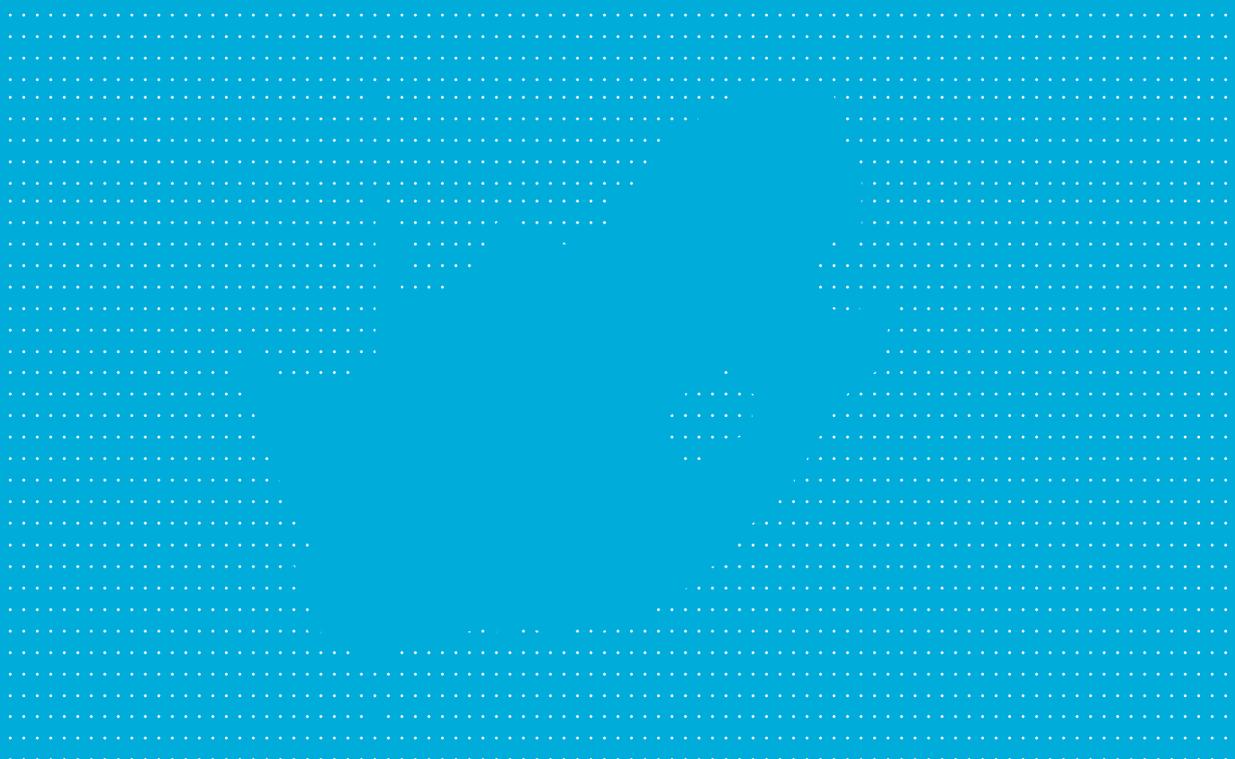


THE

GROWTH AGENDA

Priorities for mass employment and inclusion

CITIES



GROWTH SERIES
Report 4



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE



About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

The CDE Growth Agenda Series

Series editor: Ann Bernstein

Reports in the Growth Agenda series are based on CDE's many policy initiatives, commissioned research and think pieces, as well as consultations and workshops with experts and stakeholders. They were written and edited by Ann Bernstein, Antony Albeker and Professor Alexander Johnston. The entire project has been guided by a reference group of CDE Board members, supplemented by other senior advisers. We are grateful for the advice and assistance of many other people in helping CDE to produce this series of reports.

This document and the six other reports in the Growth Agenda series are available from CDE; they can be downloaded from www.cde.org.za.

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5 Eton Road, Parktown, Johannesburg 2193, South Africa
P O Box 1936, Johannesburg 2000, South Africa
Tel +27 11 482 5140 | Fax +27 11 482 5089 | info@cde.org.za | www.cde.org.za

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The Growth Agenda

Priorities for mass employment and inclusion

For the past two years the Centre for Development and Enterprise (CDE) has been working on a major project to identify national priorities for faster economic and employment growth.

More than 20 years after apartheid far too many South Africans live in poverty, largely because far too few have jobs. This has serious implications for our society; South Africa's considerable democratic achievements are being put at risk by the political, social and economic consequences of low growth, unemployment, poverty and inequality.

As we have worked on the project – commissioning research, taking soundings and consultations, testing ideas with stakeholders – concerns about the country's trajectory have deepened and been more widely expressed by people from all walks of life. There is a broadening consensus that we are in deep trouble; this is an opportunity to focus on priorities for action.

This report is one of the CDE Growth Agenda series of publications. We have identified the catalytic priorities which form the essential building blocks for a fundamentally new approach to accelerating growth and employment in South Africa. These priorities comprise a basis for encouraging a wide conversation across South Africa, by offering a diagnosis of what is going wrong and focused recommendations for getting the country back on track.

The CDE Growth Agenda series consists of seven reports:

- Summary overview: Insights and key recommendations
- Jobs
- Accelerating inclusive growth
- Cities
- Skills
- Business and government
- An export processing zone for the Nelson Mandela Bay Metro

“The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.”

CITIES

“Economists (and many national policy-makers) think about how things are done, but don’t think much about where things are done. But where economic activity is concentrated can be the difference between poverty and prosperity, for people as well as countries.” - World Bank.

INTRODUCTION

Cities produce more than 80 per cent of global economic output. No country has grown to middle-income status without urbanising, and none has grown to high income status without vibrant cities. Cities, therefore, are key platforms for national, regional and global growth.

The centrality of cities is not, however, evident in South African policy documents and economic analyses. Even the National Development Plan devotes only a few pages to cities in its chapter on transforming human settlements. However, if the South African economy is to grow more rapidly, and if it is to do so in a way that creates mass employment, this can only happen in our cities.

This study makes the case for resetting South Africa’s national priorities to focus on its cities, embracing urbanisation, and harnessing the productivity gains that could be achieved in larger, better-run cities. This would put more people in work, create more wealth, and improve social, economic and political inclusion.

AN UNDERVALUED ASSET

The economies of South Africa’s major cities consistently outperform those of its towns and rural areas. The eight largest cities (‘metropolitan areas’) are home to about 37 per cent of South Africans, yet account for 59 per cent of economic activity. As a result, average per capita income in the metropolitan areas is about 60 per cent higher than the national average, and nearly four times higher than in the rural areas.

In recent years, urban economies have grown nearly twice as fast as those in secondary cities and the rest of the country, and created twice as many new jobs. Even so, only Johannesburg has an employment rate close to the 65 per cent achieved in Latin American cities. More than 90 per cent of urban dwellers have access to piped water and nearly 80 per cent have flush toilets; in the rural areas, these numbers fall to 60 and 30 per cent respectively.

Despite the superior performance of South Africa’s cities (especially the metros), national leaders have never fully embraced urbanisation and the merits of urban growth. The result is that we are under-urbanised for a country at our level of economic development. This is a claim that would be controversial if one looked only at the relationship between our level of urbanisation and Gross Domestic Product (GDP) per capita, which conforms

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roughly to global norms. However, South Africa has an exceptionally small agricultural sector and very low levels of agricultural employment compared to other developing countries. The result is that the prospects of rural employment are very poor. In this context we would argue that the country is under-urbanised. This point is underlined when one considers that most rural dwellers live in the former 'homelands', where formal employment levels are a little over half the average of the rest of the country (29 versus 49 per cent) and unemployment levels are nearly double (54 per cent versus 30 per cent).

SOUTH AFRICA'S URBAN FUTURE

South Africa is caught in a low-growth, high-unemployment trap. Getting out of it will take a lot of work across a range of policy areas. While much else has to be done, we need to take advantage of the energies unleashed by urbanisation and make more effective use of the productivity gains our cities can provide.

Throughout history and across all societies, successful economic development has been driven by the dynamism of growing cities – as demonstrated in Europe, the Americas and East Asia. And yet, for various reasons, South Africa has always been a reluctant urbaniser. There is a long history of resistance among policy-makers to facilitating more rapid urbanisation, and prioritising the management of cities. Apartheid-era planners actively opposed black urbanisation, while uncertainty about whether and how to address the apartheid spatial legacy has slowed and distorted what might have been a more successful process of post-apartheid urbanisation.

This report makes the case for resetting South Africa's urban strategy. It is premised on the understanding that future growth will be driven primarily by our largest city regions, namely Gauteng (Johannesburg, Pretoria, Ekurhuleni and surrounds), the Western Cape (Cape Town and surrounds), and KwaZulu-Natal (Durban, Pietermaritzburg, and surrounds). These three areas already generate most of our GDP. If properly managed, they have the potential to transform the entire country and improve the lives of all its people.

South Africa can improve the prospects of rural areas and should do so. Rural economies can and should become more productive and efficient, and rural schooling and service delivery can be much improved. But there is a limit to what can be done, especially in the former 'homelands', which are still home to most rural people. The key sector for significant growth is urban South Africa and this recognition needs to anchor our national development policies.

HOW CITIES FOSTER DEVELOPMENT

City dwellers tend to be richer, healthier, freer, more educated, better informed, and more productive than their rural counterparts. This is common throughout the world, for the simple reason that cities bring people together.

By reducing the physical distance between people, cities make possible the creativity and productivity that human beings are able to achieve only by working together. Cities make it easier to collaborate, to share ideas and generate new ones. The scale of urban economies allows firms and people

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to specialise, so that large, complex tasks can be divided into smaller ones performed by people with different talents and interests, creating higher levels of excellence and various economies of scale.

Cities have bigger markets, making it possible to cover more easily the fixed costs of activities – all-night pharmacies, universities, museums, airports and scientific laboratories. The result is a massive increase in output per person per hour's work, which unlocks far more value. Cities are places where people are able to combine their skills and energies more productively than anywhere else.

Cities and urban poverty

While the average income of urban residents is four times more than their rural counterparts', the scale of urban poverty is significant. Our urban economies do not provide enough jobs, especially for unskilled or semi-skilled workers, either those born in the cities or those migrating to them in search of a better life. As a result, the South African Cities Network estimates that about 25 per cent of metro residents are poor.

Urban poverty will also not fall as rapidly as the economy grows. Faster growth will probably attract more rural migrants, most of whom will be poor when they arrive, and will stay poor until they find work. But this, at least, is something they are more likely to do in the cities than anywhere else; between 1996 and 2011, employment in South Africa's metropolitan areas grew far faster than in the rest of the country, with nearly 60 per cent of net jobs created between 1996 and 2011 being located in the cities. At the same time, at 2.6 per cent a year, metro populations grew far more rapidly than the national average of 1.6 per cent. This has resulted in high levels of urban unemployment even as significant numbers of new jobs have been created.

That said, cities offer poor people a much brighter set of opportunities than areas outside the cities. City economies are considerably bigger than those in towns and in the countryside, and, unlike the rural areas where jobs have been lost in both agriculture and mining, employment in many of the key sectors of urban economies has increased, albeit too slowly. Moreover, cities are attractive to the poor not only because they give them a better chance of finding work, but also because they provide far better access to goods and services such as healthcare, education, and sporting, cultural and recreational amenities.

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Cities and rural poverty

City growth also benefits the rural poor. Millions of South Africans stuck in rural poverty will be best served by an urban-led national development strategy. Such a programme would focus on ensuring that cities are better managed, more dynamic, and able to create new opportunities. That, by itself, would enhance the rate at which people move out of the old 'homeland' areas where opportunities for agricultural employment or family farming are limited, settlements are economically marginal, and unemployment levels (54 per cent) are higher than in the rest of the country.

Rather than providing special forms of 'rural assistance', South Africa should seek to strengthen the linkages between rural people and urban opportunities. This would focus on improving rural infrastructure, tackling the inefficient and unjust property rights systems that prevail in the former 'homelands', linking those areas to sustainable agri-processing value chains, and providing sound education and training so that rural people can take advantage of opportunities irrespective of where they are created. Programmes can also be put in place, where feasible, to promote small-scale farming and rural entrepreneurship, but these will have to ensure that their beneficiaries become part of, and able to compete in, the national economy. Essentially, we should aim to remove the barriers that prevent rural people from accessing urban and economic opportunities and keep them trapped in rural poverty.

SOUTH AFRICA'S PROBLEMATIC URBAN SPATIAL LEGACY

Although South Africa's most plausible route to prosperity runs through our cities, their structure, layout, governance and functioning – much of this reflecting a malign heritage of segregated land use and the denial of economic opportunity – hamstringing their capacity to generate and sustain rapid economic growth.

The most important of these deficiencies relate to urban spatial structure. Population densities (ranging from 2 500 to 4 000 people per square kilometre) are much lower than the norm for comparable cities in the developing world (which range from 7 000 people per square kilometre in Sao Paulo to 30 000 in some Indian cities). This means that urban economic activity here is much less efficient than it could be. Low density levels mean that the benefits of proximity are reduced, because there are fewer opportunities for people to trade, share ideas, and collaborate. In addition, transport costs (of people getting to work and of goods getting to market) are raised.

Low population density is one of the key legacies of apartheid, a result of efforts by its planners to separate black workers from white residents, and leave buffer zones between the two parts of the city. However, despite paying lip-service to the need to densify the cities, many post-apartheid policies have unintentionally reinforced and reproduced apartheid spatial patterns through badly-designed patterns of investment in housing, transport and other infrastructure.

The main reason for this is that our policies are driven by other considerations and priorities, notably the fact that policy-makers have focused on delivering as many houses to low-income households as possible. This has been a huge missed opportunity because, despite significant successes in housing poor households, the programme has done little to densify the cities, and may well have worked against this. Given that our housing policy has been to build as many houses as possible, it has sought to minimise the cost of delivering each unit. As a result, RDP houses have been built on the cheapest land, which is almost always poorly located, and generally on the outskirts of the city.

In this regard, recent proposals to concentrate housing delivery in a small number of mega-projects – such as those proposed for Syferfontein and Droogheuwel in Gauteng – will reinforce and reproduce all the worst spatial

“Many post-apartheid policies have unintentionally reinforced and reproduced apartheid spatial patterns through badly-designed patterns of investment in housing, transport and other infrastructure.”

effects of the RDP housing programmes to date. These projects, which will consist of tens of thousands of houses, are generally very badly located, making it very difficult or impossible for their 'beneficiaries' to access economic activities.

The real costs of cheap housing

It is now widely accepted that our public housing spend would have been far more effective if it had been used to densify the cities. Too much housing money has been spent outside the cities, much of it in small towns and rural areas with very limited economic prospects. For example, the Centre for Affordable Housing Finance in Africa has found that while about 24 per cent of houses registered in 2013 were 'government-sponsored', only 21 per cent were registered in the metros, and 29 per cent outside them. Given data limitations, this calculation probably underestimates the degree to which RDP housing has been disproportionately delivered in non-metro areas. Whether inside cities or outside them, spending housing money in the wrong place means either trapping people in areas where they are bound to remain poor, or building housing assets that will become stranded. As a developing country with huge needs and limited funds, this is not the way to manage our resources.

As numerous policy makers – including the present minister of human settlements – have acknowledged, South Africa cannot afford to continue its current approach to housing. Not only are there too many houses that must be built, but, because they are built in the wrong places, transport costs, borne by the state as well as households, are unsustainable. It is doubtful that South Africa can ever achieve its stated policy goal of providing housing for all in this way: while millions of houses have been built since 1995, the backlog has grown from an estimated 1.5 million to more than 2 million in 2013.

Furthermore, the subsidy made available for building RDP houses – currently about R160 000 per unit – does not cover their full costs. The actual costs to municipalities of delivering houses are up to 75 per cent higher, depending on location. As a result, the Financial and Fiscal Commission has calculated that it would cost more than R800 billion to deliver all the houses envisaged by current policy by 2020. That would be nearly four times more than the amount currently budgeted for this process. It is entirely unaffordable without significantly changing the pattern of government spending.

Housing remains an urgent need, but it is senseless to build houses for low-income households in places where they cannot access economic opportunities. It would be far better to use housing funds to densify the cities, and provide homes on better-located land closer to their economic centres.

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Spending on other infrastructure has lagged

While significant funds have been spent on housing, investment in public infrastructure (roads, water, electricity and sewerage) has lagged. Infrastructure investment as a proportion of GDP peaked in 1980, but fell significantly between 1994 and 2006. It rose again between 2006 and 2010, but this was partly due to spending on the 2010 Soccer World Cup (including building the stadia). Even then, public infrastructure spending was about half that achieved

in the 1970s and 1980s. Moreover, much of the infrastructure created in the 1970s and 1980s had useful lives of about 30 years and now needs to be replaced. Not only is this not being done, but, as the South African Council of Civil Engineers has repeatedly pointed out, those assets are being run down more quickly due to inadequate maintenance, which then significantly raises maintenance and replacement costs.

This would be bad enough if urban infrastructure could support faster economic growth. In practice, however, even during the boom years of the mid-2000s, infrastructure bottlenecks set 'speed limits' on how quickly urban economies could grow. In the five years between 2009 and 2013, the three metropolitan councils in Gauteng spent just more than R60 billion on roads, electricity, water and sewerage. This sounds like a lot until one considers that these cities have some 10 million residents, which means that the metro councils spent about R6 000 per person on infrastructure in this period, or about R1 200 per person per year. By contrast, in 2013/14 London spent about R10 000 per capita on transport alone.

Public transport is inefficient

One of the consequences of low density is that public transport systems tend to be inefficient and expensive. No one involved in the transport sector believes enough has been done to develop workable solutions. The challenges that any public transport system would need to solve include:

- Most commuters use the system twice a day, once going to work and once coming back. This creates unidirectional flows at those times with little off-peak traffic in between.
- Most passengers are poor, and transport already accounts for a significant proportion of household spend every month, setting limits on fares.
- Present operators – especially but not exclusively minibus taxi operators – have significant power to block or disrupt reforms.
- Some of the fixed infrastructure, particularly train tracks and stations, is located in places that do not match the evolving spatial economy of the cities.
- Informality and gangsterism in the taxi industry, combined with business practices that encourage unsafe driving, make subsidy politically difficult.
- For low-income commuters it is not only the costs of expensive public transport that matter, but the implicit tax on hourly earnings due to long commutes.

As many policy documents have noted, long-term transport solutions require the spatial reordering of South African cities, but little has been done to achieve this goal. Instead, we have invested heavily in subsidising public transport, establishing new public transport systems such as the Gautrain and bus rapid transit systems in major cities, and renewing Prasa's rolling stock.

One common feature of these investments is that they have failed to meet the cost and revenue projections on the basis of which they were approved. In some cities, the fare income of bus rapid transport covers less than 60 per cent of direct operational expenses. The Gautrain service is also heavily subsidised.

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Public transport in South Africa may not have to be fully commercially sustainable, but transport systems need to be far more competitive, thereby raising standards of safety, efficiency and punctuality. One way of achieving this is to subsidise consumers rather than service providers.

DEVELOPING TOWNSHIP ECONOMIES

One possible response to the spatial legacy of apartheid that has attracted increasing attention from policy-makers is to stimulate economic activity in the townships, including providing township businesses with various forms of public support. Properly conceived, this is a worthy goal. But efforts to strengthen township economies should begin with a realistic understanding of the true economic potential of particular townships.

Township economies are shaped by their history

For historical reasons, townships are dormitory suburbs with mainly low-income residents. Like other mono-functional urban spaces – such as many historically white suburbs and industrial zones – the dormitory nature of townships reduces the overall efficiency of the urban economy. In recent years some townships, especially those with relatively large consumer markets, have gained some amenities, notably shopping malls. However, economic activity remains dominated by personal and household services, notably retail and entertainment services, home construction and vehicle repair, hairdressing and healthcare, electricians, schooling, food preparation and laundry.

The scale of these activities is limited because most township households are far poorer than suburban households; many township businesses are small, informal, and operate on very narrow margins.

Another factor shaping what is economically possible in townships is the way in which commercial culture and entrepreneurship have been distorted over time. Apartheid-era restrictions on economic activity, zoning rules and other regulations made it very difficult or impossible for Africans to establish certain sorts of businesses, and manage them successfully. Too few commercial areas were established, and many forms of economic activity were simply illegal. Townships lacked physical and financial infrastructure, as well as professional service providers. The result was that businesses, to the extent they were established at all, tended to be informal, unregulated and small. They rarely succeeded, creating very few entrepreneurial role models for others to follow. Given these factors, as well as low income levels, it was very difficult for households to accumulate the start-up capital and know-how to get a business off the ground.

Spatially and economically, in other words, the townships present considerable challenges to anyone seeking to stimulate economic growth there. That is before one even considers the human capital deficits created by the absence of quality education for very many township residents.

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How not to go about it

Some policy makers have drawn the wrong conclusions from these realities, and used them to advocate policies for stimulating township businesses that have little chance of succeeding. Thus Gauteng's department of economic development has argued in a draft strategy document that the high failure rate and low income levels of township businesses are due to 'unfair competition' from foreign traders and/or formal sector businesses with 'monopoly power'. Based on this, it argues that township entrepreneurs need to be supported by protecting them from outside competition and providing them with entrepreneurship training, cheap finance, subsidised infrastructure and preferential procurement arrangements.

Supporting township entrepreneurs could be beneficial if done well, but protecting them against competition from foreigners and/or 'monopoly' firms would be the wrong way of doing so. Apart from the question of whether external competition is really 'unfair', protecting local firms against competition would mean imposing higher costs on consumers. Given the overriding importance of improving the welfare of poor households, this would be misguided.

The growth of services-dominated township economies depends primarily on the extent to which township residents get jobs and what kinds of jobs they are. Township economies would therefore be stimulated by expanding employment across the city and improving the ability of township residents to get those jobs by improving their access to good education and skills training, as well as improving transport.

Ultimately, the interests of township residents lie in ensuring the expansion of businesses and jobs in the city as a whole, rather than seeking to ensure that jobs are created predominantly in the townships. This means that urban policy should focus much more closely on what it would take to get urban economies to grow more rapidly, and to absorb more labour. This has not been the approach to date.

CITIES DO NOT SUFFICIENTLY PRIORITISE GROWTH AND JOBS

South Africa's cities have a constitutional duty to promote social and economic development. Whether or not all our cities fulfil this duty is debatable. What is clear is that municipal and metropolitan governments have only very weak incentives to prioritise growth, because cities' revenues derive largely from the sale of goods and services (water, sanitation, refuse removal and electricity), property taxes and allocations from the national fiscus through the local government equitable share, the fuel tax, and various grants.

While these revenue flows are linked in various ways to the overall level of economic activity, cities' revenues are not directly linked to the performance of their economies. By way of comparison, access to revenues derived from local, personal or corporate taxes as well as local consumption would incentivise city leaders and managers to make their cities grow as rapidly as possible.

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Cities need to build relationships with the businesses that play significant roles in their economies: large employers, international firms with local headquarters, firms in key growth sectors, small business associations and the like. These relationships need to focus on creating the best possible environment for business growth and expansion. This will require agreement on roles for city government and market players as well as focused projects and programmes, including construction projects, public infrastructure projects and development initiatives.

A core focus on urban growth would force cities to re-evaluate their goals: how they think about building relationships with local business leaders, how land is zoned, how publicly-owned land is released, how they plan public transport or other infrastructure and so on. All of these activities can be delivered in ways that prioritise different kinds of outcomes. But because cities are not really incentivised to pursue economic growth, the delivery of these services has been shaped by other priorities.

CITY VOICES ARE NOT HEARD ON KEY ISSUES

Despite the economic primacy of our cities, South Africa's constitutional system and political culture underplay their economic and political importance. This manifests itself in a number of ways:

- **Cities are under-represented in national policy development and budget processes.** Their voices are muffled by their being moderated through the Department of Cooperative Governance and the National Treasury's intergovernmental fiscal relations division, both of which have many other priorities. The cities – collectively represented by the South African Local Government Association (SALGA), rather than representing themselves – are consulted during the budget process only through the Local Government Budget Forum. This forum is not empowered to discuss the budget as a whole, but only those fiscal, budgetary or financial matters that affect local government. There are other forums in which cities' resource needs are discussed between various spheres of government, but all are appendages to processes that do not explicitly prioritise cities' needs.
- **Cities have far too little say about how state-owned enterprises (SOEs) plan their investments.** The role of SOEs in development spending has expanded dramatically, but the cities' relationship with those entities – and therefore with crucial infrastructure spending – has been left behind. Vital decisions, - such as whether, where, when and how to expand Durban's port and where, when and how toll road expansion will be implemented, are made without the relevant cities' planning input. In addition, SOEs own a lot of land in the cities and take decisions about its use and disposal without consulting individual cities to establish what would be in the interest of the city's growth trajectory. Cities should be given a far greater role in planning and choosing national priorities.
- **City government is seen as less important than national and provincial politics.** This does not match the reality of South Africa's increasingly urban economy and has negative consequences for the cities. One result is that talented and ambitious young people do not consider careers in local government, so the political and administrative talent available for leading and managing the cities is scarcer than it should be.

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The upshot is that the cities – key vehicles for national growth, employment and regeneration – do not receive the attention they need from policy makers, nor in general do they attract the quality of leadership and management talent required for what are some of the most important jobs in the country.

CITY FINANCING: A LOOMING CRISIS?

South Africa's metros turn over a lot of public money: in 2013/14, Johannesburg, Cape Town and Durban had revenues of nearly R90 billion. Of this, more than 80 per cent was generated by the cities themselves, mostly from the sale of electricity and from property taxes, with the sale of other goods and services, such as water, refuse collection, fines and so on, playing a smaller role. The remaining 20 per cent of revenue was provided by central government.

How cities spend this money is regulated by various laws, but 60 per cent of operating expenditure consists of bulk purchases of electricity and water, as well as spending on personnel. Bad debts now total more than R30 billion in the three largest metros; writing off a portion of them accounts for another eight per cent of annual operational spending. Both personnel spending and bulk purchases have increased rapidly in recent years, implying a reduction in the proportion of spending going to maintenance and other essential infrastructural functions. The rising cost of bulk purchases has also set limits on how quickly cities can raise revenue from other sources (such as property taxes), as lower economic growth since 2008 has meant that household budgets are under increasing strain.

Because cities are so important to our future, we need to make sure that enough is spent on them to help them grow as quickly as possible. However, there is cause for concern about the financial health of many of our municipalities. Many municipalities seem unable to maintain existing infrastructure and expand it quickly enough to support accelerated population growth, to say nothing of more rapid economic growth. The backlog in infrastructure maintenance reflects a large and growing contingent liability, because the longer maintenance is delayed, the more expensive it will be. For example, metro governments are responsible for about one third of the country's 150 000 kilometres of paved roads. According to SANRAL, maintaining these roads and upgrading only those that are in a poor condition would cost about R15 billion a year. In 2014, only two thirds of this amount was available.

Cities themselves are responsible for some of these deficiencies; poor planning of maintenance and upgrading projects, combined with poor execution, has reduced the efficiency and effectiveness of maintenance. Ironically, some cities have failed to spend their capital budgets in recent years. Nevertheless, the cities generally don't have enough money to maintain and expand urban infrastructure, and are not prioritised in the national public spend. More public money should be spent on key urban regions.

Every year, South Africa's cities fail to collect billions of rands' worth of rates and service charges, a figure that reached more than R2 billion in Johannesburg in 2013 and between R1.2 and R1.5 billion in Cape Town, Durban and Ekurhuleni. Given its consequences for city revenue, and therefore urban growth prospects, this deficiency should be urgently corrected. Nor does it help that cities often underestimate the cost of properties subject to property

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taxes and essentially exempt RDP houses from ever paying such taxes. This anomaly also needs to be addressed.

It's time to prioritise our cities

Urbanisation and urban-led growth have been the bases of economic growth and national development in nearly every successful country. But South African policy-makers have been reluctant to embrace urbanisation, with considerable ambivalence still prevalent in key policy circles. This outlook needs to change. We need to improve the quality of life in the cities, invest in the right kind of infrastructure and create an environment in which firms, households and individuals can thrive. South Africa's cities are the country's greatest springboard for economic growth, inclusion and development.

Despite the absence of plausible alternatives, public policy has never prioritised our cities. To the extent that national policy makers have thought about cities, they have seldom considered the key challenges they face in facilitating the more rapid growth of their economies and in turn the impact of this growth on the national economy.

Exploiting this potential will not be easy. South Africa's major cities face significant spatial, economic and social challenges, requiring extensive resources, innovation, effective management and determined leadership. But they are also a comparative strength to which the country can and should play in the course of efforts to unlock its growth potential.

RECOMMENDATIONS

1. Embrace South Africa's urban future

In their quest for faster economic and employment growth, along with reduced poverty and inequality, South African policy-makers confront a challenging set of policy choices. Prioritising urban growth should be among the easiest to make. Options in the rural areas are constrained by history, geography, technology and climate, while rapid urbanisation and effective urban management have driven growth in every successful development story. South Africa's cities are already a comparative strength, envied by many other developing countries, whose urban areas are characterised by congestion and poor infrastructure, which choke growth. Despite this, our policy-makers remain ambivalent about the centrality of cities, and too many pander to outdated notions of prioritising rural development.

Cities are an untapped asset for all South Africans

The dynamism of urban economies is a relatively untapped asset which, if properly developed, could change the trajectory of the country's growth path. South Africa needs to place cities at the heart of our national growth strategy by making them much more attractive places for growth, investment, innovation and employment. This will unquestionably be good for urban residents, and it will also have positive benefits for people who live in rural

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areas. Thriving cities would help to fuel economic growth which is needed to expand public services, especially for the poor who disproportionately live in rural areas. Successful cities raise the incomes of urban-based members of rural households, with obvious benefits for their families wherever they might be. Moreover, by attracting migrants, economically successful cities can raise the per capita value of output produced in rural areas by those who remain there. City growth should be prioritised in the national interest and in the interests of both the urban and rural poor.

2. Facilitate urban entrepreneurship

The success of cities is ultimately about people and about creating an environment in which entrepreneurs can flourish. The urban agenda must include:

- Creating a business environment that attracts investment and encourages entrepreneurs.
- Ensuring that residents (wherever they live in the city) receive high-quality education and skills training.
- Addressing labour market policies that inhibit job creation.
- Ensuring that entrepreneurs can tap into their cities' different markets (can suburbanites find township-based plumbers? Can township firms access the right accounting, IT and legal services? Can township firms expand into the rest of the city?).
- Advocating policy changes by other spheres of government which local firms need to grow.

“The success of cities is ultimately about people and about creating an environment in which entrepreneurs can flourish.”

3. Place growth and jobs at the top of the urban agenda

South Africa's cities must focus on creating the best possible environments for economic growth. Each city is different and has its own priorities, but all of them need to ensure that they address the needs of new and existing businesses; in particular, approval processes must be transparent, efficient and cheap. Above all, cities must facilitate rather than impede development. Licensing procedures must be rational, speedy and transparent, and should exist only when they are essential to achieving a meaningful policy goal that cannot be pursued more efficiently some other way.

More generally, cities should allow the power and efficiency of markets to drive their economies. It would be far better to allow housing and commercial property markets to function efficiently than to build and manage housing stock. Governments need to have compelling reasons for entering these markets, whether as landlords or developers, before committing scarce public resources and managerial talent to doing so. There are also plenty of other opportunities to involve the private sector in delivering public goods and services, including refuse removal, water, schooling and public transport.

City governments should build relationships with business. More specifically, they need to build strong relations with business leaders if a growth coalition is to be established. Interaction between senior members of the city's government, the leaders of key firms – large and small – and organised business is essential if cities are to get a clear idea of what business needs to grow and thrive. By focusing on the needs of business, rather than the whims of bureaucrats, city investments in economic infrastructure would be far more effective and yield far greater returns.

Integrate city economies, and encourage township entrepreneurs

Irrespective of where it happens in the city, faster growth will transform the prospects of poor city-dwellers (many of whom live in townships) and township economies. In the absence of growth, some policy-makers appear to be succumbing to the temptation of intervening directly in township economies. But the growth of township economies will depend on how quickly the disposable incomes of township residents rise. Thus the key objective must be to accelerate economic growth in the city as a whole while helping township residents access new opportunities for employment and enterprise development through effective skills training, richer suburban markets, more efficient labour markets and more affordable public transport.

Within the townships a regulatory regime is needed that supports faster growth and more employment. This has to include a supportive environment for small business entry, survival and expansion within townships and in the larger city. De facto entry barriers are low, as evidenced by the extensive activities of informal enterprises. But these firms struggle to grow, so cities should make it much easier to formalise and obtain whatever licensing and zoning approvals they need as quickly and cheaply as possible. They also need to access appropriate infrastructure, such as shops, offices, and electrical and ICT connections as easily as possible. Beyond this, however, government should mainly get out of the way, as market forces will quickly ensure that business opportunities are exploited.

“It would be far better to allow housing and commercial property markets to function efficiently than for government to build and manage housing stock.”

4. Rebalance the national policy agenda to promote urban-led growth

South Africa needs to embrace an urban-led vision of national growth and development, and invest resources in the areas that will yield the biggest returns. This will require a reconfiguration of power and authority; cities need to be more in control of their own destinies, with national policy designed to support this. This is the reverse of the present situation in which cities are seen essentially as vehicles for delivering national policies.

The growth needs of cities must be at the heart of the national agenda and occupy the minds of all policy-makers, irrespective of where they sit in government. Cities must also become much more important sites of policy-making and resource allocation. This will require rethinking both the substance of our policies as well as urban governance structures, particularly in the

largest cities. Three reforms are vital:

- **Cities' powers and functions must be revisited to give them far more space to pursue economic and policy reforms** that are necessary to stimulate economic growth, reduce the burden of red tape, and create as unencumbered an environment for business as is possible. Cities should have the power and authority to change policies that retard new business entry or the growth of existing business. For example, public transport in the cities is managed by a variety of agencies answering to multiple departments at multiple levels of government; cities cannot effectively plan and deliver integrated public transport if they do not have authority over all the modes that need to work together.

Cities differ from each other, and their leaders should have the powers and authority to devise and implement growth and employment strategies appropriate to their specific circumstances and comparative advantages. There are many aspects of public policy that are best managed centrally but South Africa has to balance this with the enormous benefits that local knowledge and accountability bring to effective policy-making. There are significant advantages to decentralising many of the functions currently performed by provincial and national government. We should start with the country's largest cities (the metros) and enhance their powers and functions before looking at what would be appropriate for smaller and less well-resourced cities.

“We need to think about amending the constitution so that our largest metros have the same political and fiscal status as the provinces.”

- **Cities must play a greater role in national policy-making processes.** We need to think about amending the constitution so that our largest metros have the same political and fiscal status as the provinces. Doing this may also allow them to assume direct responsibility for key functions – such as schooling and healthcare – that are currently managed by provincial government.

These changes are extensive, and would probably take time to introduce, but even in their absence changes could be made to key decision-making processes. The big metros, for example, should participate directly in extended cabinet meetings, the development of the national budget, and similar processes, rather than being represented by SALGA. Cities need to play a role in SOEs' investment decisions where these have implications for spatial and economic prioritisation and planning.

- **City financing should be rethought.** Too little public money (including national tax revenue) is spent on the cities, and too few residents pay rates and utilities. This slows the rate of economic growth in cities, hampers the rate of urbanisation and reduces cities' solvency. Finding a better, more urban-weighted balance between spending on urban and rural areas, while also expanding cities' rates bases, would help ensure that the resources are available to maintain existing infrastructure, and also provide the new infrastructure needed for fast and sustainable city growth.

An important goal of reforming local government finances in the metros is to ensure that cities benefit from growth, and are therefore incentivised to adopt policies that would accelerate it. In this regard,

finding a way to supplement their resources from revenue raised from the incomes of residents or local businesses, or from commercial transactions in their jurisdictions, would encourage city governments to focus on doing what is necessary to achieve faster growth. However, these new revenues should not detract from the competitiveness of South African firms or impose new tax burdens on the middle classes, so any new taxes must be paired with reductions in existing taxes to render them revenue-neutral.

Reforms in these three areas would rebalance the scales in support of cities and urban-led national development, ensuring that policy better matches the distribution of economic potential and opportunity in the country. National policies must prioritise growth in the largest cities. They would, however, require more accountable government.

5. Cities need stronger and more accountable leadership

Mayors currently lack status and bargaining power relative to other spheres of government and the political parties that have put them in their positions. This is an important reason why the cities have failed to secure the kind of reforms needed to unlock urban economic growth. In place of this system, the largest cities need directly elected mayors accountable to residents rather than national political parties.

If mayors were directly elected, whether as a member of a political party or as an independent, this would change the way they think about their duties and responsibilities and how they interact with residents, different spheres of government and local business people.

Since residents would hold them directly accountable for the city's management and success, they would have a greater stake in ensuring that the city's economy expands, that new firms are locating or starting up in the city, and that residents are provided with as many opportunities (economic, educational, social) as possible.

There are some dangers associated with directly electing mayors, particularly if additional powers and revenue streams are to be allocated to them. Some might turn to populism in an attempt to garner votes and election campaigns might degenerate into personality contests. An additional danger is that national and provincial politicians could seek to sabotage the programmes of mayors with whom they disagreed on grounds of policy, ideology, or factional allegiance. However, a local government run by a mayor whose political career depends on how he is viewed by urban voters and how he fights for their interests is likely to be in the best long-term interest of the city and its residents.

The present approach, where national parties select mayors on the basis of their own interests, does not serve the needs of the city as well. If we had directly-elected mayors, contenders would need to build their campaigns around what they could do for the city and how they would do it. This would

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encourage far greater attention on the particular city, its potential and its needs and lead to much more accountable government.

6. Forge one city, with opportunities for all

It has become increasingly clear that there are no quick fixes for the challenges to economic efficiency and equity caused by the spatial legacy of apartheid. It is also clear that an infrastructure-only approach is not sufficient. Cities will grow much faster if their residents are well educated and trained, and given an opportunity to use their knowledge and skills in an entrepreneur-friendly environment. Cities must therefore expend at least as much effort on creating a good business environment, training the untrained and attracting skilled workers and investors, as they do on addressing the infrastructural legacy of apartheid. Nevertheless, infrastructure and spatial structures matter, and must be managed effectively.

Priorities in thinking about spatial issues are getting housing policy right and ensuring that linkages and mobility within the city are as efficient and cost-effective as possible. Essentially, that means ensuring that public roads are well-maintained and that public transport is as cheap as possible, both to end users and - because subsidies are inevitable - the state.

“Raising the density of South Africa’s cities remains the key challenge for creating more efficient and dynamic urban economies.”

Address the spatial legacy of apartheid

Raising the density of South Africa’s cities remains the key challenge for creating more efficient and dynamic urban economies. This won’t be easy, certainly not while retaining the approach to low-income housing that has dominated policy-making since the mid-1990s. Densification requires the more intensive use of land within city limits, not the construction of new developments, whether low-income or not, on the urban periphery.

The only way to achieve this is through appropriate zoning rules and approval processes that will provoke a market-led response, along with investment in strategic and catalytic projects – such as transport corridors – that will make it possible for developers and households to take advantage of some of the benefits of densification. Building publicly-funded houses for the poor on peripheral land is the exact opposite to this.

A policy agenda devoted to rectifying the spatial legacies of apartheid as quickly as possible would:

- Ensure that zoning rules within the city are open and flexible and prioritise the approval of projects that intensify the use of scarce urban space. Linked to this, urban land markets and the institutions that underpin them must be allowed to function efficiently and effectively so that developers can put land parcels together for development.
- Ensure that building standards are appropriate and that affordable homes can be erected for people at all levels of income.
- Use government-owned land in the cities (including land held by SOEs) as economically sensibly as possible. This could be achieved by making transparent precisely what the holdings are, introducing a process –

like one in Australia – that would force government departments and institutions to justify their ownership of land every few years, and setting a default for them to sell that land in an open and transparent way, if no economically sensible justification can be provided.

- Require government departments and agencies to bear the full costs of land, including rates and taxes, thus ensuring that their ownership is not subsidised and that they have an incentive for releasing the land to the market if the true economic costs of holding it exceed the benefits.

Invest political capital in popularising densification

An important challenge for city, business and community leaders is to make the case for development when other local stakeholders are sceptical of its desirability. This scepticism sometimes arises as legal challenges to developments – often motivated ostensibly by environmental concerns – that prevent the building of factories, low-cost homes and public infrastructure. While zoning and development approval processes should be transparent, swift and guided by principles that encourage development, respected local leaders should support the case for growth. This would help to reduce the legal costs associated with development projects, thus making them more competitive and affordable.

Anticipate population expansion

Very few cities faced with a combination of natural population growth and the rapid arrival of mainly poor people, are able to provide the services, infrastructure and housing required at the necessary pace and price. This reality needs to be planned for. Cities need to plan the expansion of the city well in advance because it is much easier and cheaper to lay out the requirements for low-cost settlement and for infrastructure in informal settlements before they are established rather than afterwards. This is something our cities know from the fraught experiences they have had in trying to upgrade informal settlements. But knowing something and being able to act on that knowledge require different capabilities. Our cities have struggled to establish the capacity, for example, to lay out a plan for the use of a particular piece of land and to protect and enforce that in the face of land invasions.

Accommodate migrants in city planning

An important requirement of sound urban management is recognising that South Africa's cities will continue to attract migrants from the rest of Africa. We need to do more to capitalise on the energy of migrants on the one hand, and prevent outbreaks of xenophobia on the other. Cities are at the forefront of dealing with this multifaceted challenge. Large cities need to develop strategies for maximising the positive benefits of migration. At present, far too much of the responsibility for integration falls on poorer communities, which have the least resources. Cities need to actively manage the reception of new arrivals and their impact on community dynamics. This needs to form part of a broader national discussion of migration policy and resource allocation. At a minimum, city leaders need to find symbolic ways to welcome migrants, to legitimise their presence and acknowledge their contribution to the South African economy.

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Improve physical mobility

Safe, reliable and affordable urban transport helps poor people access opportunities. It also reduces the costs of travel, thereby reducing the pressures on household wages and increasing disposable incomes in ways that benefit service providers and businesses in the townships. Building integrated city transport systems will do far more to improve the lives of the poor than attempts to stimulate township economies through direct intervention in the processes of local business formation and growth.

One of the most important benefits of improved public transport is that the key routes and hubs can become the basis for densification, because effective public transport provides logical development nodes with relatively high amenity values for residents.

The present approach to providing resources for public transport overemphasises buses and trains and underemphasises the minibus taxis that provide the bulk of transport services. It also benefits and protects incumbent service providers rather than creating competitive pressures that would make transport more efficient, cheaper and safer. A reorientation of policy to subsidise commuters rather than service providers should be explored urgently.

“Building integrated city transport systems will do far more to improve the lives of the poor than attempts to stimulate township economies through direct intervention in the processes of local business formation and growth.”

Social and economic mobility requires skills

A city's success depends on the skills and creativity of its residents. Improving the skills base of South Africa's cities is therefore vital to getting them on a faster growth path. Up-skilling the populace is also a driver of mobility; skills provide people with options and opportunities that are simply not available to the less skilled. Cities need to spend time, energy and resources on skills formation and our skills policies need to be 'spatially aware'. Townships and other areas in which poor people live should be flooded with training institutions and opportunities that provide quality instruction and choice of public or private sector training providers. Powers, functions and revenues of cities must be augmented to ensure their capacity to deliver on this and to be able to lobby for improved basic, vocational and higher education with provincial and national education authorities.

7. Reconfigure housing policy

The RDP housing programme has delivered large numbers of houses, but at the cost of reinforcing apartheid's spatial legacy and trapping poor people in places with no economic prospects. This is because RDP developments are typically located on peripheral land and consist of detached houses on individual plots. South Africa simply cannot afford to house everyone on this basis. Even if it could, this would squander the potential advantages of densifying the cities. Instead of building more RDP houses, existing home

owners should be provided with incentives to build second or third dwellings on their properties. This would:

- Reduce the cost of housing provision, because bulk infrastructure and roads are already present.
- Increase density, because more structures would be erected on existing plots.
- Provide home-owners with potential sources of rental income.

Commit more resources to on site upgrading

A new approach to informal settlements is required because upgrading them would improve the quality of life of millions of people. The internal frictions of communities, combined with an understandable unwillingness to be relocated, often makes it difficult to embark on on site upgrading. In order to deal with this, policy-makers must find a way to get communities to take more responsibility for managing the process. To this end, cities should formally recognise all informal settlements and assume responsibility for upgrading all of them, except those that are so badly situated that living there places their residents in danger. Legal recognition of informal settlements – and the ownership rights of residents – is important. It protects residents against uncompensated expropriation or loss of tenure, creates a basis for sustained on site upgrading, and ensures that urban planning takes account of people already living in the cities, albeit in informal areas.

Having formally recognised informal settlements, cities should adopt the view that upgrading will happen only if and when the communities have agreed on how to proceed. Cities can provide some of the resources needed for this process, but communities need to agree on exactly what will be done, who will be moved, at what cost and what will not be fixed. Upgrading and new site-and-services schemes will need to be governed by rules and incentives to ensure higher densities as is done in many Latin American cities.

Rebalance spending towards bulk infrastructure rather than houses

The availability and reliability of bulk infrastructure (water, electricity, sanitation) is a key constraint on cities' economic growth. Much more attention needs to be paid to laying the foundations for urban expansion.

Current funding mechanisms must be reviewed to ensure that adequate resources are flowing to this sector, but infrastructure spending must also be made more cost-effective. This means focusing more closely on maintaining existing infrastructure and avoiding commitment to very large projects that often run late and over budget. Wherever possible, infrastructure should be

“Instead of building more RDP houses, existing home owners should be provided with incentives to build second or third dwellings on their properties.”

built incrementally and must work with the dynamics of economic forces rather than seeking to redirect them artificially. For example, it is easier to expand transport infrastructure using buses rather than trains.

Rethink housing ‘mega projects’

It is almost always a wasteful mistake to build mass housing projects on the outskirts of cities, in areas that are off the economic grid. Instead, these resources should be redirected to make better use of existing city infrastructure to exploit their potential for growth and development. In sharp contrast to the current RDP housing programme, South Africa’s housing strategy should focus on creating affordable rental accommodation in inner cities, upgrading informal settlements and densifying existing residential areas. In line with this, cities should plan for new arrivals and focus on providing the bulk infrastructure needed for expanding populations.

CONCLUDING REMARKS

Faster, more inclusive economic growth would have an enormously beneficial impact on South Africa and in particular on its three largest cities. As in other developing countries, South Africa’s large cities are its most prominent sites of current and future growth. Exploiting this opportunity fully would transform the economic opportunities and life chances of millions of people. As their economies grow, the spatial legacies of apartheid would be progressively eliminated, while more and more opportunities for poor residents would emerge.

Achieving this will require a reorientation of existing policy and powers. South Africa needs to shake off its ambivalence about increased urbanisation and expanding city regions. Faster and more inclusive growth has to use the cities’ natural advantages. This will necessitate the removal of all ambiguity in policy-makers’ attitudes to urbanisation, much increased urban economic growth and the benefits that both would generate. This is a decisive shift in policy that would match the increasingly urban reality of South African society.

South Africa’s dynamic urban areas and system of cities represent one of the country’s strengths. We must capitalise on this to fuel the economy and deliver a rising quality of life for our citizens. Achieving this should be a primary concern of all. Cities are the future. It is time to act.

“South Africa needs to shake off its ambivalence about increased urbanisation and expanding city regions.”

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CENTRE FOR
DEVELOPMENT
AND ENTERPRISE

5 Eton Road, Parktown, Johannesburg 2193,
South Africa
PO Box 1936, Johannesburg 2000,
South Africa

Tel +27 11 482 5140 | Fax +27 11 482 5089
info@cde.org.za | www.cde.org.za

