

## Regional, urban and rural development

### TERRITORIAL DEVELOPMENT FOR MORE INCLUSIVE GROWTH

- ▶ Continued spatial segregation undermines labour-market performance and reinforces disparities in access to essential services and economic opportunity.
- ▶ As South Africa continues to urbanise, it needs policies that support a better location of affordable housing and improved transport provision.
- ▶ More can be done to stimulate entrepreneurship in poor urban neighbourhoods, which should not be seen merely as sources of labour for the formal urban sector.
- ▶ There is an acute need for capacity building to strengthen overburdened local governments.

#### What's the issue?

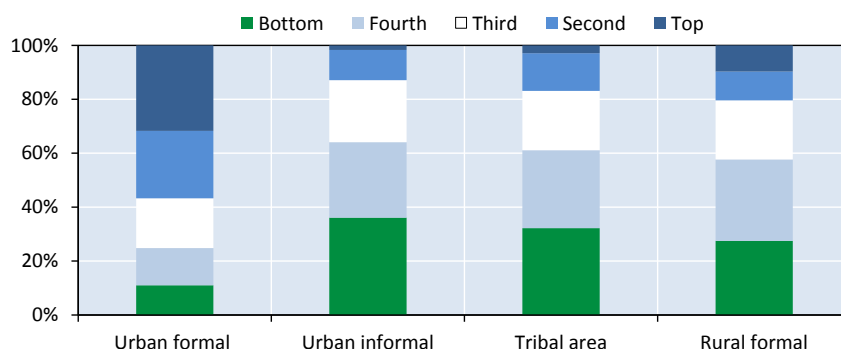
South Africa is characterized by very high levels of socio-economic inequality. The country's Gini coefficient is 0.7, which is well above the OECD average of 0.3 and the BRIICS average of 0.5. This high level of inequality is to a substantial extent reflected in, and reinforced by, patterns of spatial segregation. Inter-regional disparities have fallen somewhat in the post-apartheid era, but spatial inequalities at smaller territorial scales are pronounced, as is clear from the concentration of poverty in informal urban settlements and tribal areas (see Figure). Past laws and other restrictions on mobility have been abolished, and the urbanisation rate has risen by 10.3 percentage points over the last 20 years, but the settlement patterns imposed under *apartheid* have proved remarkably persistent. In an effort to overcome the legacy of the previous practice of restricting black South Africans to specified townships and "homelands", the authorities have supported the large-scale construction of affordable

housing over the last two decades. However, most of this construction took place on relatively cheap land, located far from the main centres of economic activity. Informal settlements are generally located closer to economic centres but lack access to infrastructure.

To address spatial disparities, the government needs to strengthen equity in public service provision. The system of inter-governmental grants, though recently reformed, remains complex and often opaque. Moreover, the responsibilities of subnational governments, in particular at the local level, are often not in line with capacities. Subnational governments are responsible for around 53% of public spending and are charged with no fewer than 38 constitutionally mandated functions. However, many lack the financial and administrative capacities to handle these burdens. Service-delivery backlogs, poor financial management and lack of skills and corruption are all

#### ▶▶ Poorer households are heavily concentrated in informal urban, tribal and rural settlements

Population in a particular settlement category belonging to different country-wide income quintiles, as share of the total population in the respective settlement category



Source: OECD Regional Database and Statistics South Africa (2011), Living Conditions of Households 2008/2009.

widespread. The most recent Auditor-General's reports found material weaknesses in the data provided by roughly three-quarters of local governments; 84% had problems with procurement and contract management; and only 50% had fairly presented their financial statements. Weaknesses in human resources management are also pervasive, and both co-ordination across government agencies and monitoring and evaluation are poor.

Building local-level financial, policy and administrative capacity is thus crucial. In addition, simplifying tasks and roles might help to bring capacities and responsibilities in line with one another. It may also be wise to foster central or provincial co-ordination in some policy domains. For example, dedicated public procurement units could support municipalities struggling with the complexities of procurement legislation.

South Africa also needs to pay more attention to the economic potential of poor urban areas. Many neighbourhoods, including new housing developments, are poorly connected with centers of economic activity. Commuting costs often consume as much as one-third of take-home pay, not to mention such social costs as lost parenting time. This keeps both search costs and reservation wages high. Low-cost public commuter rail service has been slow to expand. Private minibus services have helped fill the gap, but these are fairly expensive for low-income households. Poor connectivity affects entrepreneurship as well as labour markets, as it works against the development of supply-chain and other business links between poor urban neighbourhoods and major centres of economic activity.

## Why is this important for South Africa?

Both economic growth and the quality of life of millions of ordinary South Africans depend on the conditions in poor urban areas and traditional rural areas. Mismatches between the locations of affordable housing and economic opportunities contribute to higher unemployment, lower living standards and greater inequality in access to public services. Spatial mismatches also increase the cost of providing infrastructure and essential services and contribute to a large variation in the quality of public services available to citizens. This does not only lower the quality of life and increase inequalities, but it also deteriorates the local investment climate.

While disparities are particularly large for transport, they are also evident for other key services. For instance, per capita healthcare spending varies more than eightfold across provinces, and the share of households served by regular waste collection varies from 16 to 80%. The rapid growth of informal settlements around major urban centres, close to economic opportunities, is one side effect of this problem. Another has been a growing housing backlog in cities which is estimated to cost ZAR 800 billion (around 60% of the budgeted government expenditure for 2015/16) to close.

## What should policy makers do?

- ▶ Build new, denser settlements closer to economic centres and improve public transport provision by providing affordable public transport and integrating the private minibus industry into the public transport network.
- ▶ Improve the human capital and infrastructure base of poor urban neighbourhoods as well as the investment climate, particularly with respect to crime, security and access to credit.
- ▶ Experiment with support schemes and regulation of special economic zones to move jobs to poor urban neighbourhoods.
- ▶ Build financial, policy and administrative capacity at the local level and simplify tasks and roles to bring capacities and responsibilities in line with one another.
- ▶ Strengthen central or provincial co-ordination in some policy domains or, at least, make senior governments responsible for overseeing and supporting the weakest local units with demanding tasks.
- ▶ Further streamline the system of inter-governmental grants.



## Further reading

OECD (2011), *OECD Territorial Reviews: The Gauteng City Region, South Africa*, OECD Publishing. <http://www.oecd.org/gov/regional-policy/oecdterritorialreviewsgautengcity-regionsouthafrica.htm>

OECD (2008), *OECD Territorial Reviews: Cape Town, South Africa*, OECD Publishing. <http://www.oecd.org/southafrica/oecdterritorialreviewscapetownsouthafrica.htm>