Development Bank of Southern Africa

NEW RELEASE

The report titled: Growth in Large Urban Areas (January 2016) has been released on the intranet.

ABSTRACT

Growth is universally recognized as essential for South Africa to make progress on its goals for improving the lives of the population. The paper examines three interlocking themes of growth, cities as economic spaces and structural economic weaknesses that need resolution for material progress on any one of them. The Integrated Urban Development Framework (IUDF) sets out a New Deal for city growth that is congruent with other strategies for cities based on a competitiveness and ease of doing business paradigm. Accelerated growth needs to overcome structural economic weakness: on the supply side there are constrained electricity supply, transport inefficiencies and water security. On the demand side there are low savings rate, low investment rate, currency depreciation, low productivity growth and low labour participation rates box in efforts to drive growth in large urban areas.

> *Functioning cities are dependent on the income of residents being above 'unaffordability' thresholds and therefore deeply interested in raising the income of poor residents to whom they are legally required to render basic services.*

Main findings:

- Systematic reforms are required to break out of the low growth and employment equilibrium state the economy is mired in. Institutional, human capacity, political and social factors need simultaneous attention. In short, reform is complex and will not be solved by quick fixes.
- Diagnosis of the problems and proposals for growth made by a range of commentators are congruent, indicating that the recommended solutions enjoy some base of similar thinking. This suggests that implementation is the crucial obstacle to overcome for results to be achieved.
- SOC reform would address a large spread of key weaknesses, however, far reaching reforms are at odds with the prevailing political position in Government. While National Treasury has communicated the concern of government over the financial state and performance of many SOCs, no effective steps have been taken to break from the prevailing governance model and perpetual financial recourse to the state.
- Outward oriented strategies to increase exports of services, agriculture and manufacturing expansion would have major positive influences on employment intensity.
- Municipal infrastructure sponsors should make a more direct link to economic growth in designing their capital plans.
- DBSA should be wary of mega projects, which is not to turn away from investments at scale entirely but to emphasize that these need to transform the urban form to strengthen cities' economic resilience to qualify for support.
- To support growth in the decade ahead, the overwhelming portion of funding for Municipal services has to be devoted to replacing end of life assets and expanding network capacity.
- South Africa's employment crisis requires a multifaceted approach, dealing with gaps on the supply side by equipping job seekers with capabilities or skills that make them work ready and on the demand side by favoring the expansion of firms using low and intermediate skills levels. DBSA's role in this is confined to those parts that fall into its mandate where the challenge is to meet is funding infrastructure to foster the modernising informal economy in townships.
- DBSA has the capacity to be an important element in partnerships between the public and private sector to enhance the productivity of infrastructure. Historically this Bank has and continues to play such a role so the new take on it should assess where it can maximise its effectiveness in the current context by designing a product to incentivise maintenance of municipal assets.