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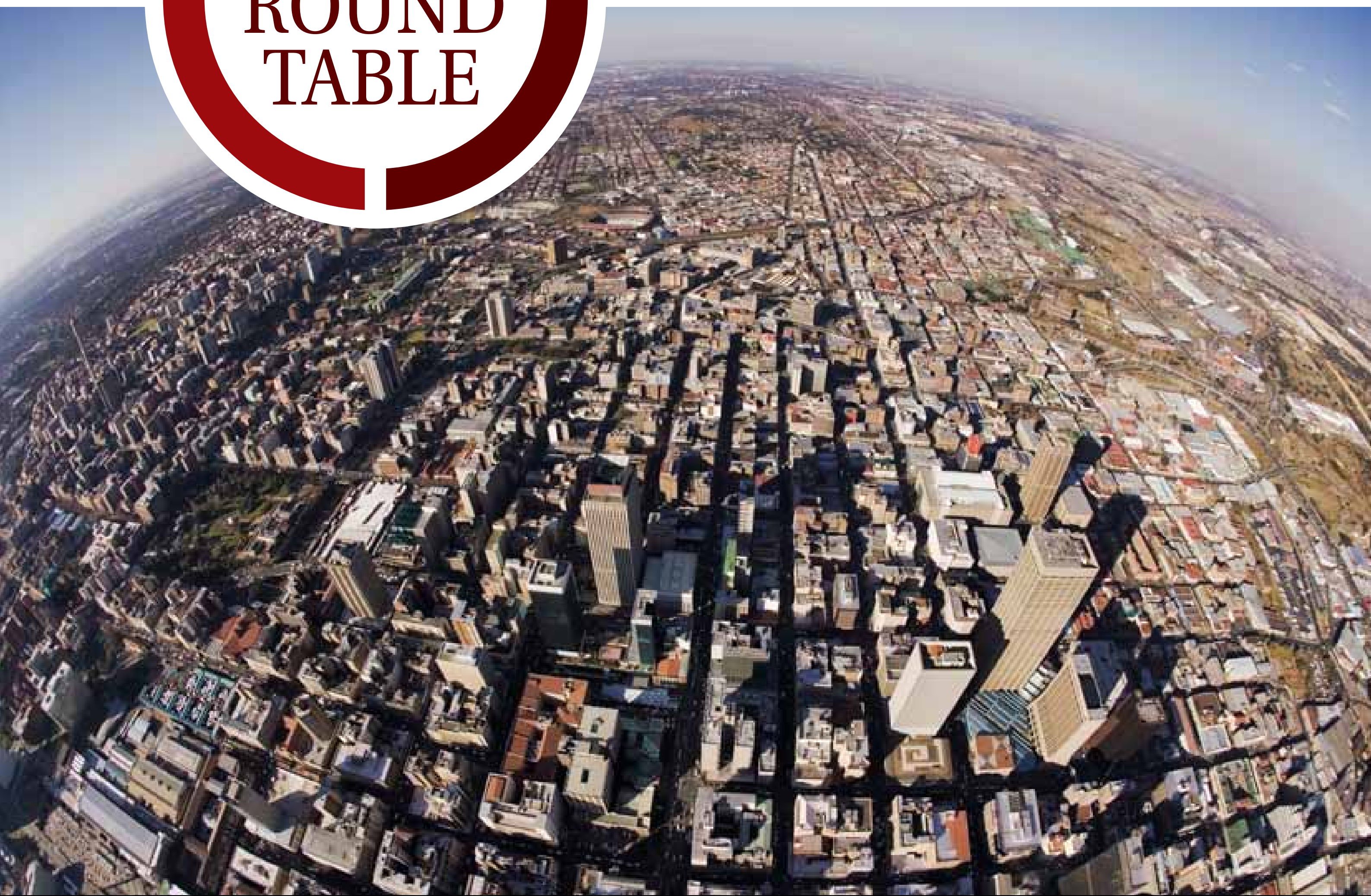

CITIES OF HOPE

Young people and opportunity in South Africa's cities

Edited proceedings of a Round Table convened
by the Centre for Development and Enterprise

The Centre for Development and Enterprise is a leading South African development think tank, focussing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

Series editor: Ann Bernstein

This report summarises the proceedings of a Round Table hosted by CDE in June 2013.
Written by Antony Altbeker, Evelien Storme and Ann Bernstein.

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Cover: Aerial View of Johannesburg

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EXECUTIVE SUMMARY

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 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 that 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 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.

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.

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.

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INTRODUCTION

With just over half the world's population now living in urban areas, and with estimates of the global urban population in 2050 running to around 70 per cent, cities have never been more important for human well-being and economic prosperity. These numbers actually understate cities' collective significance since about 80 per cent of the world's output is produced and consumed in cities. All of this means that the vast majority of new jobs that will be created in the future will be located in cities, as will be an even larger proportion of better-paying jobs. These will provide incomes to billions of people and — as countries as different as China and Brazil have already shown — they will play an enormous role in raising hundreds of millions of people out of poverty.

If all of this is to come to pass, however, cities' economies must grow. And that growth must be as inclusive as possible for all urbanites — whether newly arrived or urban born — so that all can participate in the main currents of social, political and economic life. Achieving this will not be easy. But the good news is that humanity's experience with cities over the past 500 years is that most have delivered higher living standards, rising prosperity and increased inclusion. As much as anything else, this is the consequence of cities' density, a phenomenon that significantly increases the productivity of individual residents. Historically, urbanisation has been linked with industrialisation, which has both facilitated cities' growth and depended on it. Increasing density also meant that the economic return to living in cities rose exponentially, while making possible the efficient delivery of all kinds of services — energy, water, health, education, finance, logistics, media, transport, etc. Cities, in other words, have generally been phenomenal engines of human progress and economic development.

Cities have never been more important for human well-being and prosperity

Despite this, South Africa's relationship with urbanisation has been complicated and ambiguous, if not outright hostile. One of the core goals of apartheid was to keep black South Africans out of the cities. Not only was this racially discriminatory, it was impossible to achieve at the same time as growing an economy that was increasingly urban. Apartheid may have ended, but South Africa's policy-makers remain ambivalent about the desirability of more rapid urbanisation, an ambivalence that is manifested in politicians' frequent promises to focus development on rural areas. This promise is repeated in the ANC's 2014 election manifesto, which dedicates considerable attention to rural development and links it to critical priorities like infrastructure roll-out and public works. In the meantime, the manifesto pays little attention to urban challenges and the potential that cities and urbanisation hold for faster growth and improving the quality of life.

Policy ambivalence of this sort, combined with the modest performance of the economy, particularly in employment creation, has meant that the pace of urbanisation is not as rapid as many predicted it would be 20 years ago. This is nothing to celebrate: well-managed cities with rapidly growing economies are by far the most effective platform for development that South Africa is likely to find. City growth should be encouraged, particularly in light of the need to find meaningful employment for the many millions of South Africans who do not have jobs, most of whom are young.

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. We also asked them to participate in a workshop attended by leaders from government, business, civil society, academia and urban practitioners in June 2013 (see list of attendees on page 6). This report summarises the proceedings of that workshop and identifies some key policy recommendations. The full report is available on CDE's website (www.cde.org.za). That report, unlike this one, also contains sections relating to the challenges of urbanisation in Brazil and India. Aimed largely at a South African audience, this summary report focuses, first, on South Africa's urban realities and, second, on the policy priorities for creating cities of hope.

YOUNG PEOPLE AND OPPORTUNITY IN SOUTH AFRICA'S CITIES

Well-managed cities with rapidly growing economies are the most effective platform for development that South Africa is likely to find

South Africa's reality is complex, generating contested questions of definition, including of terms like "urban" and "rural". One of the difficulties is that apartheid trapped large numbers of black Africans in homelands, many of whom lived as close to (non–homeland) urban areas as homeland boundaries allowed. This created dense peri-urban sprawls that are neither fully urban nor fully rural around the edges of urban areas. It is therefore difficult to define urban areas and hence, to measure the size of the urban population precisely.[1]

The Draft National Urban Development Framework took account of the complexity of South Africa's urban landscape, estimating that 71 per cent of South Africa's population lived in urban areas in 2009, across a hierarchy of settlements. Other estimates of the level of urbanisation include the last official figure (from 2001) of 58 per cent. More recently, however, the National Development Plan estimated that "about 60 per cent" of the population lived in urban areas, a figure it expected to rise to 70 per cent in 2030.

Dividing South Africa's settlements into "cities" and "towns" is complex because the terms aren't easily or universally defined. Prof Philip Harrison defines a South African city as a municipal area that, according to Census 2011, had a population of more than 150 000 and was generating annual economic output — measured as gross value add (GVA) — of more than R5 billion. Using this definition it is possible to create categories of urban municipalities:

- *Major Metropolitan Municipalities*. These are municipalities with a population of more than 1 million people and a GVA of over R50 billion. This definition excludes Mangaung and Buffalo City, although they are classed as metropolitan areas for governance purposes.
- *Secondary City Municipalities*. These are municipalities with population of at least 500 000 people and a GVA of over R15 billion.
- *Minor City Municipalities*. Municipalities with populations of over 150 000 and a GVA of over R5 billion.

Categories of urban municipalities in South Africa: Population and economic activity

Major metropolitan Municipalities	Secondary city municipalities	Minor City Municipalities
(pop > 1 million and GVA > R50 billion) **36.7% of SA pop, 58.8% of national GVA**	(pop > 500 000 and GVA > R15 billion) **8.9% of SA pop, 9.7% of national GVA**	(pop > 150 000 and GVA > R5 billion) **15.7% of SA pop, 14.8% of national GVA**
• Johannesburg • Cape Town • eThekwini (Durban) • Tshwane (Pretoria) • Ekurhuleni (E. Rand) • Nelson Mandela Bay (Port Elizabeth)	• Buffalo City (East London) • Mangaung (Bloemfontein) • Rustenburg • Emfuleni (Vereeniging) • Mbombela (Nelspruit) • Polokwane • Msundusi (Pietermaritzburg)	• Emalahleni (Witbank) • Govan Mbeki (Secunda) • Matjhabeng (Free State Gold Fields) • Madibeng (Brits) • Thulamela (Thoyohandou) • Makhado (Louis Trichardt) • City of Matlosana (Klerksdorp) • King Sabata Dalindyebo (Mthatha) • Mogale City (Krugersdorp) • Umhlatuze (Richard's Bay) • Steve Tshwete (Middelburg) • Newcastle • Metsimaholo (Sasolburg) • Ba-Phalaborwa (Mopani) • KwaDukuza (Stanger) • Greater Tzaneen • Moses Kotane (Platinum Belt) • Hibiscus Coast (Port Shepstone) • Merafong (West Rand) • George Moqhaka (Kroonstad) • Breede Valley • Stellenbosch • Tlokwe (Potchefstroom) • Sol Plaatjie (Kimberley) • Drakenstein • Mafikeng

Source: P. Harrison, South Africa's "cities of hope": Assessing the role of cities in creating opportunity for young people. Paper prepared for the Centre for Development and Enterprise, June 2013

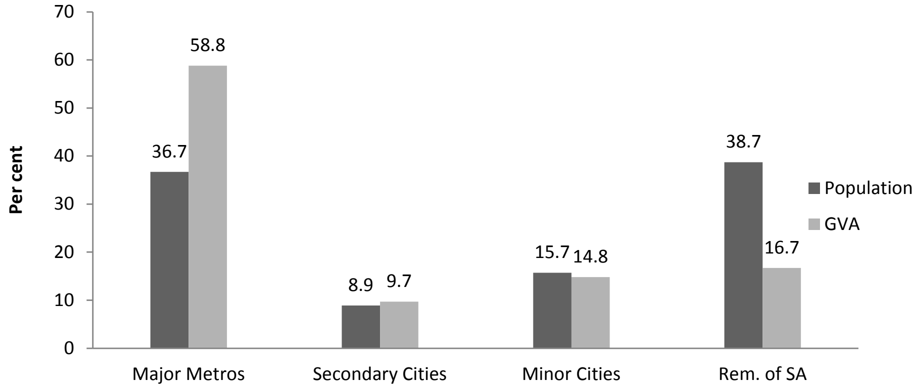
A major weakness with using municipal boundaries is that, in social and economic terms, the boundaries of cities do not conform to those delineated for the purposes of creating local governments. There are, for example, clusters of municipalities that create urban agglomerations, while there are also cities that form only a portion of a municipality. This means that out of 15 of the city municipalities on the above list, four (Johannesburg, Pretoria, Ekurhuleni and Emfuleni) are within one urban agglomeration — the Gauteng city region. Another four (Cape Town, Stellenbosch, Drakenstein and the Breede Valley) might be thought of as creating an extended Western Cape urban agglomeration. Five more (eThekwini, Msundusi, KwaDukuza, the Hibiscus Coast and Umhlatuze) form an agglomeration on the KwaZulu-Natal coast.

Cities and the economy

South Africa's major metros are home to 40 per cent of the country's population, but produce nearly 60 per cent of national output, so per capita incomes are about 50 per cent higher in the major metros. By contrast, smaller cities' per capita output is in line with the national average while rural areas account for a disproportionately small share of economic activity.

South Africa's major metros are home to 40 per cent of the country's population, but produce nearly 60 per cent of national output

Economic activity and population shares, 2011



Source: P. Harrison, op cit, p 11.

Economic growth is also disproportionately generated in South Africa's biggest cities, 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, and even lower rates of growth in smaller centres. However population growth is fastest in large centres, with the result that South Africa's population is becoming increasingly urban and per capita incomes are growing at more or less the same rate in all areas.

Economic growth is disproportionately generated in South Africa's biggest cities

Annual economic and population growth: 1996 - 2011

Source: P. Harrison, op ct. p17

Young people in the cities

There are 19,5 million people in the country aged between 15 and 34, some 38 per cent of the population. This is the age range which is commonly used to define 'young people' in South Africa and this report will follow suit. In general, these young people are more educated than older adults, but they are also more likely to be unemployed (36 per cent versus 20 per cent). Whether young or not, two-thirds of people in employment earned less than R3 200 per month.

According to Census 2011, young people are more likely to live in urban areas (64 per cent) than adults and children, with children in particular being disproportionately present in rural areas. In absolute terms, the largest single concentration of young people is in Soweto in Johannesburg (where 375 000 young people live), followed by Johannesburg's CBD (307 000), Pretoria's CBD (205 000), the township of Tembisa in Ekurhuleni (161 000), Khayelitsha in Cape Town (124 000) and Soshanguve in Tshwane (114 000). In the top 20 places in South Africa with the largest numbers of young people, there is not a single rural municipality — although Bushbuckridge, which is a quasi-rural area linked to Mbombela (Nelspruit), is on that list with 200 000 young people.

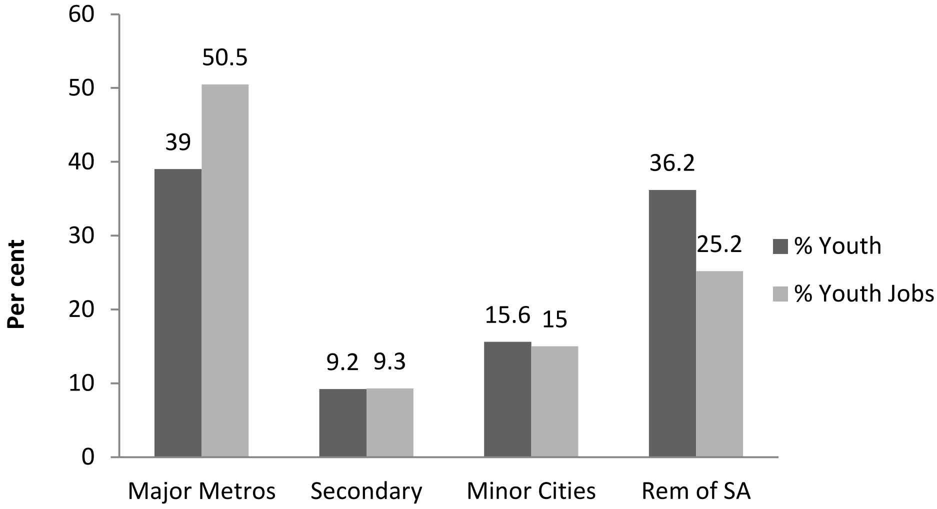
The 2011 Census shows that young people are on the move: relative to older adults, they are nearly 50 per cent more likely to have moved from one province to another at some point in their lives. The big cities in Gauteng along with Cape Town are attracting youth from across the country, the continent, and, to a lesser extent, the world. The secondary cities and metros like eThekwini and Nelson Mandela Bay, on the other hand, tend to attract migrants from their own province. Exceptions to this rule are Rustenburg, a mining city attracting migrants from across the country, as well as Mbombela and Polokwane which, being close to international borders, are home to people from Mozambique and Zimbabwe.

Relative to older adults, young people are nearly 50 per cent more likely to have moved from one province to another

Young people and the labour market

If young people are disproportionately concentrated in cities, employed young people are even more concentrated there. This is especially true of the large cities, which are home to over 50 per cent of young people who are employed but to fewer than 40 per cent of all young people. Given existing trends, the level of concentration of employment in cities is likely to increase over time.

Distribution of young people and young people with jobs



Source: P. Harrison, op ct.

Johannesburg has a youth unemployment rate which is relatively low (32 per cent), but has the largest population of unemployed young people in the country

Overall, the unemployment rate for young people in the metros is 35 per cent, which compares with 40 per cent for other cities, and 44 per cent for non-city municipalities. This is despite the movement of people to cities, which is sometimes assumed to be a source of rising levels of urban unemployment.

There are important quantitative differences between cities' levels of unemployment: Johannesburg has a youth unemployment rate of under 32 per cent, compared with over 58 per cent for Thulamela (Hazyview). There is, however, a difference between absolute and relative levels of unemployment. Johannesburg, for example, has a youth unemployment rate which is relatively low, but, in absolute terms, it has the largest population of unemployed young people in the country.

The top twenty youth unemployment hotspots in South Africa, 2011

Municipality	Youth Unemployment Rate %	Number of Unemployed Youth	Number of Discouraged Youth Work Seekers	Unemployed and Discouraged Young Work Seekers
City of Johannesburg	31.5	387 000	70 000	457 000
eThekwini (Durban)	39.0	309 000	80 000	389 000
Ekurhuleni (East Rand Johannesburg)	36.9	310 000	54 000	364 000
City of Cape Town	31.9	277 000	55 000	332 000
City of Tshwane (Pretoria)	32.6	237 000	42 000	279 000
Nelson Mandela Bay (Port Elizabeth)	47.3	105 000	26 000	131 000
Emfuleni (Vereeniging)	45.0	75 000	13 000	88 000
Buffalo City (East London)	45.1	61 000	18 000	79 000
Msunduzi (Pietermaritzburg)	43.1	53 000	17 000	70 000
Mangaung (Bloemfontein)	37.2	56 000	12 000	68 000
Bushbuckridge	64.6	46 000	21 000	67 000
Mbombela (Nelspruit)	37.6	46 000	15 000	61 000

Municipality	Youth Unemployment Rate %	Number of Unemployed Youth	Number of Discouraged Youth Work Seekers	Unemployed and Discouraged Young Work Seekers
Polokwane	42.0	50 000	9 000	59 000
Thulamela (Hazyview)	58.3	38 000	21 000	59 000
Rustenburg	34.7	49 000	8 000	57 000
Madibeng (Brits/Platinum Belt)	38.2	44 000	8 000	52 000
Matjhabeng (Free State Gold Fields)	49.7	39 000	9 000	48 000
Makhado (Louis Trichardt)	49.6	30 000	15 000	45 000
Emalahleni (Witbank)	36.0	36 000	6 000	42 000
Greater Tubatse (Burgersfort)	59.6	35 000	7 000	42 000

Source: P. Harrison, op cit.

Employed youth in the large cities tend to be in less vulnerable forms of employment than is the case for young people outside of the major cities. Thus, fewer than one in five young people in the largest cities is employed in informal or domestic labour, compared with 25 per cent in smaller cities and 30 per cent in the non-city municipalities.

The larger the city, the more educated tend to be the young people who live in it. Nationally, 6 per cent of young people have higher education, but the figure rises to 10 per cent among young people in the large metros. Outside the cities, less than 3 per cent of young people have degrees. There is, however, quite a lot of variation among cities: 6 per cent of young people have higher education in eThekwini (Durban), for example, compared to 14 per cent in Tshwane (Pretoria). Among the small cities, the figures range from 2 per cent in the platinum belt to 12 per cent in the university town of Stellenbosch.

Employed youth in the large cities tend to be in less vulnerable forms of employment

Conclusion

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.

UNDERSTANDING SOUTH AFRICA'S URBANISATION

During the course of the discussion at the Round Table, a number of points were made that reflect different ways of thinking about urbanisation in South Africa and the impact this could have on the country's trajectory. This section summarises some of these issues.[2]

The challenges of the townships

In recent decades, South Africa's economy has grown quite slowly, averaging only 2,5 per cent a year between 1980 and 2010. This weak performance occurred despite urbanisation and the demographic youth bulge, both of which are usually associated with rapid economic growth. A key reason for this may lie in the inefficiency of South Africa's spatial economy which has undermined the productivity-enhancing effects of urbanisation. Thus, for example, when people move from rural areas to the cities, many move not to the core city itself but to townships, which are generally zones of low average productivity, both in comparison with the rest of the city and even with the slums in the developing world. Dharavi in Mumbai, for example, is reported to have 15 000 single room factories whereas South African townships have nothing remotely comparable. South Africa's townships and informal settlements also have very high levels of unemployment.

Townships are generally zones of low average productivity compared with the rest of the city and with slums in the developing world

One reason South Africa's cities fare badly is apartheid-era spatial planning which deliberately kept people far from their place of work by building dormitory suburbs. These areas consist of thousands of houses but very little else. While this has begun to change, particularly in some of the country's largest townships, for decades residents were prevented from starting businesses or owning properties — the sort of assets that would have made it possible for them to progress economically.

Given the role of agglomeration economics in facilitating economic growth in urban areas, the absence of economic progress in previous decades along with current infrastructural and economic backlogs of townships, these areas are likely to continue to struggle to achieve economic growth compared to the rest of the city. Thus, even though township areas are relatively dense, they (a) are not as dense as poorer parts of cities in either the developed or developing world, and (b) they lack the basic economic architecture (high streets, industrial areas, etc.) and infrastructure (water, electricity, etc.) that could drive productivity gains as they grow in size and population.

Some cities' populations have grown relatively rapidly: Johannesburg with 3,6 million has 70 per cent more people than it did in 1994. Despite this, government has found it difficult to reverse the pattern of neighbourhoods being divided according to race and income. Part of the reason for this is resistance from better-off communities who don't want to see their areas being used for lower-income housing development. The fact that the demographic profile of these better-off communities has changed somewhat since 1994 has not significantly changed this. The result is that South Africa's cities have not densified and remain less dense than even the least dense cities in Europe and Latin America.

Housing policy and economic opportunity

An important challenge is that many new urban residents are not fully committed to the city and retain homes in the countryside. This means they sometimes prefer to invest (whether from their own funds or from housing subsidies) in structures outside the city. By doing so they detract from the aggregate sum of investment in infrastructure in the city and complicate urban planning and development.

A related issue arises with backyard shacks, which, while offering accommodation to millions and generating incomes for landlords, are very rarely integrated into municipal plans except as a partial measure of the housing backlog. This is an indication of how little attention has been paid to the potential of housing to function as an asset which can be leveraged to create economic opportunities.

Another area in which housing policy could be improved to facilitate residents' pursuit of incomes can be found in poorly-considered and poorly-communicated policies governing the use of subsidised housing, which has reduced the capacity of households to use these assets to generate incomes. Thus, many politicians and officials have tried to impose limits on recipients' use of subsidised RDP houses, including seeking to prevent owners from renting them out or selling them. While present policy is that recipients can only sell their house after seven years of occupation, many people believe that they are not allowed to sell their houses at all. In addition, there have been cases of senior officials trying to evict people who set up spaza shops in RDP houses on the grounds that the houses "belong to the needy" and cannot be used for "personal profit."

At the moment, government policy assumes that the only job-creation benefits of housing occur during the construction phase in the linkages to suppliers and service providers (though more could be done to facilitate incremental building). Policy and attitudes need to change, so that housing is seen as an asset, not only in which people live, but also in which productive activities can take place, while also enabling owners to make economic progress through its resale value. Without this being possible, the effectiveness of this large publicly-funded investment in housing is restricted, as is the expansion of wealth creating properties and inclusivity of the property market.

Policy and attitudes need to change so that housing is seen as an asset in which productive activities can take place

The informal sector

About 12,2 million people aged between 15 and 35 live in South Africa's cities, of whom 36 per cent are employed and a similar amount are either looking for work or can be classed as being discouraged workers. The rest are not in the labour market, mostly because they are studying. Of those who are working, about 14 per cent are in the informal sector, while another 5 per cent work in private households. Most of those who work in the informal sector (64 per cent) are men.[3]

By international standards, South Africa's informal sector is small, though there are some estimates that suggest it is larger than the official StatsSA's numbers suggest. Whatever its size, a larger proportion of people in the informal sector are self-employed than is true of the formal sector – 50 per cent versus 3 per cent. Many report having to start businesses out of necessity (42 per cent) or because they lost their job (19 per cent). On the other hand, 34 per cent of people in the informal sector – most of them young – say they started their business because they saw an opportunity.

There are significant differences in the work done by men and women in the informal sector. For men, the largest single form of employment is as a taxi driver or mechanic; for women, it is hairdressing or street vending.

Education levels in the urban informal sector are low. Nearly 60 per cent of the young workers have not obtained their matric, though 37 per cent have completed Grade 12 and another 6 per cent have a post-matric qualification. Still, young informal workers are relatively better educated than those over 35, of whom only 19 per cent have matriculated.

Nearly 60 per cent of informal sector workers said they taught themselves the skills to manage their businesses, while 12 per cent of the young with informal jobs say they learnt their skills mainly from family.

Little is known about incomes from informal sector work, but the evidence suggests that about half earn less than R2 000 a month (a figure that may overstate matters since some respondents may be reporting gross income rather than income net of expenses). By way of comparison, StatsSA has recently reported an estimate that the median monthly income of a low-skilled informal worker in 2012 was R1 700.

34 per cent of people in the informal sector say they started their business because they saw an opportunity

KEY INSIGHTS

The Cities of Hope project was premised on the conviction that the degree to which cities in the developing world create opportunities for young people will be one of the key determinants of how prosperous and peaceful their futures will be. This report is a shortened version of a longer report (available at www.cde.org.za) which compares the experiences and challenges of cities in three countries — Brazil, India and South Africa. Those experiences, partly summarised in the table below, are quite different even if the challenge each country confronts in the context of urbanisation is similar — to create large numbers of jobs that improve the prospects of young, otherwise marginalised, people. In the remainder of the report, we summarise the lessons for urban policy if countries are to create what we have called "Cities of Hope" for young people.

	India	Brazil	South Africa
Total population[4] **% between 15 and 34**	1.2 billion 36% or 430 million	197 million 34% or 67 million	51 million 38% or 19.5 million
Population growth rate **Urban population growth rate** **Rural population growth rate**[5]	1.3% 2.5% 0.8%	0.8% 1.2% -1.0%	0.5% 1.2% -0.7%
Current level of urbanisation[6]	31% More than 40% of urbanites live in the biggest cities each of which has a population of over 5 million[7]	85% 18% of Brazilians live in the three largest cities[8]	62% 37% live in 8 metropolitan municipalities with populations ranging from 700 000 to 4 million.
Internet users ratio (percentage of total population with access to the internet, 2012)[9]	13%	50%	41%
Aggregate poverty (with poverty lines at $1.25 and $2 per capita per day)[10]	33% ($1.25 poverty line) 69% ($2 poverty line)	6% ($1.25) 11% ($2)	14% ($1.25) 33% ($2)
Size of economy and average growth over past 20 years[11]	GDP of $1,9 trillion, and growing at annual rate of 6.8% for 20 years GDP per capita US$1,489 in 2012	GDP of $2,5 trillion, growing at 3.1% over 20 years GDP per capita US$11,340 in 2012	GDP of $420 billion, growing at 3.2% a year over 20 years GDP per capita US$7,508 in 2012
Total labour force participation rates [12]	58% (470 million people)	70% (86 million people)	56% (18.3 million people)
Employment ratio *** For youth (15-24)** *** For adults (25+)**[13]	 Adults: 61% Youth: 34%	 Adult: 68% Youth: 53%	 Adult: 49% Youth: 13%

CDE, 2014

Urbanisation in developing countries like India, Brazil and South Africa is having a profound effect on young people. The table above shows that all three countries are remarkably young — in each, more than one in three people is between 15 and 34 — and that their urban populations are growing faster than the population as a whole. Given these trends, the nature and quality of the urbanisation process and the growth of cities will shape young people's economic prospects over the next few generations.

Of the three countries, it might be said that India has the most at stake, not only because it will be the youngest country on earth by the end of the decade, when its median age will be under 30, but because it is the least urbanised of the three and has the most catching up to do. Of the three countries, then, the process of urbanisation in India has the most prospect of driving growth and reducing poverty.

South Africa, too, with a little more than 60 per cent of the population living urban areas, has many more people who could and should move into cities, especially the major ones (which are small by international standards). By contrast, one of the reasons poverty and unemployment rates are significantly lower in Brazil than in South Africa and India, is the fact that the country is overwhelmingly urban already.

The degree to which cities in the developing world create opportunities for young people will determine how prosperous and peaceful the future will be

Despite these important differences, all three countries need to think hard about how their urban areas can become cities of hope and opportunity. All three have increasingly urban economies, so the quality of urban management and the provision of timely and efficient infrastructure will be of great importance in their drive to higher growth, an improved quality of life, and effective inclusion of the young and the poor.

How do cities in the developing world become "cities of hope"?

The two most important reasons for optimism about the role that young people living in the developing world's cities could play in accelerating economic progress arise directly out of the fact that they are young and that they live in cities. Growth and opportunity can be facilitated both by the youthfulness of cities and by the fact that cities tend to be good for growth.

Young people are good for growth

Poverty and unemployment rates are significantly lower in Brazil because the country is overwhelmingly urban

While it is true that youth bulges are sometimes associated with heightened risks of political instability (as some argue has been the case in the Middle East in recent years), they can also help accelerate economic growth. This is because demographic shifts of this kind tend to increase the size of the working age population, reduce the dependency ratio, and inject fresh energy and entrepreneurialism into the economy. In addition, young people tend to save more than older people, so youth bulges can also improve a key macroeconomic variable — the savings rate.

Cities are good for growth

Cities are machines for producing economic prosperity and have been described by Prof. Paul Collier, one of the world's leading development economists, as being essential to the "miracle of productivity". This is the set of processes through which human energies, which for thousands of years could produce output of the equivalent of only $2 per day per person, now generate output that may be hundreds of times more than that.

At its root, this transformation of the productivity of human labour is the result of two processes: increasing scale of production and increasing specialisation of economic activity.

Increased scale and specialisation can be achieved far more easily in densely-packed cities than in dispersed rural populations, making the growth of cities a critical factor in humanity's economic progress over the centuries. Cities are places where people can combine their different skills to make things that would be beyond individual capacities. Residents can access and exchange skills, learn from each other, and transact more efficiently than would be possible in sparsely populated areas. While estimates differ, the per capita increase in productivity every time the size of a settlement doubles, is thought to be between 3 and 6 per cent. This means that cities have the potential to vastly increase the productivity and value of human labour relative to small towns and villages: each person living in a city of 6 million would be between 1,5 and 2,5 times more productive than they would be if they lived in a village of 100.

That cities can generate miraculous productivity growth does not mean that they always do so. In much of Africa, urbanisation has not generated the kind of productivity growth needed to raise living standards. One reason for this may be that the comparative advantage of many African economies lies in activities that are not generally located in cities — in agriculture and the extraction of natural resources, for example, rather than manufacturing. This constrains the possibility of rapid industrialisation, which was a key process driving successful urbanisation elsewhere in the world. Another possibility is that the benefits of density and connectedness are not sufficient to offset some of the costs of expanding cities (such as congestion and growing pressure on infrastructure), unless per capita incomes are higher than a particular threshold.[14] One way in which this manifests itself may be institutional because poor societies generally have weak institutions. This is certainly true of many African cities which have serious institutional deficiencies resulting in poorly planned settlements with too little density, inadequate infrastructure, and dysfunctional markets for land and property. This has not only had an impact on productivity growth but has also reinforced the dynamics that encourage informality in economic activity, housing, and other markets.

Industrialisation, comparative advantage and urbanisation

If one of the challenges African cities face is that the comparative advantages of African economies do not appear currently to lie in industrial activities, should they try to develop such comparative advantages over time? And is it possible that they will be able to do so?

As a rule, industrial production does not account for the bulk of economic activity in any city of any size, with the production and exchange of services usually employing more people and generating more value added in most cities than does manufacturing. At the same time, most successful experiences of urbanisation, whether in the developed or the developing worlds, have occurred during periods of rapid industrialisation when manufacturing industries were growing particularly quickly. This was the case, for example, in the United States and Europe over the past two centuries, as well as more recently in Japan and the rest of East Asia over the past 50 years.

Cities are machines for producing economic prosperity

One view is that the process of urbanisation in much of Africa will not follow the same trajectory as had been followed elsewhere, and that generating the "miracle of productivity" will be harder. Complicating matters, the global decline in the relative importance of manufacturing (especially labour-intensive manufacturing) as incomes rise could limit the opportunities for cities to develop an industrial base on which to build a growth strategy.

Proponents of this view cite as evidence for their claim that the comparative advantage of African countries does not lie in manufactures that Vietnam (pop: 90 million) exported more light manufactured goods in 2008 than the whole of sub-Saharan Africa (pop: 900 million). In addition, an argument can be made that light-manufacturing cannot be competitive if located in countries in which per capita income is higher than $5 000 pa because of their higher cost base.

However, there is another perspective offered by leading development economists like Prof Paul Collier, who argue that the challenges are not insurmountable. They point, for example, to Ethiopia which has begun to break into the global footwear market and has begun to attract investors from China who are setting up factories there. Besides, the mere fact that many developing countries like Costa Rica, Vietnam, Bangladesh, and China became competitive in manufacturing in the first place — something that was long believed to be impossible — means that it might be possible for other countries to do so now. Justin Lin, a former chief economist of the World Bank, has argued that as Chinese manufacturing moves up the value chain, millions of low-wage jobs could move elsewhere and become new entry points into global trade. Finally, they argue that, even if the relative importance of manufactured goods (especially labour-intensive goods) falls, the global market is so large that countries could build significant manufacturing capacity just by growing their share of global production.

To take advantage of these opportunities, however, countries need to recognise just how competitive the markets for labour-intensive manufactured goods are. The key goal for policy-makers must be to understand what a competitive price would be for particular products delivered to particular markets. Once that is established, they need to work backwards to try to provide the business environment needed to ensure delivery of that good at that price. Comparative advantage can, in other words, be developed and can accrue to cities that are integrated into world markets.

One implication of this is that coastal cities with navigable ports, and cities in countries which retain preferential trade partner status with large markets, will have distinct advantages over cities that lack these advantages. Inland cities, and those in countries that are unable to secure preferential trade arrangements, will face additional challenges that will have to be offset by increased competitiveness.

As Chinese manufacturing moves up the value chain, millions of low-wage jobs could move elsewhere and become new entry points into global trade

Box: East Africa rises

As East Asia become more adept at manufacturing and exports, its historical ties with Asia are paying off, argues Michael Power of Investec.

With some industries looking to relocate productive capacity outside China in response to increasing labour costs, countries around the world are looking to tap into manufacturing and exports.

So far, Asian countries outside China have been the principal beneficiaries of this trend: garment manufacturers have established themselves in Bangladesh, and the shoe industry has moved to Vietnam. Vietnam has also seen some investment higher up the value chain, with Samsung planning to move 40 per cent of its Smartphone assembly from China to Vietnam. But it is East Africa which is expected to be the world's fastest growing region of this decade — mostly driven by manufacturing and exports.

Kenya is developing a car industry, most of which has relocated from Asia, while Ethiopia has benefitted from migrating textile and shoe factories. The world's largest shoe manufacturer has recently opened a factory in an industrial park in Addis Ababa, a move driven by the same team of private and public South Korean investors that attracted textile manufacturers to Bangladesh. This is largely to take advantage of low East African labour costs: Ethiopian wages are one-third of those in China (even after adjusting for higher productivity in China), and half of what they are in Vietnam (with equivalent productivity). But higher up the value chain things are looking good too: technology leaders including Microsoft, Google and IBM have set up R&D hubs in East Africa, which are crucial as technology is central to building economic complexity.

Industrialisation has also sparked collaboration between East African countries which will facilitate further economic growth: labour now moves across borders more freely; Kenya, Uganda and Tanzania have launched a cross-border payment system; and private sector investors are taking the lead in financing capacity expansion.

Financial Mail, February 7, 2014

Policy priorities for more effective urbanisation

If comparative advantage in industrial activities is necessary, and if it can be built, it can be built only by cities that successfully manage a range of processes. Effective urban management requires policies and institutions that create the conditions in which it is possible for economies to grow quickly through rapidly rising productivity.

Key to successful urbanisation is the recognition that the physical shape of a city and the way that it evolves depends on the decisions made by hundreds of thousands (sometimes millions) of economic actors: households which decide where and how to build homes; businesses which decide where to build factories, shops and offices; and governments which must build public infrastructure. While these decisions are made (largely) independently by the various economic agents, the benefits accruing to any agent depend on the decision made by others. For this reason, a critical challenge lies in trying to shape the millions of choices in a way that maximises the benefits of urbanisation. This is difficult to achieve in societies in which structures of governance are weak and where social divisions are significant. It is, however, evidently possible for success to be achieved since that has been the experience of scores of cities in the developing world.

Urban design

Poor planning of public infrastructure and transportation works against policy-makers' desire to densify cities

Densification is the most critical goal of urban policy because it is the source of the agglomeration economies that cities generate, and the basis for increasing both the scale of cities' economies and the specialisation of its firms and workforce. It is often hard to achieve with many cities unable to overcome countervailing forces. One example of the challenge lies in the existence in many cities of inappropriate land use regulations and building codes which can make building unaffordable. This, in turn, can lead to informalisation as households and businesses ignore the rules. In addition, high building costs, themselves a result of numerous institutional failings, often mean that the kinds of formal structures needed for densification — multi-storey buildings in particular — cannot be built even when zoning laws allow for them. Finally, poor planning of public infrastructure and transportation often works against policy-makers' stated desire to densify cities.

Further challenges lie in the resistance of some residents to regulatory changes needed to encourage densification. The fact that land on the outskirts of cities is usually cheaper than land at the centre also encourages developers to build new structures on the edge of cities, inducing sprawl. This challenge is accentuated when city governments generate income from selling land to developers, much of which will, of necessity, be on the outskirts of cities. Urban centres, however, could become significantly denser if governments were to consider mapping and selling much of the vacant land they own in cities and towns so that these could become productive and lucrative assets. "Upzoning" areas (rezoning parcels of land for more intensive use) to allow for much greater density can be an effective tool, as can the implementation of sensible modes of public transport which encourage developers to locate new structures along their routes.

Linked to this, one of the most significant roles that a city could play in seeking to promote industrialisation (or, indeed, the more rapid development of other economic sectors) revolves around delivering the set of infrastructural and policy interventions needed to ensure that firms cluster in such a way that they can generate the efficiencies and productivity gains associated with agglomeration. These derive from the positive spill-overs that firms enjoy when they are located close to other firms both in the same industry and in others. Zoning rules are one tool for achieving this, but so too is the establishment of special economic zones of various kinds, the provision of some kinds of incentives to induce clustering, and working with developers seeking to exploit perceived niches. Importantly, the clustering of activities doesn't benefit firms alone, but makes more affordable the provision of public infrastructure.

Financing urbanisation and city growth

Although urbanisation can induce rapid economic growth, the process itself needs to be financed. The challenges here exist on two distinct levels: paying for public infrastructure and ensuring that firms and households have access to affordable finance in order to facilitate the building of homes and business premises. Given these costs, urbanisation is more efficiently achieved in high-savings economies where there is a larger (and cheaper) pool of funds available to finance it.

One proposal for financing urbanisation is that local governments should seek to capture a significant proportion of the capital gains accruing to owners of land in cities. The rationale for this is that the rise in the value of those properties is the consequence of the rising productivity of the city rather than being a product of the actions of a particular land-owner. As a result, the benefit of rising property values should not accrue exclusively to the private owner, but ought to be used to finance public investment. A critical challenge, however, is institutional: how effectively are funds channelled to local governments from other levels of the state and how well do local governments collect rates and taxes? And, how effectively do they spend and allocate these monies? If these institutions are weak, financing urbanisation will be difficult even if the principles on which it is founded are coherent.

Densification is the most critical goal of urban policy

There is great variety in the ways in which different countries finance public infrastructure in cities: how much is financed through taxes and how much through user charges; whether taxes are levied locally or are transferred from national or provincial budgets; whether allocations from other spheres of government are dedicated to particular uses or can be allocated as local governments see fit. The critical factors are: ensuring that there are sufficient funds to finance the appropriate level of public infrastructure; rigorous needs assessments so that different kinds of infrastructure can be appropriately prioritised; keeping costs of infrastructure as low as possible; and ensuring the funding process is transparent and accountable. These characteristics are critical to ensuring that infrastructure plans deliver what cities need as affordably as possible.

If households and businesses are to afford their structures, construction costs, which depend in part on building regulations, need to be appropriate for the level of per capita income. In addition, financial instruments that ensure that loans are available and affordable are required. Once again, this is primarily an institutional and regulatory challenge involving financial sector regulators, deeds offices and the various law enforcement agencies involved in enforcing contracts and repossessing collateral. In the absence of these housing becomes 'dead capital' — assets which cannot be used to support economic activity because the suite of institutions needed to create and enforce property rights are absent or deficient. For this reason, policy-makers face critical challenges in coordinating public policy reforms across a range of institutions and policy areas.

The size and quality of the workforce

A key determinant of the rate of growth of urban economies is the quality of their workforces which plays a large role in determining levels of productivity. This puts a premium on the quality of education and training institutions. But urbanisation and densification can help improve education by reducing the cost of delivery and raising its quality through increased competition and greater specialisation in both public and private provision. In addition, the density of urban areas makes the exchange of information, knowledge and skills easier, increasing the productivity gains from education. This increases the individual returns on education which encourages people to stay in school and to seek to upgrade their skills. Finally, the presence of large and medium size firms in cities means that there is far more opportunity for (and supply of) in-firm training to workers, raising the quality of the labour force.

While all of this suggests that the quality of education benefits from the process of urbanisation in the medium and long run, matters are more complex in the short-run. Upgrading education and skills systems is a notoriously complex and time-consuming endeavour, and its results are generally felt only after some time. This is true no matter the starting point, but in societies in which large numbers of young people have received inadequate education, improving the quality of the workforce is difficult. It is important, therefore, that cities maximise what opportunities exist by fostering quality public education and facilitating the emergence of private sector providers. They should also seek to promote the growth of formal sector firms, including those that rely on unskilled, low-productivity labour, since on-the-job and in-service training are among the most efficient ways to raise workforce skills levels.

The more independence, authority and capacity a city has, the more likely it is to develop a strategy that works

The quality of leadership and governance

The quality of public institutions and the extent to which cities have power to govern and can make decisions that are appropriate to their specific circumstances help determine the effectiveness of the process of urbanisation. For cities to manage themselves effectively, they need to have both the legal authority over critical areas of public policy and the business environment, and the institutional capacity to do so.

The ability of cities to manage their own trajectory is constrained because much of what will determine how a city's economy performs is not in the control of local leaders. Some factors are out of the hands of domestic policy-makers. These include: the state of the international economy; the impact of technological change on the evolution of global supply chains; the demand for labour; the geographical location of the city; and the impact of climate change. Other factors affecting the state of the national economy and the trajectory of socio-economic development may be determined by national policy makers — macroeconomic and industrial policies, labour market policies, the quality of the education system etc. — with cities seldom having much impact on their substance. Having said that, the more independence, authority and capacity a city has, the more likely it is to develop a strategy that works. Indeed, some of the largest and most successful cities are those that had the opportunity to experiment with what might work for themselves.

Managing cities effectively requires strong leadership able to deal with a wide range of challenges. The outcome of any decision made by independent economic agents depends very heavily on the decisions made by other agents. These in turn depend on a range of factors, so a complex matrix of challenges will emerge. This may not lend itself to straightforward prioritisation since the impact of one set of reforms may be dependent on the successful implementation of others. Leaders, in other words, will have to prioritise areas for action, and coordinate changes across what could be a broad front of challenges. Precisely where energy and attention should be focused will depend on the character of the city concerned.

Given that most of the critical decisions about whether and where to build structures (homes, business premises, public infrastructure) will be taken by independent actors, it is important for local leaders to work with major constituencies to try to align space-related decisions. The importance of this is hard to overstate. If, for example, firms are uncertain about the long-term prospects of a city, they will under-invest in business premises. Similarly, if households are not committed to the city, because, for example, they have retained strong links with the countryside, they may invest housing resources in homes elsewhere. The key is that these decisions are based on views about the future that can become self-fulfilling: if all firms under-invest in business premises because they have doubts about the future, then the future will, in fact, be less prosperous than it might have been. The same is true in relation to housing investment and investment in public infrastructure: the returns on these investments depend on the decisions made by independent actors which can raise or lower those returns. What we learn from successful cities is the importance of developing a common vision of the future among investors, existing firms, households and policy-makers. A practical and achievable vision, with realistic targets is important. So too is creating an environment that encourages investment and where the city works with business and households to ensure and facilitate growth. Leadership matters and can make an enormous difference.

What we learn from successful cities is the importance of developing a common vision of the future among investors, firms, households and policy-makers

BOX: Increasing competition and reducing regulation key to urban revival of Indianapolis

In previous work by CDE, we looked at how effective leaders of cities have driven changes that improve the business climate. One example of this was Stephen Goldsmith, who served as mayor of Indianapolis for the maximum permissible term of eight years between 1992 and 2000, and who subsequently served as deputy mayor in New York. Under Goldsmith's leadership, Indianapolis – the 12th largest city in the United States – experienced a remarkable revival. Goldsmith eliminated city deficits, enhanced services, rebuilt infrastructure, revitalised neighbourhoods, attracted new businesses, created jobs and reduced crime, all of it while cutting taxes.

The results are remarkable: within the first five years of his term more than 70 city services were opened to competition, either by privatising them entirely or giving municipal employees a chance to compete with private suppliers. One of them was the rendering of accounts to the city's sewer users and within three years the benefit to the city in the form of cheaper costs and additional revenue from users not previously billed was $10,6 million a year. A move to privatise street maintenance at first was opposed by unionised city employees, until Goldsmith asked them to quote as well. Motivated by the prospect of competition, they submitted the lowest quote, won the tender and actually delivered below it, working 68 per cent more efficiently than they had done while they were employees of the city. The workers were earning more than before, and the city was paying less.

Goldsmith took the view that improved city governance is not an end in itself, and that better government must lead to economic growth, more real jobs and improved living conditions. He sought to make Indianapolis more attractive to investors by reducing the 'thousand pinpricks' of regulation, while lowering taxes by controlling public expenditure, and spending the savings on housing, infrastructure, crime prevention, and community development. When he took office, Goldsmith was appalled to find that Indianapolis' regulation code was 2 800 pages long. During his period of office, 157 000 processes and regulations were removed.

Goldsmith also restored the role of neighbourhood-based organisations as partners of the government and the private sector in solving urban problems. This, he found, was crucial in creating a sense of 'municipal citizenship' among city residents, arguing that, 'No amount of government reform will save cities…without the support of active neighbourhood-based organisations, vibrant communities of faith and strong families…Too much government usurps the will of the community, but ineffective government is harmful as well.'

CDE, Creating Urban Citizens: Stephen Goldsmith and America's new urbanism in the city of Indianapolis

It is be critical for the success of cities that their development be elevated to the highest political levels in society

Two implications follow from this. The first is that the principal challenges confronting local leaders, both in their management of local institutions and in their interactions with policy-makers at different levels of government, is to coordinate a range of processes so that they can capture the positive spill-over effects. This is a challenging managerial and political task, and leads to a second implication: that it may be critical for the success of cities that their development be elevated to the highest political levels in society. This should not be a surprise: economic activity in cities drives the national economy, so political leaders and policy-makers across government should be focused on making cities grow. This means that they must ensure that the cities have the requisite level of authority and the capacity to manage their development and to make strategic choices. They must also ensure that national and provincial governments design their policies and programmes around the need to take advantage of the growth that cities can generate. The health of the cities needs to be seen as an issue of national importance and this requires a dedicated and deliberate focus on how to improve the economy of cities by national decision makers.

CONCLUDING REMARKS

The objective of the Cities of Hope project was to try to understand how urbanisation, properly managed, might help developing economies like South Africa's to grow and, in the process, ensure that young people — particularly those who lack skills and workplace experience — find routes out of poverty.

The initial design of the project was premised on the assumption that there would be a great deal of work being done at the intersection of these three issues. As it turned out this is not the case. There is a great deal of work being done on the challenges of growth, of successful urbanisation, and of describing the needs of young people who are excluded from the economies of their societies. But the nexus of the issues is comparatively under-researched. We found plenty of material and debate on what drives economic growth in cities, and a great deal on the kinds of social services that young people (especially those who are marginalised) need in developing world cities. But there wasn't anywhere near as much as we had expected to find on the relationship between growth and inclusion for young people.

Policy-makers should be doing everything they can not only to reverse the anti-urban biases of apartheid, but to put in place policies that would actively encourage urbanisation

This is a pity for we know that during periods of rapid economic growth — usually associated with industrialisation — rural to urban migration tends to accelerate substantially, adding to what is often a fast growing urban population. We know also that how quickly urbanisation happens and how effectively it is managed is a vital factor in stimulating growth. The rate of growth of household incomes depends on more than just the choices that individual migrants make or the decisions existing urban residents take, but on the institutional incentives and barriers that exist in the urban economy. Thus, while urbanisation is largely driven by the expectation that incomes and opportunities will improve if people move to the city, how fast their incomes actually rise depends not just on their individual efforts and endowments (skills, willingness to accept risk, etc.) but on the extent to which urban institutions make it possible for them to gain a foothold in the city, start their own businesses or find employment.

Looking at what needs to be done in and by cities on the institutional front to maximise their impact on young people's economic prospects suggests that their priorities are reasonably "general" in character, and that thinking about the specific needs of young people may not be optimal unless and until cities' most important institutions work well. Or, stated more precisely, focusing too much on the specific needs of the young might distract from the more important work of getting cities' economies and competitiveness right.

Given South Africa's critical need to create millions of jobs, as well as its status as relatively under-urbanised, policy-makers should be doing everything they can not only to reverse the anti-urban biases of apartheid planning legacies, but to put in place policies that would actively encourage urbanisation. The critical variable here is the quality of life: to the extent that policy-makers can ensure that cities' residents' lives are improving quickly, they will attract people to the cities. In South Africa's case, what it would take to improve the quality of life in the cities can be stated quite simply — the creation of many more jobs. There is, in other words, a self-reinforcing dynamic that policy-makers need to set in train: if they can initiate effective urbanisation, they will help ensure more jobs are created; if more jobs are created, more people will move to the cities. Getting this dynamic going is one of the most exciting possibilities for accelerating South African growth and development.

This is obviously easier to aspire to than to execute, and cities have little meaningful control over many of the variables which determine whether and how quickly jobs can be created. Such issues include the state of the global economy, political and economic uncertainty, the regulation of the labour market and the quality of South Africa's education and training systems. Having said that, there are areas where cities can and must act:

- South African cities offer considerably better infrastructure and services than many cities in the developing world, but there is plenty of evidence that South Africa's competitiveness is slipping. Policy attention must be directed at halting and reversing this slide. Particular attention should be paid to the quality of institutions and governance at the local level. Infrastructure, too, needs attention, and, rising costs are clearly hampering South Africa's cities' international competitiveness. High levels of crime also impact on business and on the extent to which cities can attract and retain skilled workers.
- Cities need to find niches in the global market for goods and services that can be filled competitively by local firms. Transport costs, which must be recouped when goods are sold in foreign markets, are critical in determining the cost-competitiveness of local industries seeking to supply goods to foreign markets, particularly in light manufacturing. Given this, South Africa's coastal cities may be better suited to creating large manufacturing industries, though even here considerable work is needed to bring down the costs of moving goods through our ports. Cities in the interior, on the other hand, may seek niches for higher value-add, lower volume goods and services where unit transport costs are less significant.
- While much has been written about the economic inefficiencies associated with apartheid-era spatial planning, insufficient action appears to have been taken to address this. 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, without incentives, townships will always struggle to attain levels of competitiveness expected in other parts of the city. Policy-makers need to address this challenge boldly and much more vigorously.

Policies that stimulate a city's overall potential to grow economically will usually be of more benefit to the young than youth-specific policies

As suggested, these policy priorities are not youth-specific but relate more directly to the priority of building cities' economies. This reflects the urgency of South Africa's broader development challenges, and the fact that youth-targeted interventions are unlikely to address these successfully. There are, however, two policy areas that are exceptions and do need configurations that specifically target the young, these are education and housing.

- In addition to seeking to densify cities, 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 plans as a necessity for now. The same is true for RDP houses where policy and incorrect perceptions hold back many owners from making economic progress using their houses as productive assets.
- A city's competiveness largely depends on the quality and size of its workforce, so cities should play an active role in education and skills development projects within their boundaries. This could require policy changes to enable individual

cities to shape education and training policies to their needs: one such policy could enable cities to develop programmes encouraging apprenticeship and other public private training schemes; another might link universities, tertiary training institutions and schools with employers in their areas. In addition, because city leaders should be on top of trends and opportunities within the city, they are potentially well placed to inform and influence central government on city-specific needs and opportunities, and to link the one to the other.

The essential insight, then, is that, especially in South Africa, policies that stimulate the city's overall potential to grow economically will usually be of more benefit to the young than will youth-specific policies; it is these that are most likely to stimulate the greatest increase in the opportunities available to them. Cities should focus on what cities do best, and, in particular, on their role in bringing about the "miracle of productivity". That is, creating an environment for economic growth and productivity that builds on the urban advantage of agglomeration, energy and innovation.

Cities should also not focus excessive energy on small-scale projects that distract and detract from efforts to ensure much greater competitiveness for firms and much higher productivity for residents. The scale of cities' efforts should match the scale of the challenges they face. This means focusing on some of the big issues:

Cities need the appropriate authority and capacity to drive the kinds of changes needed to accelerate the growth of their economies

- Ensuring institutions create a property rights regime that supports growth and encourages investment by households and firms;
- Focusing development plans on increased densification and on concentrating business development in order to take advantage of the economics of agglomeration;
- Ensuring that housing markets provide the kind of housing stock — for sale and rent, and for household economic activities that residents (especially younger residents) need;
- Ensuring that residents can build their skills in schools and in training institutions, and creating an environment in which private providers of education and training can flourish; and
- Lobbying for more powers to experiment and apply different policies that fit their city and its economic and competitive needs better.

The presence of many young people does matter to cities' potential to grow. Their age is likely to multiply the positive consequences of getting policies right because engaging young people in the economy, especially the formal economy, has so many positive externalities that will amplify those policies' economic effects.

The youthfulness of a city's population is likely to increase the impact of getting policies right. Therein lies the challenge: cities need the appropriate authority and capacity to drive the kinds of changes needed to accelerate the growth of their economies. That requires city leadership that is capable and effective, and empowered and committed to doing all it can to enable growth. But it also requires that government at all levels recognise the critical importance of cities and their performance to the future of the country and the quality of life of its people.

Endnotes

1. This section summarises a report and presentation by Prof Philip Harrison
2. This section summarises and integrates comments from respondents to Prof Harrison's presentation at the Round Table and the views expressed by participants
3. This box summarises a presentation by Ilana Meltzer, the founder of market research company, Eighty20.
4. http://data.un.org
5. http://data.un.org
6. http://data.un.org
7. Presentation by Prof Chetan Vaidya for CDE, "Skill development and youth employment generation initiatives in urban India", June 2013.
8. C.Leite et all, "Assessing the ways in which Brazil's urban areas have created economic opportunities for young people", paper prepared for the Centre for Development and Enterprise, commissioned for Cities of Hope project, June 2013.
9. http://data.worldbank.org/indicator/IT.NET.USER.P2
10. http://data.worldbank.org/indicator/SI.POV.2DAY
11. http://www.worldbank.org/
12. http://data.un.org
13. ILO database
14. P. Collier and J. Page, 2009, Breaking in and Moving up: New industrial challenges for the bottom billion and the middle-income countries, UNIDO

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