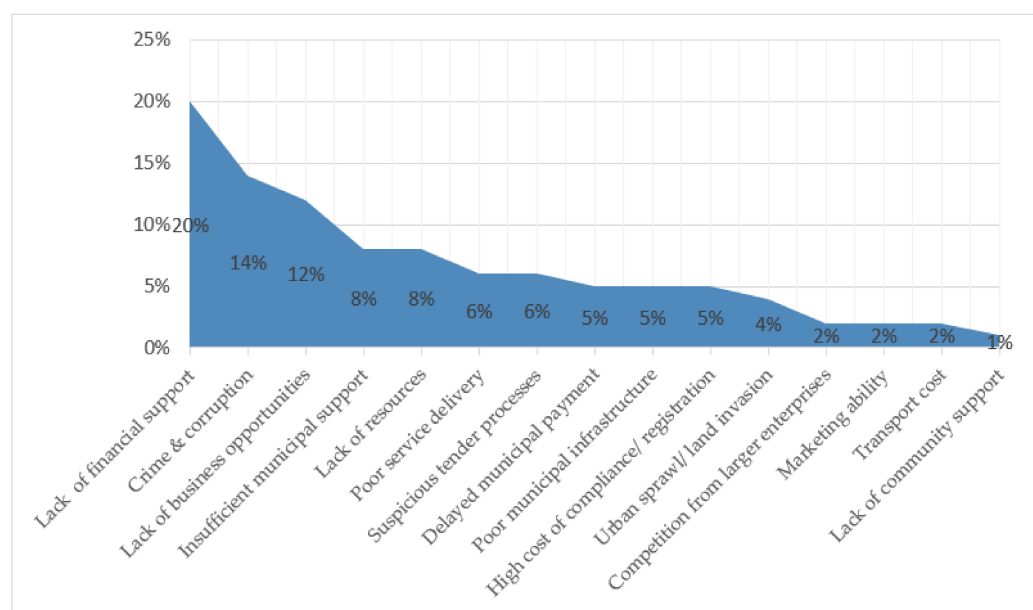


Figure 4. Main business challenges.

Figure 5 reflects the major business push factors. These factors show similarities with the main challenges experienced by businesses and will lead to the lack of business retention in municipal areas where these factors are prevalent.

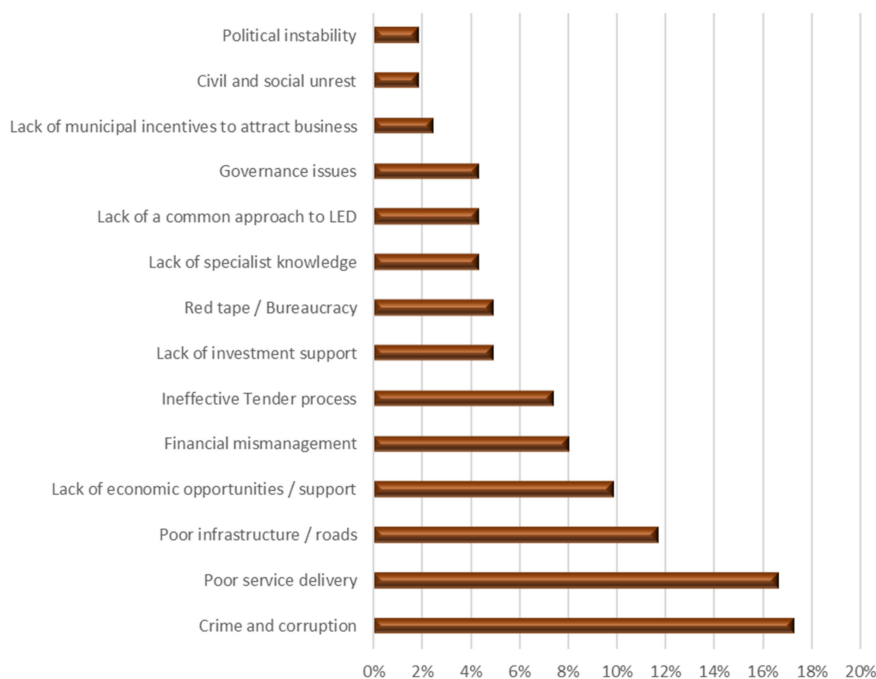


Figure 5. Business push factors.

An assessment of the responses of participants in terms of perceived failures and successes in terms of business support by municipalities revealed a number of failures and successes (Table 3).

Table 3. Failures and successes in terms of municipal business support.

Failures	Successes
<ul style="list-style-type: none"> • Lack of consequence management for acts of corruption and maladministration • Delays in investment approvals • Inadequate allocation of financial resources to perform basic services • Lack of adequate staffing, specifically in terms of expertise • Lack of project implementation, monitoring, and evaluation • Poor billing and collection practices • Poor planning during the preparation of medium- and long-term strategies • Lack of coordination between departments to resolve issues • Inability to reduce red tape 	<ul style="list-style-type: none"> • Aligned planning and asset creation with the IDP and National Development Plan (NDP) requirements • Availability of strong, independent, and autonomous monitoring institutions • Business incentives for development in under-privileged areas • Establishment of municipal tribunals for development • Experienced and skilled municipal management • Fast turnaround time for investment approval • Good infrastructure maintenance projects • Improved cyber security

4.5. Key Push and Pull Factors Affecting Investments and Disinvestments

The participants were requested to provide their views on the most prominent push (negative) factors and the most prominent pull (positive) factors in terms of municipal attractiveness for business investment. The push factors refer to the weaknesses of municipalities in their drive to attract, facilitate, and retain business investments. These push and pull factors were identified by the participants themselves and did not form part of an option list in the questionnaire. The results are very similar to the responses in terms of weaknesses and strengths, as per the graphs below.

The graph above confirms the two main negative push factors as being crime and corruption and poor service delivery. These were followed by poor infrastructure and roads, as well as a lack of economic opportunities and financial support. In terms of pull (positive) factors, the two most prominent factors were effective and efficient municipal service delivery and access to resources, such as services, funding, and support. The willingness of municipal staff, as well as business opportunities, also received support. Interesting additions to the list, as per Figure 6 below, were the existence of special economic zones, incentive packages, and skills registers available to tap into when sourcing staff.

The final element that was investigated focused on practical recommendations that local governments should consider to retain investment. The overall response (Figure 7) was that municipalities should return to the basics and do what municipalities are mandated to do by the Constitution. It is, therefore, not surprising to note that the most stated recommendation was that of prioritizing infrastructural development and the provision of quality and reliable basic services to the community (including the business within). Other interesting recommendations included improving community perceptions and relations by means of a Citizen's Relations Management (CRM) agency and charter, incentives to stimulate investment in local businesses, and the establishment of special economic zones. Trade fairs and conferences also received support from the participants.

The results reveal that it is vital that there is an understanding of the impact of poor service delivery and infrastructure maintenance on investment in a municipality. This can only become possible once a culture is created to investigate the root causes of challenges, to plan accordingly, and to execute and monitor corrective action.



Figure 6. Business pull factors.

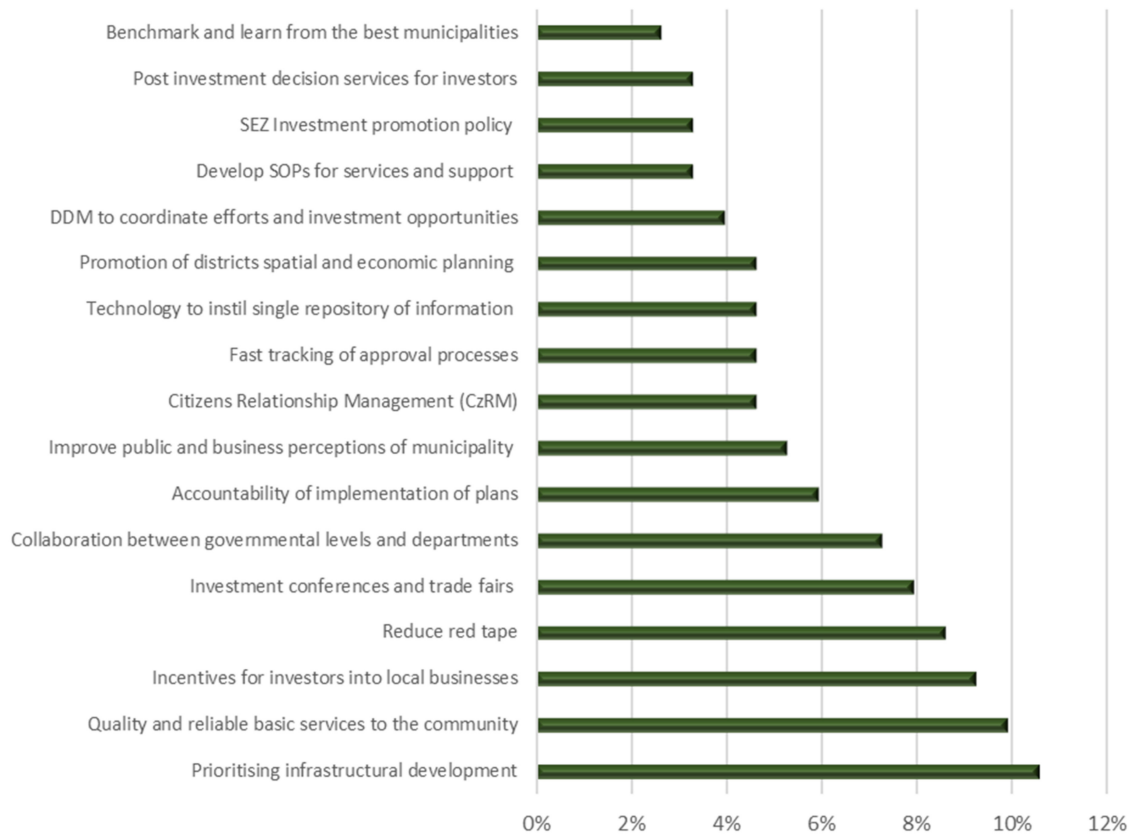


Figure 7. Key recommendations for business retention.

5. Discussion

The analyses of the results revealed a number of significant push and pull factors that influence business investment decisions, as well as the overall ease of doing business observations of businesses and the municipal community. The analysis also uncovered measures that can be recommended for municipalities to promote business investment.

It is evident that municipalities must provide an enabling environment for investment by providing basic services, especially reliable water and electricity supply, as well as road infrastructure. These two challenges were also cited by the CEOs representing the four case studies as the most pressing issues forcing them to relocate. Strategies to increase public infrastructure investment and the maintenance of existing municipal infrastructure boost potential business investment and, as such, deserve special attention. Addressing this issue is impeded by the general inability of municipalities to collect local revenue and raise their own funding. The lack of finances obstructs the capacity of municipalities to maintain infrastructure and to provide adequate services.

The establishment of an enabling business environment is further hampered by a lack of capacity in especially rural, local municipalities to attract qualified and skilled personnel. Expertise in areas of trade and investment is required to ensure that municipalities successfully attract and retain investment. Good corporate governance and skilled, capable municipal managers, planners, and project managers are all pull factors that investors consider when choosing between municipalities. This is usually gauged by considering whether municipalities receive clean audits and have a track record of well-planned and executed municipal projects.

The survey results confirm the need for a sound regulatory framework that supports small business development through assistance to local entrepreneurs. Technology should be utilized to promote “smart” regulation and to support businesses on a continuous basis. Clear municipal by-laws and regulations afford entrepreneurs the confidence and opportunities to invest. It seems, however, that there are great disparities and inconsistencies between the sampled municipalities regarding the nature, scope, and content of by-laws and regulations. A more uniform approach in the local sphere of government is required to level the proverbial playing field for business investment. Low-capacity municipalities should be supported in this regard to ensure that their by-laws and regulations conform to national business development and economic growth policies and strategies. The particular contribution and significance of the research findings are centered around the case study design (country) and sample (context) that were used. Similar studies have not been undertaken in the local government sector in the country. The research findings also make comparative analyses with similar developing contexts possible.

Recommendations for Municipal Business Investment and Retention

There are signs of some successes or so-called pockets of excellence in municipalities, and these can be used as best-practice cases from which valuable lessons can be extracted. In particular, the following are recommended practices which should be considered to enhance and increase the business investment pull factors in municipalities:

- (1) Addressing the issues of corruption and maladministration in local economic development initiatives should be the main priority in all municipalities. Municipal councils should express the required political will to enforce consequence management for offending parties;
- (2) Poor service delivery and especially the maintenance of municipal electricity and road infrastructure deserve special attention. Business relocation decisions are primarily based on this issue;
- (3) It is essential that municipal councils succeed in creating a stable business environment that is characterized by safety, security, and a low crime rate;
- (4) Municipalities should regularly review and streamline inefficient and burdensome by-laws and regulations that may hamper business initiatives. This should include reducing administrative red tape through the provisioning of smart services (e.g.,

- automation of application processes) to encourage new investment and enhance the economic performance of existing businesses;
- (5) The lack of sufficient skills and capacity in municipalities can be addressed by formalized business support services, which include compliance registration, business advisories, capacity building, and networking platforms. In this regard, establishing specialized turn-key agencies with skilled and competent staff to support local businesses should be considered;
 - (6) The identification of special economic clusters and growth nodes should receive attention to incentivize business development. This should include the establishment of corridors, as well as the design and implementation of urban renewal projects and regeneration programs to attract investors. Focus should be placed on unique and sustainable business opportunities within the specific geographical area, but also be linked with surrounding areas and beyond. In this regard, improved coordination between local and district municipalities regarding business development planning and economic growth points should receive attention;
 - (7) Municipalities should design a proactive approach for local and foreign investment through the provision of incentives in exchange for socio-economic development, skills transfer, and job creation.
 - (8) Municipal councils should establish effective methods for meaningful business engagement, especially for the design of economic development policies and business support strategies;
 - (9) Land for industrial and business development should be clearly earmarked in the spatial development plans of municipalities. These potential business sites should be supported by good access roads, adequate electricity and water supply, and other municipal services.

6. Conclusions

This article endeavored to gain insight into the push and pull factors for the promotion, attraction, and facilitation of business investment within South African municipalities. The prevalence of these push and pull factors gives a clear indication of the level of ease of doing business in the local sphere of government. The responses of participants from the seven target groups interviewed and the results of the four cases analyzed made it clear that there are some systemic challenges faced by municipalities. It is evident that the most significant push factors revolve around issues such as poor service delivery, the insufficient maintenance of municipal infrastructure, safety and security concerns, corrupt municipal practices, and the lack of business support capacity. The opposite is true as far as business investment pull factors are concerned. Other pull factors that were identified include financial support, the availability of land, an institutional mechanism to fast-track investor applications, skilled and dedicated municipal officials, and access to business management advisory units.

An understanding of the impact of poor service delivery and infrastructure maintenance on investment in a municipality can only become possible once a culture is created to investigate the root causes of challenges, to plan accordingly, and to execute and monitor the plans. This must also include an understanding of the impact of other aspects such as legislation, the skills and competencies of officials, performance management, and consequence management.

The local government sphere in South Africa is assigned a crucial role of promoting the general wellbeing and socio-economic conditions of local communities. Municipalities have a constitutional obligation to play a critical role in promoting economic development through business support. Going forward, it will become imperative to determine and focus on promoting ease of doing business by addressing business investment push factors. By means of further research, it is necessary to gain insight into international solutions and national best practices to further enhance pull factors. This study was limited in terms of scope (i.e., case study, units of analysis) and size (sample) and requires further longitudinal

research to probe the prevalence of business push and pull factors. Further research should also include full comprehension of related aspects such as good municipal governance, the statutory and regulatory framework, and the skills and competencies of municipal officials. By doing this, municipalities can succeed in attracting business investment and stimulate growth in the local economy.

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