

South Africa's future will be decided in our cities



Introduction

Throughout history, cities have been at the heart of social, cultural, political and, especially, economic, progress. Urbanisation has made possible levels of wealth and income that would have been (and were) inconceivable to anyone who lived in the more than ten thousand years during which the demands of agricultural work dominated almost everyone's life.

While South Africa's cities face numerous challenges, the inherent potential of cities and urbanisation mean that they are the places where it could become possible to find opportunity for the initially poor and create prosperity for the many. If they are to become cities of hope, however, we will need significant changes to how we think about our urban areas and how we govern them.

Why cities matter

Trace the history of humanity's most important discoveries and innovations, and you will find that they emerge from the energy and creativity of people crowded into urban settlements. This is true of the sciences, the arts and of the development of social and political ideas. It is true of medicine, machinery and finance; it is true of communication technologies and theoretical physics. And it is not a coincidence: it is the ferment of cities that has made

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possible development in all these spheres of human knowledge and progress. And it is in cities that most current progress is continuing to occur.

Cities are so important to progress because their defining characteristic is that they shrink the amount of space between people. In cities, people live, study and work in close proximity to each other. The result is that anything that involves more than one person can happen much more frequently, much more quickly, and much more cheaply in cities than in less dense settings. Ideas (cultural and commercial) can fizz between people; new technologies can diffuse rapidly; businesses can trade with hundreds or thousands of customers and can source the skills they need from deep pools of available labour; workers can find employment opportunities or find ways to increase their skills; consumers can find their preferred goods and services.

The comparative advantages of cities are a result of the economics of agglomeration, the benefits and efficiencies to be gained from spatial proximity and clustering of economic activities. These benefits derive from all kinds of factors, the most important of which are:

- *Economies of scale*, which permit firms to expand production while reducing the average cost of production.
- Firms' proximity induces *knowledge spillovers* through contact, competition and collaboration, that tend to accelerate the pace of innovation and the diffusion of technology, raising productivity.
- Larger pools of skilled labour increase *labour market efficiency* because firms are more able to find suitable employees, and workers are better able to move from one job to another.
- The co-location of firms makes possible the emergence of *specialised firms* and specialised forms of labour that provide support services, which, in turn results in lower costs and higher levels of productivity for users of those services.
- Dense settlements benefit from better *infrastructure, services and access to markets*, again reducing costs and raising productivity.

Of course, there are downsides associated with large and dense settlements, including congestion, increased crime (especially crime committed by strangers), and a variety of health-related risks. Managed well, however, these challenges offset only a small proportion of the enormous gains that are generated through urbanisation and the vastly higher levels of productivity (and, therefore, income) that it makes possible.

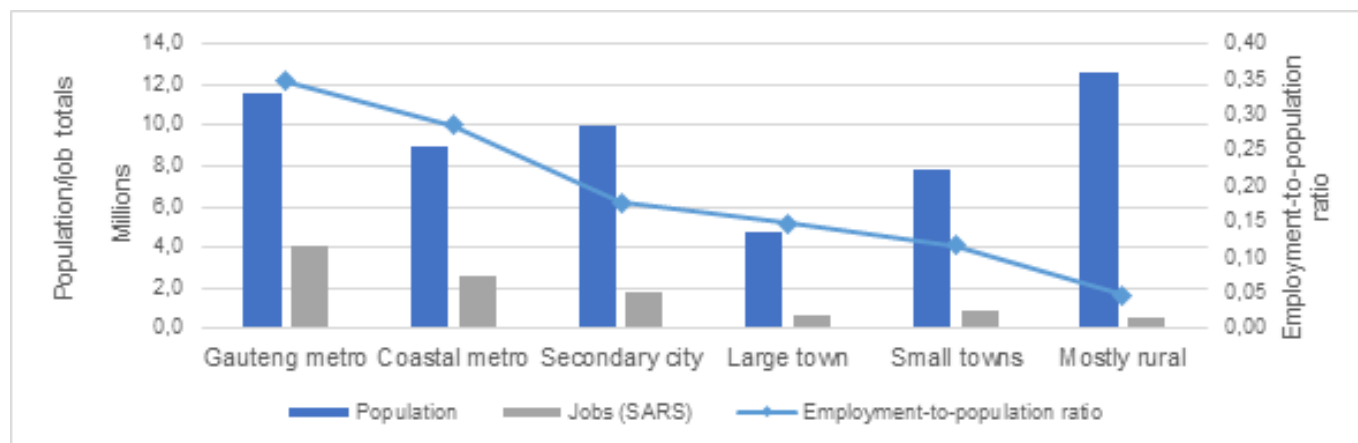
South Africa has largely failed to fully reap these benefits. The apartheid state resisted urbanisation and, through policies of segregation and exclusion (to say nothing of discriminatory educational practices and race-based exclusion from economic opportunity), ensured that the spatial structure of cities failed to capture most of the benefits of agglomeration and concentration. This legacy persists and can be seen in race-based residential patterns, low densities, huge differentials in infrastructure provision between townships and suburbs (a differential that includes everything from roads and housing to access to good schools). All of this magnifies and perpetuates poverty and inequality. Low densities combined with the large numbers of people who live on urban peripheries, far from employment opportunities, also has knock-on effects on the viability, availability and affordability of public transport, which severely impacts poor households' disposable incomes and raises jobseekers' reservation wages. They also create deep distortions in housing markets that make upward mobility far harder than it should be as a result of steep rises in housing costs in better-located and better-served areas.

Tragically, many of these features of the apartheid spatial legacy have not been meaningfully mitigated since the end of apartheid. Indeed, housing policy, which has tended to focus on delivering the maximum number of low-cost houses through RDP housing developments, has often reproduced and extended the adverse and segregated structure of urban residential housing.

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These inadvertent consequences notwithstanding, all available data points to very significant productivity advantages in South Africa's largest cities relative to smaller cities, towns and villages. Indeed, despite relatively rapid growth in employment in small towns and relatively slow employment growth in Gauteng over the past decade, 35 percent of all residents in Gauteng were employed in 2019 compared to just 18 percent in secondary cities and a mere 5 percent in rural areas. In their report for this project Ivan Turok and Justin Visagie argue that the sheer scale of the gap "must be exceptional by international standards". Indeed, the rural areas are so uncondusive for employment, that half of the jobs that do exist are in the public sector.

Figure 1: Population and employment size, 2019/20



Turok, I and Visagie, J. 2023.

What needs to be fixed if South Africa's cities are to prosper?

The depth, breadth and number of challenges facing South Africa's cities means that a great deal needs to be done if they are to capture the gains in productivity and output that cities are uniquely able to generate.

Governance

Governance challenges in the cities are enormous. Across all levels of management, far too many officials lack the skills, experience, competence and integrity to fulfil their functions, evidenced by the fact that only two metro governments (Cape Town and Ekurhuleni) received clean audits in the latest auditor-general report. Combine that with volatility in local governing coalitions that has reached farcical proportions, and it is clear that misgovernance is driving a collapse in cities' administrative and operational performance. Left unaddressed, this will undermine cities' growth potential for a very long time.

Crime

While crime is by no means confined to the cities, the nature and volume of urban crime differs significantly from crime in smaller settlements, where opportunities for criminality are scarcer, and in big cities, where the mass of people provides a cloak of anonymity for would-be criminals.

South Africa's cities have per capita rates of violent crime (especially murder, rape and robbery) that are among the highest in the world. While there is considerable debate about the causes of crime, and, in particular, about the relative importance of the role of inadequate policing and of socio-economic factors, the fact remains that high levels of crime matter for both the quality of life and the cost of doing business in a city. Inevitably, this has implications for cities' economic prospects.

About this project

In collaboration with Economic Research South Africa, this project sought to initiate greater interest in the economics of cities in South Africa. The aim was to link new city-based research to policy debates on how cities could contribute to higher growth and greater inclusion. We commissioned five papers from leading economists (local and international) to generate new insights and inspire further research. Two papers focussed on the extent and the limits of South African data. A third provided an overview of the economic state of our cities. It explored what recently released SARS datasets could reveal about firm productivity, employment and the kinds of industry specialisations that exist in every city.

Two international papers focused on what is known about issues that are central for the future of South African cities and the policy interventions we need to harness their potential. One unpacked what has been learnt from the application of economic models to the study of crime and its consequences for urban growth. The paper also showed how this kind of analyses could point to effective ways of combatting urban crime. The other assessed the impact of place-based policies, and whether these could be effectively employed in South Africa to address the challenges of lagging urban regions.

To access these papers, [click here](#).

By using economic tools to analyse issues such as crime, productivity and employment trends, changing spatial patterns, and the potential of "township economies", we hope these papers will inspire and encourage other economists and academics to delve further into these critical issues. More work in the field of urban economics and related disciplines is needed to shed light on critical topics not covered in this project. These should include public infrastructure, especially transport, the functioning of urban labour markets, the way cities are funded and incentivised to deliver housing, finance and markets, urban informal sectors, the distribution of wealth and opportunities across cities.

The project was fortunate to enlist the participation of Professor Ed Glaeser, one of the leading urban economists in the world, and currently chairman of the economics department at Harvard University. He helped with identifying leading economists in the field, participated in the workshops and provided general advice, especially with regards to the core elements of a South African urban agenda. As he made clear, better and more extensive research is needed to enable better policymaking.

The long-term goal of this project is to encourage much more research on the country's cities and economic growth. The research should, in turn, then inform and reinforce a sensible and vigorous urban reform programme.

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The impact in some sectors can be dramatic: crime may be an important reason, for example, for the surprisingly small size of the informal economy in our cities because of its impact on would-be entrepreneurs' ability to build viable businesses (formal and informal).

If cities are to become safer, the authorities will have to become much better at identifying, arresting and prosecuting those who commit crime. The Constitution assigns most of the powers and functions relevant to investigating crime and prosecuting offenders to the national sphere of government. However, given the devastating weaknesses of the relevant national agencies, their inefficiencies and the profound absence of accountability for this, cities should be lobbying for devolution for at least some of these powers and functions and making their voices heard much louder in the national debate on the necessity to improve the country's approach to crime and prosecution.

In addition, cities should be investing in technologies that can assist law enforcement agencies identify and arrest offenders.

Public transport

Public transport and its relationship with the distribution and density of a city's residents is one of the most critical determinants of how efficient a city can be and of how well its labour market can function. South Africa's cities, with their low densities and with large numbers of low-income households consigned to the urban periphery, are among the least efficient urban settlements in the world. This results in much higher per-commuter costs to households and (to the extent that some forms of public transport are subsidised) taxpayers. The result is deeper poverty, more unemployment, higher reservation wages and less inclusion.

Densification is critical to the long-term viability and efficiency of public transport, but cities need to be much better at managing these services in the here and now, too. In this regard, a critical step must be devolution of commuter rail operations from a dysfunctional Passenger Rail Association of South Africa (PRASA) to local agencies. In addition, much more attention needs to be given to conceiving and implementing more sensible approaches to subsidising public transport. This would have to be linked to a reconfiguration of powers, functions and funding over public transport, since provincial and national governments are ill-suited to properly understanding and prioritising the needs of a city's commuters.

Cities' finances

Cities' operations and investments are funded through a combination of transfers from national government, local taxes and fees, and surcharges on the sale of water and electricity. All of these sources of revenue are under pressure, and, when you add rising costs and falling efficiency of spending, it is inevitable that cities' finances are becoming increasingly unbalanced. There is no easy way to resolve this, but a recent assessment by the South African Property Owners Association (SAPOA) that concluded that municipal charges now account for 42 percent of the average commercial property's rental income shows how these costs create enormous disincentives to investing in new structures, and why so many property owners are seeking to "get off the grid". A reconfiguration of local revenue sources, preferably one that gives cities a direct stake in the growth of the urban economy, is clearly needed.

Densification is critical

The best way to see a city is that it is a labour market. And, as a labour market, a city works best if workers and employers are in close proximity to each other, reducing the costs of finding opportunities and of getting to and from work. High density is also good for firms because of their proximity to large numbers of potential customers. By any standard, density levels in South Africa's cities are dysfunctionally low.

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There are no quick fixes for this, but an important first step – surely – is that policymakers should not be reproducing and deepening existing settlement patterns through misguided housing developments. It is also vital to recognise that densification is already happening in the core city and surrounding inner suburbs. Buildings are being renovated or refurbished for residential use, and family homes are being repurposed into multi-people dwellings. In addition, new buildings (often three to four storey walk-ups) are being built in backyards and open lots.

These are positive developments driven by private entrepreneurs, builders and landlords, which represent a viable alternative to the remote urban sprawl created by RDP housing. It is, however, not a simple matter of the state getting out of the way. This kind of densification requires public investment in the infrastructure (roads, water, sewage, etc.) needed to ensure these places remain viable places to live. Metro governments also need to strengthen their urban management capacity so that they can respond to requests from developers quickly, approve building plans, and conduct inspections efficiently. At the same time, much more attention needs to be given to ensuring that building regulations do not impose standards and requirements on residential development that raise costs unduly, and which ensure that access to formal housing is unaffordable to most urban residents. Where this is the case, densification may still occur, but it will be driven by informal housing solutions that create many other kinds of challenges for city management, the quality of urban life, and the likelihood of economic growth.

Adopt a pro-development bias

One of the challenges cities face in general and in promoting densification is that the process of approving development projects is complex, frequently slow or delayed by long processes of consultation, and subject to numerous points of potential veto by all kinds of stakeholders. All of this adds cost and risk to projects.

While some of the processes that must be followed before projects break ground are inevitable and even desirable, cities do not deploy enough political capital to push projects through the process more rapidly. Some of these projects have become hostage to various interest groups, not the least of which are residents who would prefer development to happen anywhere in the city except near to them. Cities need, therefore, to become more proactive in pushing projects and proposals through these processes. More recently, construction mafias have emerged, a phenomenon that poses a potentially existential threat to development in cities.

State-owned entities (SOEs) and national departments own a lot of urban land, often underutilised or unused. This is an important resource for densifying cities and making them more accessible to the poor and more efficient as arenas for opportunity and inclusion. National departments and SOEs need to account for their urban land and should have to explain publicly why such land cannot be released for urban development. Cities, too, need to become more active in releasing publicly owned land for development. This step – critical for in-fill development – is a significant blockage in the development process and it is largely in the hands of public agencies to resolve.

Linked to this, cities need to resolve the policy uncertainty that currently exists with respect to the necessity for every development on formerly public land to include a certain proportion of affordable housing units. This can be a counterproductive approach to inclusionary housing policy, adding costs to development while making little meaningful contribution to housing poor households. Closing the gap between supply and demand for housing across all market segments would do more to unlock the housing market than requiring every development to include a quota of affordable housing units.

Township economies

One approach to a more active stance on development that needs more care in its thought and articulation is the notion of "township economies". The history of place-based development strategies that seek to channel investment and activity to particular areas is filled with failures, both in South Africa and globally. This is overwhelmingly because policymakers tend to focus place-based strategies on areas that have too little intrinsic economic potential. Of course, townships exhibit a lot more differentiation than under apartheid – an issue that needs to be taken into account before making too ready generalisations about these areas.

Townships unquestionably need to be developed, but a city's economy cannot be reoriented by executive fiat, and city budgets are too small to create enough momentum to change the distribution of comparative advantage across a city. A township economic agenda needs to recognise the limits of place-based strategies, and work with, rather than against, economic forces. Ending apartheid surely means opening access to the city for everyone and there is no need for entrepreneurs or firms to be confined to one part of the urban space.

Business and urban development

To achieve growth, metro governments need to allow the power and efficiency of enterprises operating in competitive markets to drive their economies. There are many challenges to doing this, but one is that too many metro governments in South Africa do not know or fully appreciate what business needs if it is to prosper. That deficiency can be partly rectified by talking to organised business. By focusing on the needs of business, a better environment for growth will emerge, workable public-private partnerships can be established, and investments in infrastructure are more likely to yield economic returns.

The quality and impact of these consultations depend on the willingness, integrity and organisational coherence of local business communities or at the very least a small group of business leaders committed to the metro or large city. The scale of what can be achieved will depend on whether city government-business interactions are set up properly so that businesses concerns can be voiced and heard, and solutions can be implemented. Obviously, these dialogues are only one source of input that local authorities should consider, and their constitutional and political imperative must be to ensure that public policy serves the interests of the whole population. To do this, the municipality needs to display leadership, but all the decisions about where to invest, how to provide services, what to demand from provincial and national governments, which by-laws to enforce and which to scrap, should at least be informed by an understanding of the needs of business and the power of competitive markets. To avoid the risk of crony capitalism, consultation processes must be transparent and inclusive, and must not serve to restrict access to opportunities in the development process.

Better data

Data on cities' socio-economic performance are not as comprehensive and reliable as they should be, but they are also a lot better than data on the performance of sub-city level areas, where data are almost wholly absent. This has important implications for cities ability to identify priorities and to track progress. While some important advances have been made using tax data (see the Turok and Visagie paper for this project and the recent work by South African Spatial Economic Activity Data South Africa) more work is needed to address these deficiencies using a combination of public and private data.

Greater voice

Cities need more space to pursue the policies necessary for stimulating economic growth and enhancing efficiency. For example, cities cannot effectively plan and deliver integrated public transport if they do not have authority over the modes that need to work together. Cities also need more power to change policies that retard new business entry or the growth of existing business. Cities differ from each other, so their leaders

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should be able to devise and implement strategies appropriate to their specific circumstances and comparative advantages.

In general, city leaders should play a more prominent role in national debates about issues that affect their ability to create the best environment possible for economic growth, employment and inclusion. A vital part of this is encouraging a national debate about the powers and functions they need to achieve their developmental objectives.

Concluding remarks

South Africa's cities face multiple, overlapping and interconnected challenges. They are, nonetheless, the country's best hope for turning our economy and our manifold social crises around. This is because of the dynamism and inherent economic potential of urban agglomeration, and because significant progress might be more easily achieved in smaller spaces where local accountability is also greater than in provincial and national politics.

The prosperity that cities can generate is not automatic, however. Many cities fail to deliver on their potential to become growth, jobs and opportunity generating machines. To succeed, cities need to maximise the benefits of increased human interaction by managing land use efficiently to make sure the physical environment facilitates growth; make sure transport systems work effectively; and, in Glaeser's words, manage the 'demons of density' such as public health risks, crime, congestion and high property prices. If cities get these things right, their own population growth and in-migration, even of large numbers of poor people, can be accommodated. City governments need to focus on the extent to which their programmes actually achieve the goals of greater inclusion in the urban economy and poverty reduction, and at what cost, and they should ultimately be judged by how fast poor people become less poor over time.

When cities do not have jurisdiction over critical functions like policing, public transport planning and the like, as is the case in South Africa, challenges in the coordination of activities across different spheres of government can stymie even the best plans. At the same time, the quality of urban governance, and, in particular, the expertise, commitment and vision of its leaders, matters in determining whether and to what extent a city becomes a place of hope, opportunity and innovation.

It is critical, therefore, that cities are governed by credible and legitimate political leaders. As we have seen in recent years, however, many city governments are prone to political crisis and instability. If the cities are to succeed economically, it is vital that steps are taken to stabilise their politics and to ensure that their leadership has sufficient space and political capital to authorise the policy changes that are needed. This may require meaningful political realignment, a process that, given the fraught character of existing party politics, may require intervention from civil society, including organised business, if it is to succeed. We need to find ways to encourage prominent and experienced citizens to participate in metro governments. Managing and leading South Africa's metros should not be the political landing space for those who cannot make it in national politics.

Cities, with their dense populations, deep labour markets and highly differentiated economies, make human labour far more productive and can generate expanding opportunities for the poor at a much faster rate than is possible in other settings. In the run up to the 2024 election, political parties and civil society organisations should mobilise around a clearly developed urban agenda, pushing whichever government is in place after the election to finally harness the power of cities. A genuine political commitment to urban-led growth could transform the country's economic prospects and contribute significantly to making South Africa a more inclusive society.

South Africa's urban policy agenda

To get our cities working much more effectively, South Africa needs to deal with (at least) the following policy issues:

Urban governance: Far too many officials lack the requisite capacity to perform their duties. Corruption is pervasive. And increasingly, coalition governments are proving unstable. We can learn from other countries on how to ensure more stable political coalitions that develop credible programmes of delivery, safety and economic growth with much greater accountability to the electorate.

Urban crime: The high rates of crime, particularly violent crime, have significant negative repercussions for security of residents and business confidence. This needs to be tackled as a matter of urgency.

Public transport: The cost and time involved for commuters in South African cities is inordinately high. The power, functions, and funding regarding public transport at subnational level need to be reconfigured to ensure its optimal performance.

Metro finances: Revenue sources have to be adjusted so that local government has a stake in growing the urban economy. Without this, revenue will continue to dry up.

Densification: A key reason why South Africa's cities underperform compared to international peers is because of our low population density levels. Urban managers need to support the organic, bottom-up initiatives that are already densifying cities. This process must be complemented by infrastructure investment and the adjustment of regulations to promote better spatial density outcomes.

Local development: Urban development projects on public land need to be fast-tracked.

Township economies: Growing township economies is not a question of one-size-fits-all, and areas with little economic potential cannot be developed by fiat. A more fruitful approach may be to facilitate and develop linkages between nodes across a city landscape.

Business partnerships: To achieve growth, metro and urban governments need to allow the power and efficiency of enterprises operating in competitive markets to drive their economies. There are many challenges to doing this, but one is that too many metro governments in South Africa do not know or fully appreciate what business needs to prosper. That deficiency can be partly rectified by well-structured dialogue platforms that lay the groundwork for genuine partnerships with the private sector.

A greater voice for cities: City leaders should play a more prominent role in issues that affect their ability to drive growth, employment and inclusion and in promoting the national debate about the powers and functions they need to achieve their developmental objectives.

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An emerging urban research agenda

To support policy proposals on the above issues, an urban research agenda must also be developed. South Africa desperately needs better data on metro performance and sub-city local performance. CDE suggests the following as a non-exhaustive list of topics that need to be pursued if we are to understand how to get our cities to function optimally:

Mapping economic activity: Without hyper-local data on economic dynamics, cities will struggle to plan or make key decisions, such as where and what type of infrastructure ought to be built.

The informal sector: South Africa's informal sector is small given the size of our economy. We need to better understand what is holding back informal business in city regions.

Housing regulation: Inappropriate regulation and housing policy leads to low-density settlements. Greater attention needs to be given to how better regulation will increase the availability of adequate, affordable housing as close to urban opportunities as possible.

Turbo-charging private housing construction and development: In inner cities and other relatively well-located areas private housing developers are building and renting out affordable accommodation in backyards and open lots. Research should determine what it would take to significantly expand the access of such entrepreneurs to formal, private finance.

Devolution of powers: Especially critical is more research on how to restructure the powers and functions of cities to ensure they have much more control over electricity, water and public transport (especially commuter rail).

Service delivery reforms: Researcher should explore which technologies and case studies of best practice from around the world we can use and learn from to improve service delivery.

Urban finance: Preliminary research should explore the possibilities and terms of reference for establishing a high-level commission of inquiry into urban finance that incentivises city governments to adopt an agenda promoting faster growth and development.

Local government elections: Are there clear alternatives to the current system of how we elect local governments that can be shown to encourage highly capable leaders into metro governance and make them more accountable for their performance? Is there a case to be made to, perhaps initially, restrict these reforms to metros, or large cities?

National support for Metro Governments: As Professor Ivan Turok pointed out at a CDE workshop, we need to interrogate the performance of the city support programme, which is housed in the National Treasury and aims to "support the implementation of city strategies and the effective delivery of catalytic infrastructure programmes and projects". What lessons can we learn from the successes and failures of this programme? Have they had significant impact, and what are the implications of the performance of this programme for appropriate funding and other kinds of relationships between national and metro governments.

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CDE Publications on Cities

[Building Better Cities: A new approach to housing and urban development](#), November 2020

[Urban management in the 21st century: Ten insights from Professor Ed Glaeser](#), June 2019

[Agenda 2019: Creating cities of hope](#), April 2019

[The Growth Agenda: Cities](#), April 2016

[Cities: Pathways to prosperity](#), October 2015

[Cities of hope: Young people and opportunity in South Africa's cities](#), March 2014

[The new urban paradigm. A radical departure in city management](#), May 2003

[Johannesburg, Africa's World City: A challenge to action](#), October 2002

[Pretoria: From apartheid's model city to an African rising star?](#), July 1998

[Durban: South Africa's global competitor?](#), October 1996

[Cities and the global economy: New challenges for South Africa](#), October 1996

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