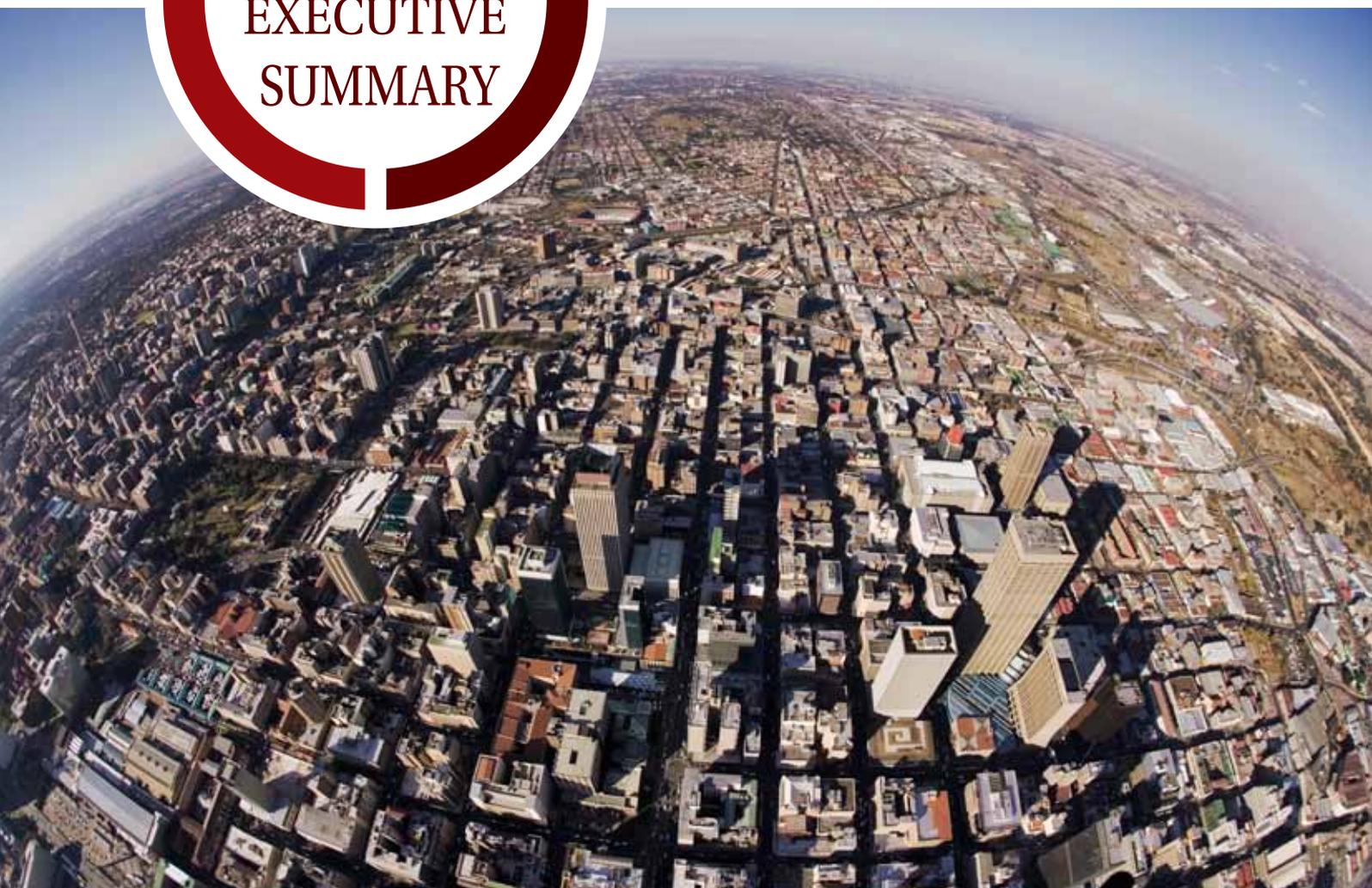




March 2014



CITIES OF HOPE

Young people and opportunity in South Africa's cities



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Cities have never been more important for human well-being and economic prosperity. Half of the world's population lives in urban areas, while about 80 per cent of the world's output is produced in cities. And it is expected that the vast majority of all new jobs will be urban. These will provide incomes to billions and raise hundreds of millions of people out of poverty. South Africa's situation is similar, with economic growth being disproportionately generated in the biggest cities, and a growing proportion of people living in urban areas. However, only 60 per cent of the country is currently urbanised, suggesting more urbanisation is to come. If the next wave of city growth is managed well, it can accelerate economic growth and job creation, and improve people's quality of life.

This is what well-managed cities do: they raise incomes by making people more productive and creating opportunities that cannot exist anywhere else. Historically, urbanisation has been linked with industrialisation, which has both facilitated cities' growth and depended on it. Cities have also made possible the efficient delivery of all kinds of services — energy, water, health, education, finance, logistics, media, transport, etc.

Cities can also be good for young people, who are often more entrepreneurial and better educated than their parents. Young people also tend to be less committed to a rural lifestyle and more interested in the amenities and economic opportunities available only in urban economies. As a young country, South Africa's future is urban.

Despite this, South Africa's relationship with urbanisation is complicated and ambiguous, if not outright hostile. Even today, the ruling party's 2014 election manifesto emphasises rural development more than generating urban growth, with the need for well-managed urbanisation taking something of a backseat. It does emphasise the importance of pursuing industrialisation, but one of the most effective ways of doing so would be to promote much more effective urbanisation and urban management. It is vital that South Africa does not miss these opportunities.

In the light of these considerations CDE launched a project framed around the question of whether South Africa could build "cities of hope" — cities in which large numbers of otherwise marginalised young people could find work, start businesses and improve the quality of their lives. To answer the question, we asked a range of international experts on the economics of cities in developing countries to prepare reports to be discussed at a workshop attended by leaders from government, business, civil society, academia and urban practitioners in June 2013. This is a summary of the conclusions most relevant for South Africa. A longer report is available on our website.

YOUNG PEOPLE AND OPPORTUNITY IN SOUTH AFRICA'S CITIES

Economic activity is disproportionately concentrated in South Africa's cities, especially in its largest metros, in which 59 per cent the country's economic output is generated by just 37 per cent of its population.

Modest as South Africa's growth has been over the past 20 years, it has been significantly faster in the country's major metros whose economies grew by 3,8 per cent a year between 1996 and 2011 compared to 3,2 per cent for the country as a whole. One reason cities performed better than the rest of the country is that their populations have grown faster.

There are 19,5 million people (or 38 per cent of the population) aged between 15 and 34. Young people are more likely to live in urban areas, especially compared with children who are disproportionately rural in residence. Relative to older adults, they are nearly 50 per cent more likely to have moved from one province to another at some point in their lives, and their movement is generally towards the metros.

In absolute terms, the largest single concentration of young people is in Soweto (375 000), followed by Johannesburg's CBD (307 000), Pretoria's CBD (205 000), and then the townships of Tembisa in Ekurhuleni (161 000), Khayelitsha in Cape Town (124 000) and Soshanguve in Tshwane (114 000). Young people are more educated than older adults, and more educated young people tend to live in larger cities. Overall, 6 per cent of young people have higher education, but the figure rises to 10 per cent



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among young people in the large metros and falls to 3 per cent in rural areas. Young people without education are, however, less likely to be in employment than similarly ill-educated older adults.

If young people are disproportionately concentrated in cities, employed young people are more so. This is especially true of the metros, which are home to fewer than 40 per cent of all young people but to more than half of those who have jobs. This disparity is likely to increase over time. While the absolute number of unemployed young people is largest in the metros, the unemployment rate (35 per cent) is lower than in smaller cities (40 per cent) and rural areas (44 per cent).

Employed youth in the large cities tend to be in less vulnerable forms of employment: less than 20 per cent of working young people in the metros are employed in informal or domestic labour, compared with 25 per cent in smaller cities and 30 per cent in rural areas.

HOW DO CITIES IN THE DEVELOPING WORLD BECOME “CITIES OF HOPE”?

The two most important reasons for optimism about the prospects of young people living in the developing world's cities arise directly out of the fact that they are young and that they live in cities.

Young people are good for growth: Younger societies tend to have larger working age populations, lower dependency ratios, and more energy and entrepreneurialism.

Cities are good for growth: Cities are machines for producing economic prosperity, a dynamic that is essential to what has been called the “miracle of productivity”. This refers to the many processes that have made possible the growth in the value created by a day of human labour, which for thousands of years stagnated at around \$2 a day, to hundreds of times that value in the 21st century. This explosion of productivity growth is strongly associated with urbanisation which has expanded and densified human settlements. This has made possible the dramatic expansion of the scale of production along with the vast increase in the degree of specialisation of economic activity. Cities are places where people can combine their different skills, access and exchange ideas, learn from each other, and transact more efficiently than was ever possible before, and the productivity-enhancing effects of agglomeration mean that firms in cities can be much more productive than in small towns.

In much of Africa, however, urbanisation has not generated the kind of productivity growth needed to raise living standards. One reason may be that the comparative advantage of many African economies lies in non-urban activities — agriculture and natural resources — rather than manufacturing, limiting the possibility of rapid industrialisation. In addition, weak institutions have led to serious planning and institutional deficiencies, resulting in poorly planned settlements with too little density, inadequate infrastructure, and dysfunctional markets for land and property.

Industrialisation, comparative advantage and urbanisation

A critical debate about developing country prospects hinges on the role that industrialisation and urbanisation will play in poor countries that don't have significant industrial capabilities, and which lack comparative advantage in manufacturing. For some, these disadvantages are so profound, that industrialisation (along with the urban-based productivity growth that is a consequence of this) is simply not possible.

Many others, including Professor Paul Collier of Oxford, argue that even countries that do not currently have significant manufacturing sectors can create competitive industries with smart, energetic policies aimed at generating productivity growth and keeping costs down. They point, for example, at Ethiopia which has begun to break into the global footwear market. They also suggest that new opportunities exist for poor countries as China's rise leads its industries up the value chain and some of the 85 million low-wage manufacturing jobs in that country migrate to others.

To take advantage of these opportunities, policy-makers must understand what a competitive price would be for particular



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products delivered to particular markets, and work backwards to provide the business environment needed to meet that price. In this regard, coastal cities with navigable ports will have distinct advantages, as will countries that retain their status as preferential trade partners with the large markets in the developed world.

Effective urbanisation: policy priorities

Key to successful urbanisation (and for building comparative advantage) is the recognition that critical decisions shaping a city are made by a range of independent economic actors. Households decide where and how to build homes; businesses decide where to build factories, shops and offices; and governments must build public infrastructure. Urban managers must seek to shape these choices in a way that maximises the benefits of urbanisation. These come not just from the sheer number of people and businesses, but from the way they interact and transact. The denser, more connected these relationships, the more productive each is. This is why cities must strive towards densification if they are to maximise the benefits of agglomeration.

Achieving densification requires appropriate institutions and regulations. Building regulations, for example, must keep building costs down, failing which informality will increase. Land markets and building costs must make affordable the construction of medium and high-rise buildings. Densification must be supported by designing sensible public transport systems which encourage developers to locate new structures along their routes. An important goal should be to cluster economic activity to generate efficiency and productivity gains. Policy-makers should also seek to “upzone” areas (rezoning them for more intensive use) and designate special economic zones of various kinds to attract and concentrate business investment.

Although urbanisation can induce rapid economic growth, the process needs to be financed. There are many ways in which different countries finance public infrastructure in cities, but the aim must be to deliver the needed infrastructure as affordably as possible. This requires rigorous needs assessments, sound tendering and project management systems, and transparent public finances. Without these, cost-effective urbanisation will be difficult even if the principles on which it is founded are coherent.

Households and businesses require access to affordable financial instruments. This is primarily an institutional and regulatory challenge relating to the financial sector, deeds offices and the various law enforcement agencies involved in enforcing contracts, all of which must work effectively to protect property rights and facilitate affordable financing for firms and households.

Cities need increasingly trained workforces to grow. Urbanisation and densification can help improve education by reducing the cost of its delivery, while raising its quality through increased competition and greater specialisation.

Cities must maximise what opportunities exist by fostering quality public education and facilitating the emergence of private providers. A city's economy is often large enough to support multiple, competing education providers who can increase quality and reduce price. Higher incomes in cities also encourage people to stay in school and upgrade their skills. The presence of large and medium size firms means that there is more opportunity for in-firm training to workers.

Urbanisation processes are more effective when cities have the authority to manage critical areas of public policy and the business environment, as well as the institutional capacity to do so. International experience shows that the more independence, authority and capacity to experiment a city has, the more likely it is to find a strategy that works.

To be effective, policy-makers have to coordinate a range of processes so that they can capture the positive spill-over effects. For this reason, it may be essential to the success of cities that their development be elevated to the highest political levels so that policy-makers across government are focused on helping cities grow.



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CONCLUDING REMARKS

South Africa needs to create millions of jobs. As a relatively under-urbanised society, growing cities can be a source of dynamism and economic growth.

South Africa's cities, especially the largest, are where economic growth and job creation happen. While many young people in the cities have no work, a significantly larger proportion have jobs than is the case elsewhere in the country. Furthermore, young people who have jobs in the metros are considerably more likely to be in formal employment than is the case in smaller cities or in rural areas. This is the main reason why young people are moving to cities, and it suggests that South Africa's cities are places of (relative) hope. They bring youth closer to jobs and offer them services and educational opportunities, along with less tangible amenities such as entertainment and cultural activity. The concentration of youth in cities also provides benefits to society as a whole, as it creates agglomerations of skill, energy, innovation and talent.

Policies that stimulate a city's economy to grow will usually be of more benefit to the young than will youth-specific policies, as growth policies will stimulate the greatest increase in the opportunities available. This means that cities need modern, effective institutions governing property rights, encouraging densification, promoting enterprise and educating residents. Where they lack the powers to achieve this, they should be lobbying for increased authority.

To maximise the impact of urbanisation on young people's economic prospects, cities need to focus on their competitiveness and create an environment for economic and productivity growth that builds on the urban advantages of agglomeration, energy and innovation. In South Africa priorities include:

Improving competitiveness. South African cities' competitiveness is slipping. Attention must be paid to the quality of institutions and governance at the local level. Infrastructure, too, needs attention, both in relation to availability and cost. High levels of crime impact on businesses' costs and on cities' ability to attract and retain (relatively mobile) skilled workers.

Entering the global value chain. Cities need to find niches in the regional and global market for goods and services that can be filled competitively by local firms. Coastal cities may be better suited to creating large manufacturing industries because of their lower transport costs. Cities in the interior may have to focus on higher value-add, lower volume goods and services.

Improving the spatial legacy. Insufficient action appears to have been taken to address the legacy of apartheid-era spatial planning. Part of the problem is that at a sub-city level, positive externalities accrue to firms and households that are located in areas where economic activity is more densely packed, giving them an advantage over firms located in less well-developed areas. This means that townships may struggle to attain levels of competitiveness expected elsewhere.

Again, these policy priorities are not youth-specific but relate to the priority of building cities' economies. There are, however, two policy areas that might target the young:

Housing policy. Infrastructure and settlement policies should focus on turning housing into productive assets that generate income. Backyard shacks, which tend to be more affordable for young people, should be included in municipal planning as an economic necessity at present. Some policies governing the use of RDP houses hold back many owners from making economic progress.

Promoting education and training reform. Cities should play an active role in education and skills development and should shape education and training policies to their needs. For example, cities should help develop apprenticeship programmes and other public private training schemes and facilitate trainer/employer interaction; cities can also look at how to encourage better schooling especially in maths and language.

The presence of many young people does matter to cities' potential to grow. They will amplify the positive consequences of getting policies right because engaging young people in the economy has many positive social consequences. But the critical challenge is to get cities' economies growing and creating opportunities.



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Cities need the appropriate authority and capacity to drive the kinds of changes they need. That requires city leadership that is capable, effective and committed to a growth agenda. It also requires that government at all levels recognise the critical importance of cities and their role in the country's economic development. South Africa's future is overwhelmingly urban, and city competitiveness and vitality must be seen as key to the country's prospects and performance.

This is the executive summary of a CDE Round Table, CITIES OF HOPE: Young people and opportunity in South Africa's cities. The full-length publication is available from CDE. It can also be downloaded from www.cde.org.za.



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