URBAN SOUTH AFRICA - TWO POSSIBLE FUTURES

In Summary

We know what's wrong and recognize the collapse of hope that bedevils our future. Think Maslow and know that south Africans in the main fail to achieve the most basic levels.

Read the National Treasury, COGTA minister, Attorney General, Blue- and Green Drop reports.

In 30 years time SA will have a population of +75mn of which 80% will be urbanized – that's close to 30m more people living in our urban areas than today. 600 thousand more without personal resources every year, increasing the demands on our currently dysfunctional municipalities – these are conservative numbers.

Added extraction of wealth from the rich couldn't possibly be enough to cope. Any hope is to be found in the creation of new wealth in a targeted, non-rente seeking way.

So how do we catalyse self-actualization for South Africans? Wealth and jobs for the current and future poor. Community and services in a positive environment.

What is the plan?

Historically we've built up to 250 000 houses in a year. A great achievement. Unfortunately, this number was the only measure of success. Design, community, economy – the ecology needed to flourish - was neither delivered nor planned for.

Let's rethink.

If we address the weaknesses of previous efforts, catalyse housing our urban population in spaces they own, having built and bought them, if we get back to 250k units a year, the economic stimulus will exceed R100bn per annum. Two million construction jobs added for 15 years, and 50000 long-term, non-construction jobs added every year.

Better. An asset owning, skilled, tax paying class in the place of a future hopeless, destitute, and angry population.

Delivered profitably.

"There's no money for this in government." Yes. But the asset we need is land. Given land as a secure asset, banks and DFI's will fund development at scale. The state, mining houses and agro-industrial businesses own well located land surplus to requirements. Businesses, national and global, have the skill we need.

So why wait?

In detail

As attention in the Vulindlela office of our President broadens beyond Logistics (Transnet) Eskom and Crime and jobs to encompass Municipalities there is much to learn from previous successes and failures. An example that wonderfully captures this is that our delivery of housing to the poor was both a world class achievement – 3.5m in 20 years – and a colossal failure. The measure of success we set ourselves was simplistic and financially constrained. Numbers of houses within budget was the only measure. Location, local economy, transfer to beneficiaries, job creation, quality, environment etc were not included as they could have been for little additional financial outlay. The outcome was expensive shelter with little stimulation of local economy or consideration of the lived future of residents.

Municipalities

We all know what went wrong. Read the reports on local government from National Treasury, the Auditor General and COGTA itself. The Blue and Green Drop reports talk to massive health threats and the undermining of infrastructure delivery in our villages, towns and cities.

In the brave words of our COGTA minister, Ms Thembi Nkadimeng, last year:

"We are tabling this report at a time when local government continues to face the pressing challenge of inadequate service delivery. Some of our municipalities struggle to provide essential services such as water, sanitation, electricity and roads to their communities. The fundamental challenges we face, necessitating nationwide interventions, stem from insufficient institutional capacity, ineffective governance, inadequate financial management, pervasive corruption and political instability. As a result of this, 66 of our municipalities were classified as dysfunctional in 2022, exhibiting difficulties across vital areas such as administration, governance, financial administration, service delivery and Local Economic Development (LED)."

So what is to be done? Einstein said we should spend time refining the questions or our answer will not deliver a fitting solution. This note is in contribution to defining the question and determining what to do. There are already ideas and practices at play in South Africa and the world from which we can learn and which should be taken to scale. These need further analysis and support.

Essential is understanding the future we are planning for. Below we examine some difficult choices forced on us by the harsh realities of our urban history as well as trends we might never be able to shift. Some Municipalities will always be attractors. Others will languish at best. Our urbanisation rate will exceed 85% of a population of 75million within any reasonable planning period. An additional 30m people will live in our urban areas by 2060. So where to focus?

There are short term objectives at play. Both party political and humanitarian. Our intervention is for the latter and I hope that our constitution holds our political parties to some disciplined value system. Triage of our municipalities will define an emergency focus and find longer term systemic and potentially constitutional amendments.

More money to finance the work of our municipalities is often touted as the solution. This is a simplistic answer. Skills, both technical and political, are in short supply. Engineers, project managers, accountants and the like are too often absent and there is little general desire to work in disabling and dysfunctional environments. We propose a short term intervention *a la* Gift of the Givers which would provide emergency help. There is also a proposal for improving the ability and understanding of the Municipal environment by technically skilled people. (Neither included here.)

There are many organisations that are engaged in the space and who bring detailed understanding and potential solutions to the table. Should we not bring them all together to refine the questions we ask and deliver a set of practical, implementable plans?

Our Municipalities. Is there hope?

Any attempt to substantively improve the long-term functioning of municipalities in SA must consider the realities of our urban future in considering the allocation of assets, financial, natural (land) and human, to the most productive ends. Important also is the socio-economic history of these. New cities and towns have not emerged since the establishment of mining as the basis for our economy. Agriculture and services do play a large part but are also centered within our colonial and mining geography. We cannot take the naïve position that party politics will not be a consideration but even that should not undermine the principle of a better life for all. This involves a complex set of tasks and offers the opportunity to tackle many facets of the lives of our citizens. Hope and dignity, through the reduction of poverty and unemployment must be a part of any solutions crafted. A simplistic analysis and crude measure of success will guarantee poor delivery.

Cities, most basically, must deliver clean water and remove waste to survive.

An Urban Future for South Africa

Cities and towns are where the vast majority of South Africans live and where the best opportunities for a decent life and livelihood are achievable. While rural development and sustainable rural economic productivity is critical to the future of South Africa, this is not where most of the population is going to reside. Already nearly 70% of the population is urban. The focus here is therefore on Urban South Africa.

Current and Projected Urban Demographics.
South African Urban Population has increased from 7,7m in 1960 to 40,7m in 2022 all – with very few exceptions - in the same urban places that have existed from the early 20th century. Although the rate of increase in urban population is decreasing this is mainly due to the urban population already approximately 66%. It is the actual numbers that matter – a projected 1,7% increase of 40.7 million is 691,000 new people in the urban areas every year from now on. The population of SA is projected to peak at ±75 million between 2055 and 2060. Projections are that ±85% (63,7 million) will then be living in urban areas, an increase of ±23 million from 2022. Currently about 20% of the urban population is inadequately housed and many more do not have a sustainable income. So, a further 12 million people's urban living conditions need to be significantly improved.

The South African Urban Agenda for the next 30 years therefore includes: Creating viable urban living for 35 million more people, while improving the existing living conditions for everyone. If properly managed and executed, this should, with good design, result in skilled people, in sustainable jobs or their own businesses, creating inter-generational wealth and owning assets.

The urban population is expected to be concentrated in those areas where there is a viable and supportive economy. This is why the larger Metros and a few of the secondary cities, like George, are experiencing such high population growth. Except in the Metros and some Secondary Cities the growth in urban population has not been accompanied by an increase in productive economic activity. Many small cities and most towns are buckling under the pressure of large resident populations with increasing poverty and therefore inability to pay for municipal services. This is partly why so many municipalities are in financial difficulty. Remember, for example, the Alfred Nzo municipality serves a population where +90% of households have an income of less than R1600 per month and so is destined to forever fail to deliver.

Other contributing factors are manifest with inadequate leadership and management capacity, absent skills, and, unfortunately, corruption. Few municipalities can deliver on their Constitutional and regulatory mandates. How we deal with this is a question for a separate discussion which operation Vulindlela has begun between COGTA and Treasury.

In keeping with global macro-economic trends, it is highly unlikely that the small cities and towns and some of the secondary cities will attract sufficient new economic activities to be able to support their growing populations, or even improve on currently existing conditions. The focus will therefore be on the existing Metros, some of the secondary cities and, possibly, a few strategically located and designed large new urban settlements. Should our focus then be on those municipalities that do hold hope for the future?

A Brief Historical Perspective

Urban South Africa has evolved as an integral part of the economic development of the country, with a heavy emphasis on agricultural production, administration and mineral resource extraction along with the diversification into secondary and tertiary economic activity. Apartheid era policies directly impacted the form and function of all urban settlements significantly, resulting in disjointed, inequitable spatial constructs that continue to inhibit urban viability today - many of these will never be fully overcome. In the current democratic era, in most urban places, these unviable spatial constructs – mainly peripheral townships with little or no productive economic activities - have significantly been perpetuated and the negative implications exacerbated through the overly simplistic implementation of National Housing Policy (RDP and then BNG).

In the past 30 years the SA government has succeeded in delivering houses to over 3,5 million households (over 10 million people at an average household size of 3,3), one of the most impressive housing performances in the world. However, and unfortunately, billions of Rands have been invested in houses in peripheral locations, resulting in minimal asset value, other than their basic use value as essential shelter. Millions of families are stuck in houses, far from income generating opportunities, owning properties with minimal value, and, in many situations, without access to other urban services such as education, healthcare and recreational facilities. There are a few exceptions to this from which we should learn. There are places where RDP/BNG houses trade at reasonable prices and the asset has meaning.

As the houses were given at no cost to beneficiaries and, for the most part, water and municipal rates are not paid for, there has been no economic viability imperative in their choice of location. Poor households have accepted their housing subsidy wherever they could get it, regardless of whether it is the optimal location for their future livelihood. Some households have rented out their RDP/BNG houses for a minimal rental and are living wherever they can, closer to income generating opportunities, often in informal settlements or backyard shacks in the larger cities or metro areas. Municipalities, large and small are left with mounting debt while trying to deliver services to large "township" areas from which they obtain little income. The relatively indiscriminate spatial distribution of the housing subsidy has skewed the housing market and the viability of the urban/peri-urban areas in which they are located. The recent Harvard Growth Lab report identifies the lack of spatial transformation and current urban structure as one of the two key limiting factors in the economic growth of South Africa, the other being the virtual collapse of effective governance at every level.

Now that the national fiscus is severely limited the government is prioritising investment in serviced sites, with relatively small numbers of subsidies applied to inner city housing through the Social Housing subsidy mechanism or through the First Home Finance subsidy. The serviced sites also tend to be in peripheral areas where the land is cheap, there are only minimal urban facilities and little or no public transport, perpetuating spatial inequity and inefficiency. Meanwhile the massive and growing housing backlogs in the large Metro areas in Gauteng, Western Cape, KwaZulu Natal and Eastern Cape continue to outstrip supply.

Even in the face of our severely constrained national fiscus there is no need for despair. Solutions to financing do not have to involve significant cash from the state as un- and underutilized assets are available in and around our growing metros.

Non-financial capital investments (most readily land) are available from the state and mining houses to stimulate growth in partnership with the private sector, DFI's and banks to profitably stimulate economic growth and the improvement at scale of the quality of life of our citizens.

Current Urban Development Practice: Good Intentions – Inhibiting Bureaucracy, Disjointed Implementation, Insufficient Scale.

South Africa is renowned for having all the right enabling policies – democratic, environmentally sound, resource conscious, etc. – but not being able to implement at the scale required to match the need. In part this is due to regulations that are too prescriptive and limiting – compliance rather than results oriented. These regulations raise the cost of doing business and, in urban development, cause long delays and result in higher costs. The "compliance culture" also de-motivates decision-makers in Local Authorities as responsible officials are not prepared to make decisions and rather push these "up the line" causing bottlenecks in the system. A better balance and a "Can-do" approach is required. Building leadership and skilled management in all the spheres of government should be a priority.

Despite the policy statements that enjoin coordinated and integrated planning (The Spatial Planning and Land Use Management Act - SPLUMA – for example) there is still a lack of coordinated planning to deliver integrated human settlements. Functions such as education, health, safety and security still operate in their silos and are reactive to crises rather than proactive in anticipating need and opportunity. Although there are very real financial constraints within these functional areas, the resources at their disposal are still substantial and need to be optimised and better coordinated.

Possibly the biggest challenge lies in the inability, or perhaps unwillingness, to create urban development strategies that are suited to the scale of the opportunity. Ironically, the apartheid era oversaw the implementation of many very large, bold urban development projects. Unfortunately, these were fundamentally flawed due to their segregationist intentions. Most of the Municipal IDPs (Integrated Development Plans) tend to create more of the same, merely repeating the inadequate responses to the urban challenges that were rolled out in the previous IDP, but justified with lots of technical evidence as to why it has to be this way.

The current situation requires a significant shift in mind-set and approach that is not only going to be derived from looking to past evidence but, more importantly, from future needs and opportunities. (The popular “evidence-based approach” has built-in limitations based in the past and essentially maintains the status-quo.)

Strategies and opportunities

To fully grasp the opportunity provided by the next 35 years of inevitable urban growth, and imperative, for the creation of viable urban life for South Africa, the production of urban infrastructure and buildings has to increase three-fold from its current level. This is certainly achievable. What is required is the simultaneous unlocking of government, private sector business and community potential through clear and committed urban development strategy – inside and outside the current urban edges - combined with innovative models for delivery.

This would entail at least the following:

- Continued densification and intensification of existing urban places, including repurposing of existing buildings, use of interstitial land parcels and the redevelopment of larger tracts of land such as disused rail facilities, military land etc. This is typically a slow, incremental process delivering relatively small numbers of residential opportunities, but is essential to the re-structuring of the urban environment towards more humanely designed and functioning towns and cities.

- Targeted government investment in urban infrastructure in strategic locations within urban cores and in identified growth corridors – the continued use of the USDG (Urban Development Support Grant) that is a well-tried and successful instrument - together with the new Infrastructure South Africa initiative.

- More Subsidy to Individuals rather than housing products – First Home Finance, previously known as FLISP, is moving in that direction but substantial increase in the quantum is needed. The amount could be equivalent to the Capital Subsidy and would still cost government less than the actual cost of a BNG house and even a Serviced Site is many times the subsidy when additional infrastructure cost and future operational losses are computed. Without new supply this holds the risk of driving prices.

- A facilitative role by government – unlock the bureaucracy and step back. A culture of "can-do" rather than compliance is required.

- Greater involvement of the Private Sector in inclusive urban development. South Africa has a very capable property development industry that can be incentivised to participate in a coordinated approach to development, rather than seeing the private sector as the opposition and only for wealthy population. There are many good examples of what is possible and these need to be multiplied across the country. E.g. 1. Conradie Park – 22 hectares of state land, 3600 apartments, 50% of them subsidized housing, 2 schools, and urban park, shopping center, local office accommodation, population of nearly 10,000 people, being delivered in 7 years from 2019 to 2026. E.g. 2. Marconi Beam – 220 hectares or Telkom land, 2500 houses, 45% of them subsidized, over 1 million m^2 of industrial and retail development employing thousands of people daily, developed over 8 years in the late 1990's and early 2000's.

- Conditional investment of state-owned land in good locations. This has been repeatedly called for during the past 30 years and is now more urgent than ever. Conradie Park is an example of how it can be developed. Land at no financial cost would be the asset base for the funding of new investments by banks for the private sector investment in Municipal infrastructure, peri urban agriculture and housing.

- Tax and other incentives and support for strategically located private sector driven urban development that is genuinely inclusive and integrated. This could be as well-planned extensions to existing towns or cities where the local economy has a real growth trajectory, or standalone new developments that are beneficial to the regional spatial economy. They cannot be randomly located.

The Urban Future of South Africa

The next 35 years, starting now, are critical to the future of urban life in South Africa. The coincidence of population growth, urbanisation, climate change adaption and the need for targeted economic growth necessitate a new and different approach to urban development. South Africa does have the skills and resources to step up to this challenge.

The opportunity is to gear up to create decent living conditions for up to 250,000 households across the country each year for the next 35 years through integrated, economically and environmentally sustainable urban development using the best planning and technology available to us. We have delivered 150 000 per annum in the past. This endeavor will entail an investment of capital in the order of R100 billion each year as a direct stimulus to the economy with long term sustainability, provided it is appropriately spatially targeted and into creating long term income generation opportunities. This seems impossibly high but if non-financial assets (land) are invested by the state or mining houses the potential to fund is increased.

Development at the scale of 250,000 households is not an impossible stretch in comparison to development rates throughout the 1980's, 1990's and early 2000's. Housing production has slowed in recent years due to financial constraints and the reliance on old models, but this can be turned around with appropriate economic stimulus strategies. Also, this can be delivered via an improved partnership with the private sector if reasonably modelled. The impact on the building of a skilled workforce cannot be underestimated. It is held that one long term, non-construction job is created for every 4 BNG type house delivered.

The successful outcome of a deliberate and coordinated urban development strategy for the next 35 years will result in a massive increase in middle-class households, with stable income living in medium to higher density urban spaces Easy access to a diversity of facilities and opportunities and fixed assets with real value and substantially reduced transport costs will contribute. This will provide the necessary foundation for viable municipal government with a sustainable rates-base and a significant increase in the proportion of the urban population that can pay for municipal services.

The economics makes sense. Land at no cost with blended finance makes it possible for business to deliver at scale. Crudely. Identify the land. Build the trades school and train whilst rezoning and financing is underway. Employ the graduates locally. Lend them money to buy the first houses. Across the silos of government ensure that we avoid the failures of the RDP and BNG approaches. This is a collaboration between government and the private sector with the state conditionally providing land at no cost to be used as security for the finance required.

Any vision of our urban future for should contribute to the "Marshall Plan" for SA. We must escape academic 'Urbanity" and economist silos and deploy land as catalysing capital. Government, mining- and agri-businesses can or are open to contribute.

A city scale approach which addresses the failings of our earlier delivery by designing financial and risk models for business and utilizing local and global resources to ensure that social, environmental and economic opportunities are maximized. The return on capital to the state on conditionally invested land is huge and multi-sectoral. It will demand little from the fiscus. The opportunity for business is immense. Impact on poverty through enskilled people in value creating jobs owning homes is sustainable in the long term. Rebuilding our construction capabilities has implications beyond our borders.

Increased tax receipts and lower social support costs in return for underutilized land will more than compensate the state – and we will be delivering what the constitution demands.

Should we achieve 250k units a year (which we have come close to before) at R400k each we invest R100bn in value holding, job creating infrastructure every year. The numbers I have access to are dated and fresh work is needed but the principle remains valid. 50 000 non construction, long term jobs created annually before considering economic multipliers. During construction we expect 10 yearlong jobs for each unit built. This alone produces two million value creating jobs lasting 10 years. Think of the improvement in the quality of life of all South Africans with that injection into our economy.

There are hurdles that require research. Does the PFMA prevent the state participating in this and what needs changing to avoid that? A more detailed and thorough economic model would help. A review of well-located and serviceable available public and private land needs to be completed. What is the best mechanism for willing mining and agri-businesses to contribute land?

Not short term, not simple but doable. A future worth working for.