CHAPTER 4: PRODUCTIVE CITIES

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CHAPTER 4. URBAN ECONOMY TRENDS AND THE STATE OF THE PRODUCTIVE CITY

THE RELATIONSHIP BETWEEN POPULATION TRAJECTORIES AND 'PRODUCTIVE CITIES'

The demographic trajectories of SACN cities are linked with their economic prospects. In general there is a close positive relationship between city population size and city economic activity. The more people that are concentrated in one place, the larger the pool of resources, and the more intense, dynamic and generative the interactions. Big cities are therefore natural crucibles for new wealth-creating activities because they simultaneously concentrate market demand and stir new productive capacity.

In turn, city economy has an impact on city population size. Dynamic economies attract migrants, leading to relatively faster city growth in the short to medium term. Over time, the relatively higher expense of living in cities, and the promise of a 'middle class' quality of life, increases the cost-to-benefit calculation of having too many children. So urban life almost always drives down the high fertility rates that often keep poor families from accumulating capital and trap them in poverty. From a national planning perspective, therefore, a greater share of population concentrated in urban centres is a good thing.

However, the positive relationship between city economies and population development does not always hold. Cities need to be careful that their relatively solid economic performance may attract new migrants faster than the city economy can absorb, creating large shiftless populations disenchanted with their inability to access the economic advantages of living in cities.

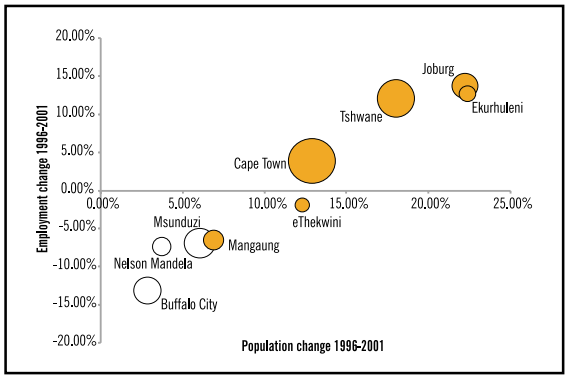


Figure 12. Both relatively solid economic performance/fast population growth and relative economic 'failure'/potential depopulation are seen in the nine SACN cities, with the size of bubbles representing the relative scale of city unemployment in 1996. The bubble-size shows the difference between the city's unemployment rate and the rate of unemployment across the country in 1996. A large bubble means the city's unemployment rate is far lower than the national average. White bubbles are negative, which means that unemployment rates in these cities exceeded the national average in 1996. The graph suggests at least some causal relationship between population growth rates and relative economic advantage across the cities between 1996 and 2001.

All cities must provide their residents with some means of earning a living. This means two things. Residents must be given opportunities to use their skills and abilities to add value. And they must be adequately remunerated for their contribution. If cities cannot guarantee their populations a better chance to earn a living than that available elsewhere then residents will not be fully committed to life in the city.

In the event that cities cannot provide their residents with means to earn a living, relative economic performance may quickly turn into relative economic 'failure'. Both new migrant populations and old settled populations may disinvest from the city. They may hedge their bets by investing what they can in future lives and assets elsewhere. Or they may abandon the city altogether, moving to other centres or returning to rural areas, taking whatever resources they have with them.

A few key trends do stand out in relation to the SACN cities' ability to provide residents with means to earn a living sufficient enough to secure their ongoing commitment. This chapter looks at the following things:

- Gross Geographic Product and GGP per capita changes for all nine SACN cities in general, and recent GGP trends for each economic sector;

- In relation to the sector economic growth trends, trends in employment and unemployment, over the last 30 years and more recently;
- Disparities in income earned by those employed, in particular the still highly skewed distribution of incomes across racial groups;
- Different employment and income earning opportunities available in each city relative to what can be achieved elsewhere in the country;
- Some possible explanations for slow economic growth, specifically demand limitations and supply-side micro-economic efficiency constraints;
- Efforts by the cities to compensate for a lack of domestic demand by accessing global markets, and to gear their local economies to global competitiveness by addressing micro-economic constraints; and
- Possible limitations to these efforts, given current trends in the global economy and the low employment and income generating effects this growth path has offered thus far.

GROSS GEOGRAPHIC PRODUCT, GGP PER CAPITA AND GGP GROWTH IN DIFFERENT ECONOMIC SECTORS

Gross Geographic Product 1970 to 2002

Using different data sets rough pictures can be drawn of changing city economic product for the period 1970 to 2002. A single integrated Gross Geographic Product (GGP) data-set for the nine SACN cities, covering the entire period, is not available. GGP data was sourced from StatsSA for the period 1970 to 1994. 1991 was the last time StatsSA published reliable official estimates of GGP, with 1994 figures being a reasonably accurate forward projection of 1991 survey data. Gross Value Add (GVA) data was procured from the firm Global Insight for the period 1996 to 2002. GVA is similar to GGP, but it differs in that it excludes taxes and subsidies on products. It is derived from a variety of sources, including StatsSA census data on labour remuneration, Reserve Bank national income and production accounts data for each economic sector and Regional Services Council levy growth trends. It is disaggregated to Magisterial Districts matching the boundaries of the nine cities. The two sets of figures do not line up, in that the GVA data for 1996 shows an aggregate economic product for all nine cities much higher than the GGP data for just two years before. However, each data set is accurate on its own terms.

Figure 13. GGP and GGP per capita in each of the SACN cities between 1970 and 1994.

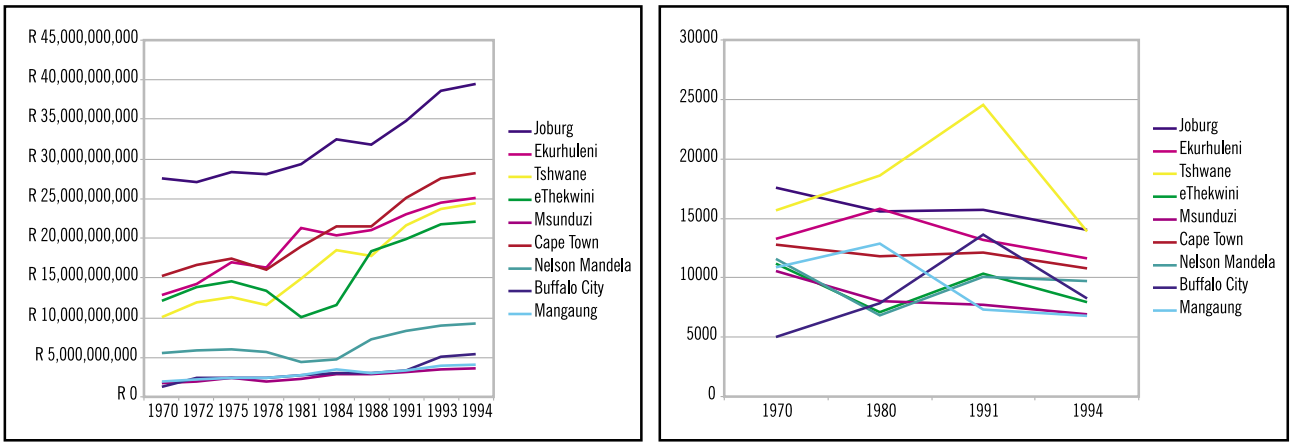


Figure 13 shows the Gross Geographic Product and GGP per capita of each SACN city between 1970 and the mid-1990s. In this period, GGP for all nine cities practically doubled, from R88,3 billion to R161,4 billion. In 1994, Johannesburg was the largest economy in the country, followed by Cape Town, Ekurhuleni, Tshwane and eThekwini, all jostling for second place. In growth terms some cities performed much better than others. Tshwane's economy grew 142,57% during this period, and Buffalo City's a remarkable 315%. Johannesburg's economy by contrast grew only 43,36%.

The GGP data suggests that total economic product per person declined in all but one city over the period. The general picture is one of economic growth not keeping pace with population growth. Accelerated decline between 1991 and 1994 is due to the influx of people into the cities in the post-apartheid period (in Tshwane and Buffalo City the very steep downward curve is at least partly due to the anomaly in data resulting from the historical exclusion of TBVC states from SA census data).

Figure 14 shows GVA growth and GVA per capita growth across all nine cities between 1996 and 2002. A number of the cities have seen strong growth in total economic value during this period, with Johannesburg and Tshwane showing the greatest increase. However, the share of wealth per person has not kept pace in this period either. Across the nine cities it grew just 1,15%, from R21 986 to R22 239 per capita. GVA per capita declined in five of the nine cities and showed minimal growth in two others. GVA per capita grew the most in Nelson Mandela, from R15 020 to R17 817, reflecting both relatively strong economic growth and the slight increase in population in this city over the period.

Between 1996 and 2001 Tshwane grew the fastest of all the cities at 5,07% per annum on average. Johannesburg and eThekwini were close behind. Msunduzi's economy declined at -0,22% per annum in the 1996 to 2001 period, but it has seen a recent surge of new growth. The strongest economic growth has been seen in the transport, storage and communications sector, reflecting the communications revolution of the second half of the 1990s. Strong growth has also been seen in the financial, insurance, real estate and business services sector, although this growth now seems to be flagging. Growth in the manufacturing sector has been significant and appeared to accelerate in 2001-02. Detailed breakdowns of GVA are presented in separate profiles for each city in the statistical almanac.

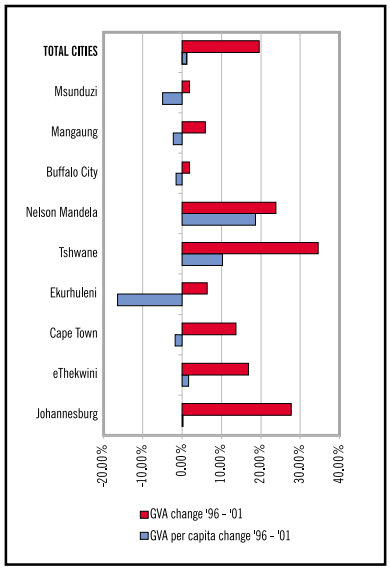


Figure 14. Above, GVA and GVA per capita percentage growth for 1996 to 2001 in each of the nine SACN cities. Below, average annual percentage GVA growth per sector for 1996-2001 and for 2001-2002 for the nine cities.

	Joburg		eThekwini		Cape Town		Ekurhuleni		Tshwane		Nelson Mandela		Buffalo City		Mangaung		Msunduzi	
	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth	96-01annual % growth	01-02 annual % growth
Total city	**4,52**	**2,32**	**2,27**	**4,43**	**2,24**	**1,65**	**0,67**	**2,94**	**5,07**	**5,02**	**3,93**	**2,19**	**0,56**	**-1,07**	**1,05**	**0,51**	**-0,22**	**3,07**
1 Agri, forestry, fishing	0,76	3,78	0,99	4,07	0,76	4,00	0,93	4,07	0,75	3,78	0,81	3,94	0,99	4,12	1,16	4,28	0,26	3,22
2 Mining and quarrying	3,87	-5,06	-4,53	-13,1	0,35	-8,49	-3,78	15,94	0,63	-5,83	2,13	-16,2	8,45	-9,67	4,45	-7,85	-5,59	-16,2
3 Manufacturing	3,60	2,27	1,46	4,43	0,07	1,59	-0,44	3,31	4,69	5,29	3,62	1,32	-1,24	-3,46	-0,93	-2,76	-2,24	3,09
4 Electricity, gas, water	4,20	0,25	2,21	1,76	-0,52	3,37	1,57	0,98	4,70	2,43	4,26	-0,82	-0,81	-6,23	-0,07	-4,95	0,00	1,00
5 Construction	2,77	0,73	-0,11	3,52	5,55	-1,00	-1,77	1,22	3,72	3,59	4,08	0,24	-0,29	-4,29	-4,69	-3,31	-3,52	1,85
6 Wholesale & retail trade	2,28	1,41	1,05	5,28	2,22	-0,03	-1,45	2,10	3,29	4,65	3,05	3,20	-0,98	-0,76	-1,08	3,06	-2,37	3,76
7 Transp, storage, comms	8,08	4,32	5,49	6,90	5,84	4,58	4,70	3,40	12,98	10,22	9,02	5,52	3,29	-0,33	4,76	1,16	3,69	6,56
8 Fin, insurance, bus	7,35	2,95	5,19	5,64	3,47	2,03	2,14	3,35	7,75	5,69	7,72	2,64	4,00	-1,74	4,16	-0,96	0,74	4,24
9 Community, social, personal	0,28	1,11	0,28	1,11	0,28	1,11	0,28	1,11	0,28	1,11	0,28	1,11	0,29	1,11	0,28	1,11	0,29	1,11

EMPLOYMENT TRENDS ACROSS THE NINE CITIES

Generating employment

South Africa as a whole created 469 927 new jobs between 1996 and 2001. More than half of these were generated in the nine SACN cities. Employment across the nine cities increased from 4 619 136 to 4 866 808 in 1996-2001, an increase of 247 672 or 5,7%. By contrast, only 222 255 jobs were formed in the rest of South Africa outside the nine cities. Despite their aggregate contribution to employment, the creation of new jobs in the cities is nowhere near fast enough to keep pace with the increase in the numbers of people needing employment. The working population grew 16,8% across the country between 1996 and 2001. Reflecting the impact of migration, it increased by 20,94% – from 6 519 544 to 7 884 691 – in the nine cities. As a result, SACN cities' total unemployment increased by 58,80%, while growing 43,90% in the country as a whole.

In 1996, the census showed unemployment (on the expanded definition of those people who could work but are not working, regardless of whether they are currently looking for work or not) averaging 29,2% in the nine SACN cities. This compared to 38.1% in the country as a whole outside the nine cities. Five years later, the gap had narrowed considerably. Unemployment had jumped to 38,3% in the cities and to 44,7% in the rest of the country.

Labour Force Survey data from February 2002 (the latest available) was disaggregated to the nine SACN cities for this report. This gives a slightly different picture, as shown in figure 15. On the strict definition, 27,8% of the cities' labour force was unemployed at the start of 2002. Slightly better than the picture presented by the October 2001 census, the LFS measures expanded unemployment at a rate of 35,7%. This big picture needs to be nuanced with a number of trends.

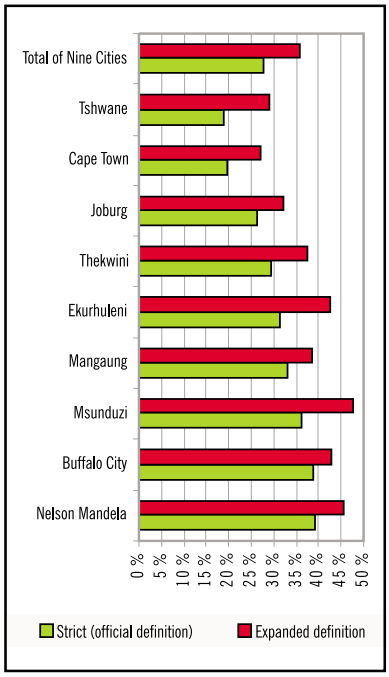


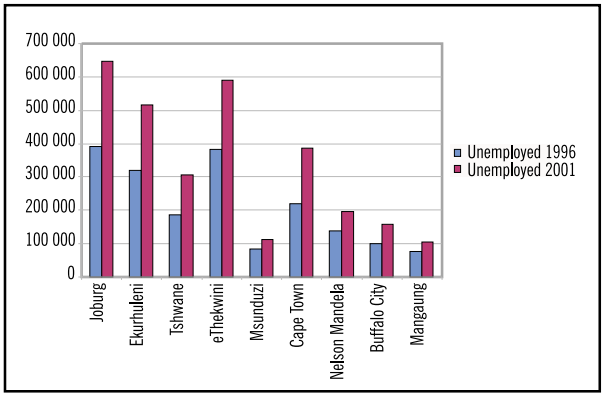
Figure 15. Unemployment rates for the nine SACN cities as measured by the Labour Force Survey, February 2002. The strict definition excludes from the category of unemployed (placing these into the not-economically active category instead) those people who are not currently and actively looking for work. The strict definition is that used internationally. However, its inadequacies are universally recognized in that it excludes from the count of unemployed those who would willingly take a job if one were available, but who have become discouraged from even looking for formal work.

Trends by sector

The capacity of South African cities to provide employment must be viewed in a long-term perspective. As with many other countries, South Africa has seen a gradual process of economic restructuring. It has often been noted that primary and secondary industry has declined over time, and the tertiary sector has become more and more important. This is true, but other trends are important.

Figure 17 shows annual gross value add across the nine main Standard Industrial Codes (SIC) sectors between 1970 and 2002, and then compares this to employment growth in the nine SACN cities across these sectors over roughly the same period.

The graphs show four economic sectors – government, social and community services; manufacturing; wholesale and retail trade; and transport and communications – continuing to add significant value to the South African economy, but all on average failing to contribute comparable increases in jobs in the nine cities. This general picture of jobless growth is very nuanced. Each sector shows slightly different trends.



Value growth in the government, social and community services sector (which includes such sub-sectors as public administration, health and social work, education, community

organisations and, most notably, private households) was matched by employment growth until the early 1990s. The same was the case for the wholesale and retail trade sector. Job creation then stagnated in both between 1996 and 2001. Although jobs in the former increased slightly, the latter lost more than 100 000 between 1991 and 1996. The pattern in each sector then changed in the mid-1990s.

The government, social and community services sector contributed only a few new jobs between 1996 and 2001. This small increase hides two divergent trends. On the one hand there was a massive fall off of employment in private households: 91 145 household-service jobs disappeared in the five-year period between the censuses. On the other hand the government / community sub-sector saw 111 323 new jobs to make for a net sector gain of some 20 000 jobs.

The wholesale and retail trade sector made up the employment losses of 1991-1996. It contributed 192 710 new jobs across the cities between 1996 and 2001 to see employment return to 1991 levels and above. This growth was relatively evenly spread across the nine SACN cities.

The most significant long-term employment trend has been in manufacturing. This sector has seen a substantial long-term decline in employment as production processes go increasingly capital intensive and high tech. Census data shows that between the mid-1940s and 1980 manufacturing added some 700 000 jobs as the country's economy diversified from primary industries, notably gold mining and agriculture. However, from the early 1980s manufacturing went into decline as an employment provider. Driven by productivity gains from mechanisation, the sector continued to add value, though at a slower pace than before. But between 1980 and 1996 it lost some 200 000 jobs to return to 1970 employment levels.

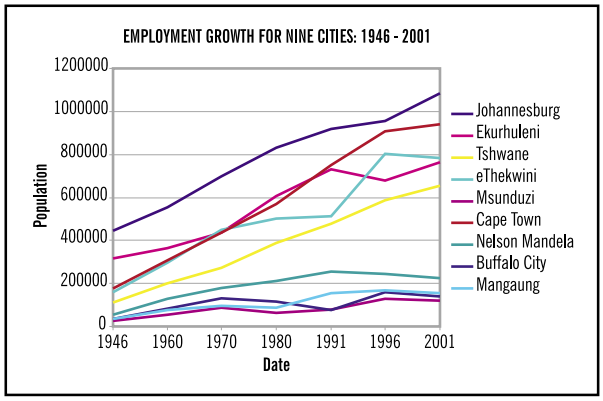


Figure 16. Census data on actual numbers employed in each SACN city between 1946 and 2001.

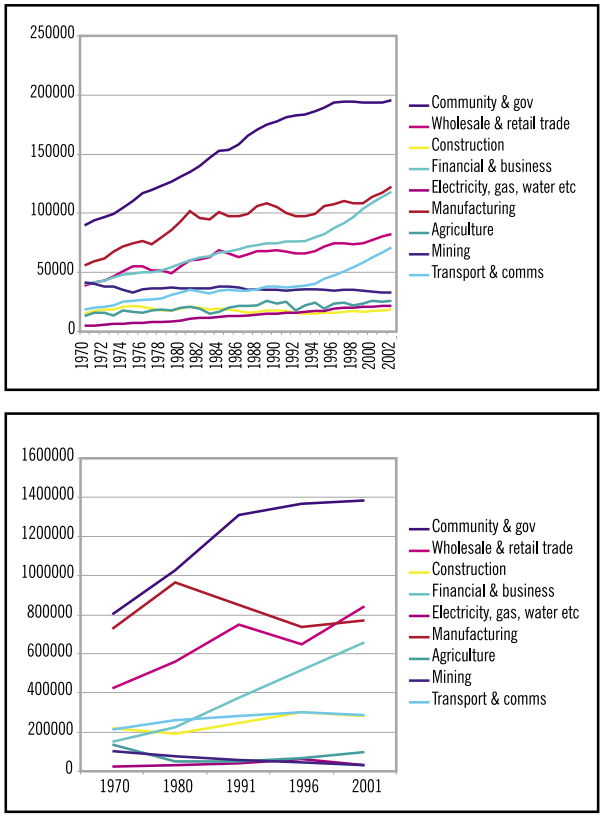


Figure 17. Comparison of Reserve Bank Time-Series Data on gross-value add per economic sector (1970-2001) and actual employment growth per sector derived from five yearly population censuses (1970-2002) for the nine SACN cities.

Different cities have been differently affected by this general trend. Historical manufacturing centres, notably Johannesburg, Ekurhuleni and Nelson Mandela, all lost a sizeable portion of industry employment between 1970 and 2001. However, other cities, notably eThekwini, Cape Town and Tshwane, all saw respectable manufacturing jobs growth in the same period.

Remarkably, the pendulum now seems to have swung back again. Whereas eThekwini and Cape Town saw manufacturing job losses between 1996 and 2001, Johannesburg, Ekurhuleni and Nelson Mandela all saw job growth. For example, although its 30-year picture is one of haemorrhaging manufacturing employment, industry in the Ekurhuleni Metropolitan Municipality created 30 235 new manufacturing jobs between 1996 and 2001, an increase of 26,1%. Half of the 30-year manufacturing job growth in Tshwane also occurred in this five-year period.

The exception to the general picture of jobless growth may seem to be the financial and business sector. Between 1970 and 2001 it

Employment losses occurred in the financial intermediation and insurance services sector during 2002. Bank takeover and rationalisation activities caused the banking sector to shed nearly 9 000 jobs over the past year. According to a Pricewaterhouse-Coopers survey, major banks anticipate further cuts of up to 10% in their personnel complements by 2006, implying that employment in the banking sector is likely to fall from the current level of around 112 000 jobs to just more than 100 000 over the next three years.
Reserve Bank Annual Economic Report (2003)

added considerable value to the South African economy, and was the most important driver of jobs growth in the country's major cities. In the 1960s it was the second smallest sector by employment, well behind mining, construction, transport and even agriculture. In 1970 it contributed a mere 5% of total employment across the cities. Over the next 30 years it grew more than 1 600%, easily overtaking other sectors to now stand as the fourth largest by employment.

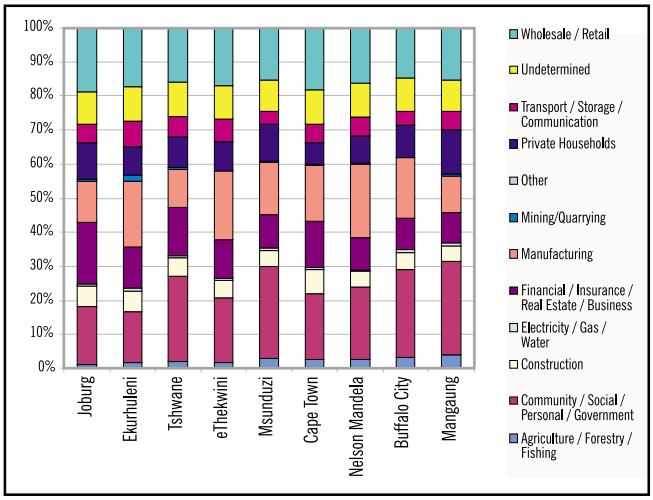


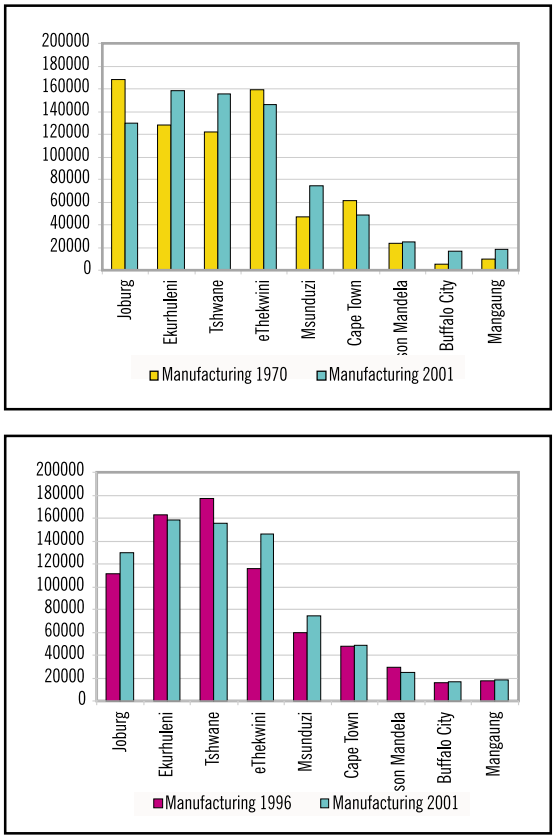
Figure 18. The nine SACN cities' percentage distribution of employment across economic sectors in 2001, and recent evidence of hiring trends in the finance sector.

The different cities today have different employment profiles. Some cities are still predominantly manufacturing centres. Other cities have large proportions of their employed population working in the financial and business sectors. Depending on their profile the nine cities each carry a different measure of risk in the face of a general ongoing trend of jobless growth. But this risk is not easy to read. In the past, it may have seemed obvious that those cities with the highest numbers of manufacturing jobs are most at risk of continued employment decline. But this may no longer be the case. It is not impossible that cities with a remaining manufacturing base may now start to see sustained employment increases in this area, as new manufacturing activities seek cheap industrial property or locations with historically better-skilled factory labour.

The latest evidence also says that the apparently safe bet of continued employment growth in finance and business may not be so secure after all. Reserve Bank information indicates that since the last census the financial services sector has also started to lose jobs.

Employment by occupations

Figure 18 gives a picture of employment growth between 1996 and 2001 for all nine SACN cities across different economic sectors and across occupations. The picture is potentially skewed by inaccurate census data, but it does suggest one or two key trends.



First, while employment of professionals and administrative workers grew by over 300% between 1970 and 1995, and the demand for production workers and agricultural workers fell by 54% over the same period, it is not clear that this trend is continuing. The demand for clerks and technicians/associate professionals remains high, but employment of professionals actually declined between 1996 and 2001. What is driving this trend is not clear. The most likely reason is that the cities have seen a decline in the employment of teachers, a sub-category of this occupation. Another very plausible explanation is that the decline represents, not the loss of job opportunities, but the actual decline in the numbers of professionals as doctors and lawyers and scientific specialists emigrate to countries where their skills are more highly remunerated. The need for these jobs remains, but the departing professionals cannot be replaced quickly enough by the education system. However, it is also feasible that the decline indicates deteriorating employment opportunities for high-end knowledge workers. If this is the case it is not promising for cities that have put great store on the economic growth potential of new knowledge industries.

Figure 19. Census data on actual numbers of people employed in manufacturing between 1970 and 2001 and between 1996 and 2001.

Second, a serious concern is the decline in the numbers of people employed in private households, illustrated in the graph on sector employment growth. This decline is hidden in the fairly robust growth of service workers shown in the graph on occupations. Between 1996 and 2001 the cities saw 91 145 domestic staff lose their jobs, a tenth of all jobs in private households across the country. This loss has serious spatial implications for the cities, since at least some of these staff would have been housed in domestic worker accommodation in suburbs. The loss of jobs in this sector/occupation category may partially account for the huge movement of people out of formal and informal backyard accommodation discussed in the next chapter.

The greatest increase in employment can be seen amongst clerks and service workers, reflecting the corresponding growth in the wholesale/retail trade and financial / business sectors. Despite the more recent concern that some of this employment growth has dried up, this may be generally good news for cities trying to build the next generation of middle-class residents. It is amongst clerks, managers and technicians that one may expect to see growth of future domestic demand.

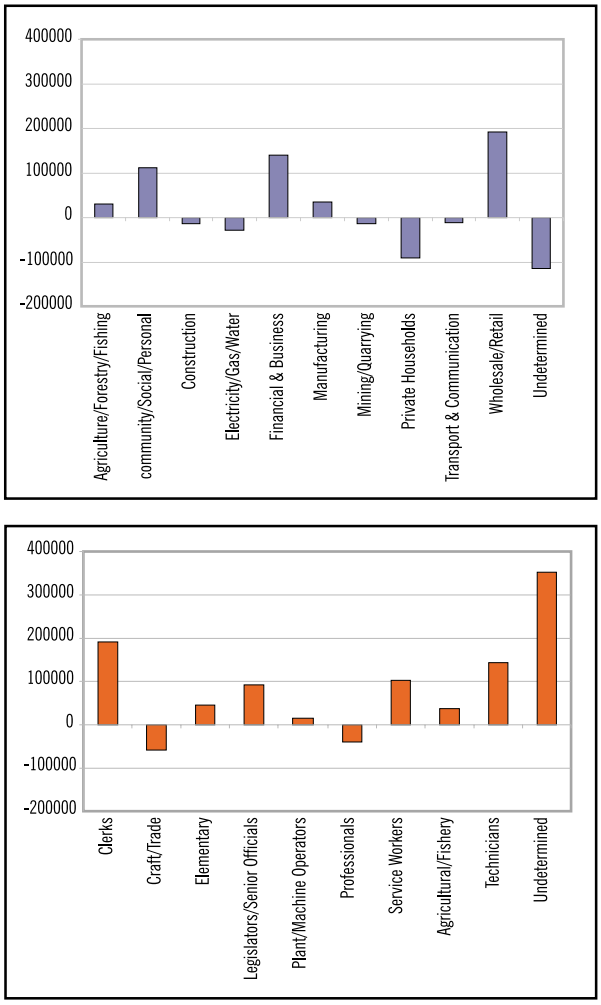


Figure 20. Growth in employment across sectors and occupations 1996-2001. Note that the growth rates across occupations are indicative only. The available 1996 census data for occupations does not line up with that for sector employment, suggesting a skewed picture.

DISTRIBUTION OF INCOME AND RELATIVE EMPLOYMENT OPPORTUNITIES

Ability to provide residents with access to work opportunities is only one of two characteristics of the 'productive city'. The other is the ability to ensure that residents are adequately remunerated for the skills and abilities that they do apply. This raises the question of the extent to which residents are able to benefit from the economic product they help create, and which residents do not share in the wealth created in our cities.

Incomes

GGP per capita hides the more important picture of how income from economic opportunity is distributed across the population.

Reserve Bank data shows that, over the last 30 years, economic growth has had little discernable impact on household spending power. The percentage of economic value generated that ends up in the pockets of workers has declined gradually over the last 30 years. In 1990, the percentage compensation of employees to GDP at factor cost was 57,2%. In 2002 it fell to 51,4%.

The cities' own data supports this picture. An analysis of RSC levy growth between 2001 and 2002 in the six metros suggests that whereas assessed company turnover increased in all cities except Johannesburg, total payroll did not increase to the same extent or actually declined. Figure 21 highlights that the trend is most apparent in Ekurhuleni. Whereas company turnover increased from R170 billion to R185 billion, assessed total remuneration fell from R27 billion to R23 billion. In 2001, the ratio of staff remuneration to total turnover was 14:86 in this city. In 2002 it was 11:89.

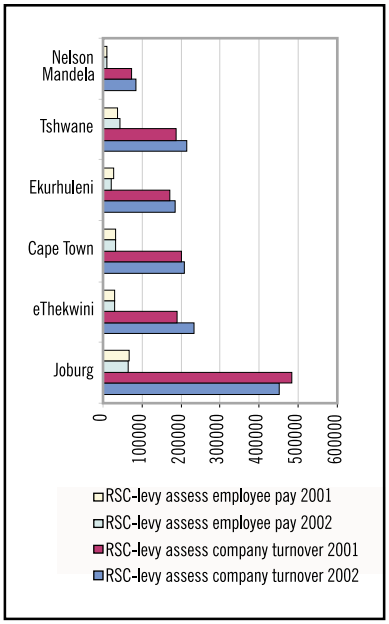


Figure 21. Regional Service Council (RSC) levy assessments of total taxable value for company turnover and for remuneration of employees (2001 and 2002).

The extent to which city populations as a whole benefit adequately from economic activity is important. But in the South African context the more pertinent issue is whether all sections of the population share equitably in the economic value generated, in particular whether any inroads have been made into the extremely skewed distribution of incomes between different racial groups. Figure 22 presents two graphs of the scale of monthly income earned by employed residents from the white, African, coloured and Indian 'population groups' in Tshwane. One compares the number of households, from each racial group, falling within certain income brackets. It illustrates that the vast majority of black employed residents earn between R801 and R1 600 per month, and the majority of white employees earn in the R3 201 to R6 400 and R6 401 to R12 800 ranges. The other graph, even more starkly, shows the actual value of income earned in each bracket by racial group.

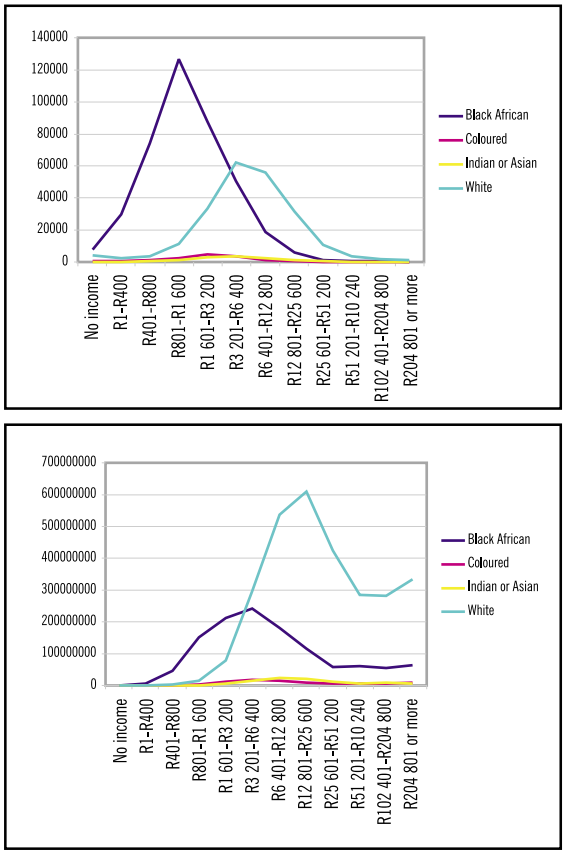


Figure 22. Distribution of income earned by population group and income category, 2001 census data for Tshwane. The graph on the top shows the number of people with monthly income in each income bracket. The graph above shows total monthly income earned by each population group in each income bracket.

Just as important as the amount of income different sections of the population take home, is the issue of the relative value of that 'take home' in the light of the differential costs of urban living borne by these population groups. One key cost is the expense, in time and money, of actually getting to places where work can be found and a living earned. A person who is forced to live on the edge of the city, far from places where employment opportunities are concentrated, may officially have the same salary as another living closer. But her greater travelling costs will mean that the value of income she is able to retain at the end of the day is far less.

The issue of 'locational disadvantage', including the question of the 'spatial mismatch between the poor and jobs', is covered in more detail in the review of social trends in Chapter 5.

	AVERAGE MONTHLY INCOME PER EMPLOYED PERSON (AMI): 2001	DIFFERENCE IN AMI FOR EACH CITY & NATIONAL AMI: 2001	DIFF IN AMI FOR EACH CITY & NATIONAL AMI EXCLUDING CITIES: 2001
Johannesburg	R6 408,63	R2 345,89	R3 619,57
Ethekwini	R4 226,88	R164,13	R1 437,82
Cape Town	R5 186,44	R1 123,70	R2 397,38
Ekurhuleni	R5 085,60	R1 022,85	R2 296,54
Tshwane	R6 483,81	R2 421,07	R3 694,75
Nelson Mandela	R4 298,54	R235,79	R1 509,48
Buffalo City	R3 694,04	- R368,70	R904,98
Mangaung	R3 561,97	- R500,77	R772,91
Msunduzi	R3 985,00	- R77,74	R1 195,94
Total	**R5 297,22**	**R1 234,47**	**R2 508,16**

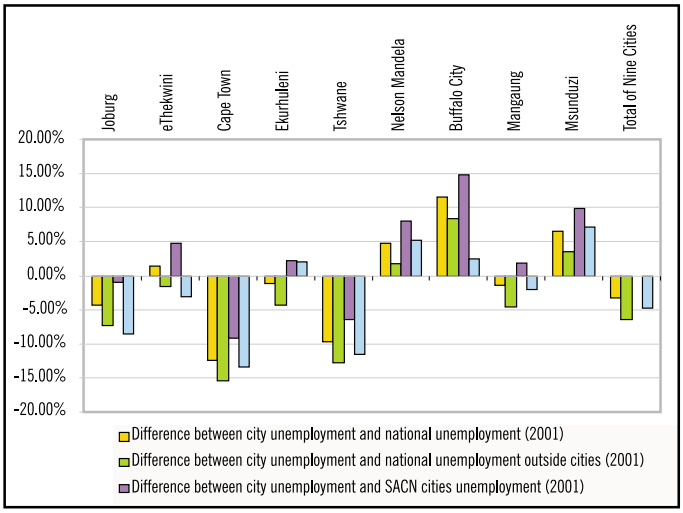


Figure 23. Difference between census and LFS unemployment rates in each of the nine cities and that elsewhere in the country (graph on right); and difference between the average monthly income per employed worker in each city, compared to that for the country as a whole and settlements outside the nine cities (table on left).

Relative differences

Of greatest concern to some SACN cities must be the relative difference between employment opportunities and remuneration available in these cities and that available in other parts of the country, either in other cities or even in non-urban areas. The census data suggests the surprising finding that while unemployment in the nine cities is on average 3,3% lower than that in the country as a whole, some of the cities have unemployment rates far higher than even that in most rural areas.

Figure 23 shows the differential between unemployment rates in the nine cities and that in the rest in the country. City unemployment rates are compared to that in the country as a whole as per the 1996 census, 2001 census and February 2002 Labour Force Survey. They are also compared to the average unemployment rate for the SACN cities in 2001. Although the LFS survey data paints a slightly more rosy picture, it supports the census in suggesting that, with their unemployment rates running substantially higher than elsewhere, at least three of the SACN cities may offer work-seeking residents little incentive to stay. Except for Tshwane, which has improved further in relative attractiveness, all the cities have seen an erosion in their position between 1996 and 2001.

As would be expected, the 'quality of work opportunity' in the nine SACN cities is better than elsewhere. When total income earned by individuals is divided by the total employed population in 2001, it would appear that SACN city workers earn R5 297,22 a month on average. This is R2 508,16 better than that earned across the country outside the nine cities. The pattern holds for all nine cities. But when the average monthly income earned is compared to the national average, including the nine cities, it would seem that at least three cities are unable to offer their employed people a better deal than they might be able to find in another SACN city. Two others have only a marginal advantage over the national average.

EXPLAINING THE STRENGTH OF THE URBAN ECONOMY

The capacity of cities to provide their residents with means to earn a living, and, more importantly, means to earn a living better than that they may find elsewhere, is a reflection of the strength of the urban economy. The strength of the urban economy is in turn a reflection of strongly growing demand for a city's goods and services and, matching this, growing productive capacity to meet this demand. The relatively poor performance of South African cities on various indicators of employment and incomes therefore begs the question of what has happened to demand for goods and services, and to productive capacity, in recent years.

DEMAND LIMITATIONS

National level data

There is little economic information disaggregated to municipal level, and so it is not possible to draw a very clear picture of demand trends in the cities. However, the SACN cities do make up a very large proportion of the economy of South Africa as a whole. It is estimated that the economies of eThekwini, Johannesburg and Cape Town alone make up some 50% of GDP. So it can be

> The increase in productivity has allowed many employers to cut payrolls or workers' hours. Why pay six people to assemble 90 toaster ovens an hour when only four workers are needed to assemble the 60 ovens that can be sold? Better yet, why not speed up the line and cut the four workers to three, each one forced to work faster? But that leaves three workers unemployed, without income and unlikely to buy toaster ovens – or much else – until they get work again. Gradually, the demand for toaster ovens falls to 50, then 40, and another worker is laid off, or everyone's hours and pay are cut. And demand falls even more, producing its own negative dynamic. 'I hesitate to say that high productivity is bad,' said William C. Dudley, director of domestic economic research at Goldman Sachs. 'But if it is high, then you need more demand to generate employment, and if you don't get it, then the economy stalls.'
> *('Good economy, bad job market, huh?' New York Times, 14 September 2003)*

	Total Utilisation	Total under-utilisation	Reasons for under-utilisation				
			Shortage of raw materials	Shortage of skilled labour	Shortage of semi-skilled labour	Insufficient demand	Other
TOTAL MANUFACTURING							
2001	79,7	20,3	1,7	0,3	0,0	15,6	2,7
2002	80,7	19,3	2,2	0,6	0,1	14,2	2,2
2003 (May)	78,8	21,2	2,3	1,0	0,2	14,9	2,8
Beverages							
2001	75,3	24,7	1,0	0,6	0,0	20,8	2,3
2002	72,3	27,7	1,5	1,0	0,3	21,8	3,1
2003 (May)	70,8	29,2	1,4	1,4	0,5	22,8	3,1
Furniture							
2001	80,5	19,5	3,4	0,1	0,0	13,6	2,4
2002	81,5	18,5	2,6	0,1	0,3	13,9	1,6
2003 (May)	79,3	20,7	3,1	0,9	0,1	14,6	2,0
Other chemicals							
2001	79,8	20,2	1,8	0,1	0,0	15,8	2,5
2002	80,0	20,0	1,8	0,2	0,1	15,2	2,7
2003 (May)	77,9	22,1	1,1	1,0	0,1	16,2	3,7
Radio, tel, comms apparatus							
2001	67,4	32,6	1,7	0,0	0,0	30,5	0,4
2002	67,2	32,8	3,3	0,4	0,0	28,3	0,4
2003 (May)	60,2	39,8	2,9	0,6	0,1	35,1	1,1

	Ratio real merchandise exports to GDP (% at current prices)	Volume of exports and non-factor services excluding gold (Index 1995 = 100. Seasonally adjusted)	Export of services (1995 constant prices in millions of R)	Compensation of employees to GDP at factor cost (% at current prices)	Ratio of final consumption expenditure by households to GDP (% at current prices)	Ratio of gross savings to GDP (% at current prices)	Ratio of gross fixed capital formation to GDP (% at current prices)
1970	7,12	29,64	13 013	58,77	60,48	20,42	24,35
1971	7,95	34,31	13 229	60,13	61,31	23,15	25,71
1972	9,87	41,60	12 360	59,41	60,67	24,92	26,38
1973	8,59	39,47	13 114	56,02	57,40	24,45	24,93
1974	8,45	41,56	12 624	54,41	54,86	25,73	24,69
1975	8,49	43,79	13 185	57,14	56,33	24,24	28,98
1976	9,09	46,06	12 890	58,79	56,63	22,84	29,68
1977	10,12	49,77	12 950	58,52	56,50	27,56	27,57
1978	10,28	52,18	13 137	56,40	54,82	27,56	25,94
1979	10,51	54,87	13 047	54,98	53,34	31,46	25,83
1980	10,18	56,33	12 522	50,60	50,68	33,94	25,90
1981	9,05	53,56	12 009	55,48	54,45	27,17	27,45
1982	8,88	52,30	12 169	59,29	56,46	20,55	27,50
1983	8,96	50,91	10 409	58,05	57,55	24,29	26,05
1984	8,52	51,82	11 911	58,84	57,18	22,51	23,98
1985	10,20	59,79	12 439	57,12	54,92	24,64	22,81
1986	10,16	58,84	11 829	56,63	55,93	23,33	19,65
1987	10,04	58,90	10 675	56,76	57,42	21,75	17,85
1988	11,04	66,20	11 088	55,96	58,23	22,66	19,42
1989	11,52	72,26	13 512	56,31	57,73	22,44	20,21
1990	12,06	75,11	12 809	57,23	60,99	19,11	19,14
1991	12,21	73,41	12 164	57,14	61,64	18,57	17,16
1992	12,88	75,07	12 144	57,48	62,91	16,25	15,65
1993	13,62	80,10	12 701	56,62	61,82	16,44	14,69
1994	14,14	86,77	14 549	55,91	61,85	16,88	15,15
1995	15,80	100,00	16 751	55,81	62,59	16,52	15,88
1996	16,74	112,33	20 266	55,36	62,24	16,12	16,28
1997	17,21	118,51	21 462	55,26	62,91	15,11	16,51
1998	17,64	123,46	23 715	56,32	63,14	14,85	16,96
1999	17,91	127,18	23 835	55,80	62,98	15,40	15,41
2000	19,27	140,07	24 671	53,93	62,68	15,16	14,85
2001	19,16	144,93	26 727	52,66	61,92	14,81	14,69
2002	17,87	142,85	29 479	51,38	62,11	16,13	15,14

Figure 24a. Utilisation and underutilisation of manufacturing capacity, and primary reasons for this across all manufacturing and a sample of SIC codes. The values for the reasons given are the share of percentage underutilisation attributable to each reason. Figure 24b. Reserve Bank Time-Series Data for various indicators, 1970–2002.

assumed that information available for the country as a whole speaks to dynamics in the local urban economies of the nine cities.

Key economic indicators that reflect on the demand, and hence on the ability of the economy to fully utilise, paint a picture of stagnation.

Regular surveys by StatsSA show that current manufacturing capacity is some 20% underutilised, and that approximately 75% of the reason for this is insufficient demand (see figure 24a). Demand weaknesses vary between sectors. For example, under-deployment of manufacturing capacity for various kinds of telecommunications apparatus reached almost 40% in May of 2003. Almost 90% of the reason for this under-utilisation was attributable to insufficient demand. For the furniture industry underutilisation was half this at 20,7%, and reasons other than insufficient demand, such as a shortage of raw materials, are more important. But regardless of these differences the general trend suggests that demand is not strengthening and in most sectors is becoming more and more severe.

Figure 24b tabulates Reserve Bank data on key economic indicators for the last 30 years. On various indicators the figures suggest that value from exports has increased over the last decade, albeit not as dramatically as one would have expected. This implies that international demand for South Africa's goods and services has sustained some industry growth over the last period. Although it would be too crude to argue that the lure of returns from international competitiveness has given South African industry a reason to continue with a tried and tested growth formula, it is noteworthy that growth in export value has gone hand in hand with the deterioration of other possible foundations for economic growth. The decline in compensation for employees shown by this data set has already been noted above. This clearly impacts on the ability of domestic consumers to sustain expansion of industry at a rate required to absorb larger numbers of job-seekers.

Household growth

All the SACN cities have seen household growth far in excess of population growth. This suggests that people are not simply moving into SACN cities from rural areas and small towns, but that households already resident within the cities are splitting. In Johannesburg and Ekurhuleni household growth was a phenomenal annual 6,88% and 6,84% respectively.

The 10-Year Review highlights household growth as one of the key challenges for development. Indeed, from the point of view of meeting targets for addressing infrastructure backlogs, household growth in excess of population growth is a problem. But from an economic perspective, household splitting is normally considered as a major economic opportunity.

Generally speaking, families cluster together into large household structures in times of extreme poverty. By implication, the rise in nuclear households speaks to the growing capacity of younger and older members of families to live separately from primary breadwinners. In South Africa incentives other than new capacity to separately bear living costs are likely to be driving household growth. These may include the availability of housing subsidies. More importantly, however, is that household splitting creates positive conditions for deepening domestic demand, since splitting multiplies the base number of separate units needing household white-goods, foodstuffs and other consumables and, in the long run, building materials for home upgrading. Assuming the presence of a liquid residential property market, it also expands

the total asset base of residents, the property rates base of municipalities, and the lender base of banking institutions.

Informal economy

Alongside household growth is anecdotal evidence of a rise in the number of people engaged in informal sector activities. Like household growth, informal economies are often viewed as a challenge. Informal sector businesses are regarded as symptomatic of the failure of the formal sector to provide sustainable jobs, and since they are generally untaxed, as a drain on public sector resources rather than a contributor to it. For these reasons the informal sector is often seen as something to be discouraged. But the informal sector is not simply a temporary safety net for people who cannot find formal employment. It is a major generator of economic value, and a primary provider of livelihoods. As such, it both feeds domestic demand for goods and services and as it expands creates demand for goods and services. The burgeoning informal sector is connecting to the formal business sector in ever more intricate ways. The box below reviews key trends in the informal sector in Johannesburg, and suggests how it should properly be regarded.

DYNAMICS IN THE INFORMAL ECONOMY

The informal economy is the largest component and, in many respects, the most neglected element of what is officially termed 'the small, medium and micro-enterprise' (SMME) economy of South Africa. Since 1994, the development and promotion of the SMME economy has been one of the national government's core policy objectives (RSA, 1995). The SMME economy has been viewed as a critical element for achieving several of the goals for post-apartheid reconstruction and development. In particular, the promotion and support of the SMME economy has been a critically important vehicle for job creation and poverty alleviation in South Africa's cities, particularly in the context of the slow growth of new employment opportunities taking place in large formal enterprises.

Structurally, the SMME economy is highly diverse and encompasses an array of different enterprises and ownership types across a range of sectors. A major distinction is drawn between, on the one hand, a small segment of more established formal small and medium-sized enterprises (primarily under white ownership), and on the other hand, of the so-called emerging SMME economy comprising micro-enterprises and informal enterprises which are mainly operated by historically disadvantaged communities. This latter group of micro and informal enterprises is currently the fastest growing component of the SMME economy. For South African women, the country's youth and rural communities, in particular, the economic (and social) importance of these enterprises is especially critical as an access route to economic opportunities, not least in the country's rapidly growing urban centres.

The overall role played by SMMEs – including informal enterprise – in the national economy is recorded by the Annual Review of the State of Small Business in South Africa. This shows that SMMEs, as a whole, represent 97,5% of the total number of business firms in South Africa, contribute 34,8% to Gross Domestic Product, employ 55% of the national labour force and contribute 42% to total remuneration (Ntsika, 2002). The accuracy of this official data on the SMME economy, including the informal economy, however, must be questioned. Major discrepancies between existing data sets can only be described as remarkable. At national level, Ntsika figures suggest a national total of approximately 1,1 to 1,2 million SMMEs. By contrast, recent StatsSA estimates are that 'approximately 2,3 million people in March 2001 were owners of at least one non-VAT-registered business' (Lehohla, 2002: 4).

At sub-national levels – including city scale – reliable data to track the shifting dynamics over time of the informal economy is not readily available. The dynamics of the urban informal economy in South Africa therefore can best be approached by narrowing the focus of discussion to one city – namely Johannesburg – where there have been a number of research initiatives which provide some counter-balance to the poor state of official data.

General agreement exists that Gauteng – and, more specifically, metropolitan Johannesburg – hosts the highest national rate of enterprise density (Rogerson, 1998). But there is little official certainty on the precise sizing and changing dynamics of the informal economy as part of the wider SMME economy. The confusing state of data concerning the small enterprise economy is illustrated by two official estimates for

Gauteng, both for 2001. According to one estimate there exists a total of 414 000 small, medium and micro-enterprises. Another study places the numbers of non-VAT registered enterprises almost 50% higher with 616 000 enterprises in total (see Ntsika, 2002 and Lehohla, 2002).

Several research investigations corroborate that a rapid rate of expansion of informal enterprise activity is taking place across many economic sectors in Johannesburg (Rogerson and Rogerson, 1997; Rogerson, 1998, 2000). A World Bank study disclosed that most of the employment growth taking place within Johannesburg's SMME cluster is anchored upon new enterprise births especially in the informal and micro-enterprise economy (Chandra *et al*, 2001). Although the strongest growth is evident across retailing enterprise, the importance of new growth that is taking place in production-based micro-enterprise, in informal urban agriculture and even small tourism enterprises should not be overlooked (Rogerson, 2000, 2002). Indeed, one of the most striking new developments is the growth of a segment of informal tourism enterprises linked to new initiatives for township tourism. The marked influence of informal enterprises in the re-making of the landscape of urban South Africa is demonstrated by the emergence of a cluster of almost 1 000 clothing micro-enterprises which constitute the basis of what is now to be planned as inner-city Johannesburg's new garment or fashion district (Cachalia *et al*, 2004).

Undoubtedly, the most rapidly growing component of Johannesburg's small enterprise economy is represented by the category of the emerging SMME economy, which is dominated by African-owned micro-enterprise and informal enterprise. Another increasingly important element in the mix of this emergent economy is enterprises established since 1994 which are operated by non-South African entrepreneurs. Immigrant entrepreneurs – especially from Sub-Saharan Africa – represent a significant component in Johannesburg's changing small enterprise and informal economy with a special concentration of these entrepreneurs in cross-border and informal street trading, the manufacture of clothing and in motor vehicle repairs (Peberdy and Rogerson, 2003).

Across this emerging micro-enterprise and informal enterprise economy there are a host of constraints that impinge upon business expansion and ultimate graduation to the category of successful small enterprise (Kamaha, 2004). From a range of empirical investigations into the workings and business development trajectories of such enterprises, several key groups of problems are observed. The first set of issues relates to the question of education and training for entrepreneurship. In an era of heightened competition and globalisation it is essential that these small entrepreneurs be 'smart' and have the capacity to adapt to changing market conditions for 'learning-led competitiveness' (King *et al*, 2002). Significant differences are observed in the human capital strengths of groups of South African and immigrant entrepreneurs with the latter usually showing much higher levels of education and skills training. Access to training opportunities is thus a key element in closing this gap. A second generic set of issues concern entrepreneurs' limited awareness of, and access to, existing government programmes for financial support, especially for access to micro-credit. Third, are fundamental issues that need to be addressed concerning the market power enjoyed by larger enterprises. The economic domination of most sectors by larger (white-owned) enterprises results in only limited opportunities for emerging entrepreneurs. This problem is being addressed by interventions such as affirmative government procurement – including local government procurement – for targeted emerging entrepreneurs and through the expansion of outsourcing and private sector subcontracting from larger, more established enterprises, to smaller and informal enterprise (Rogerson, 2000).

The position of the small enterprise and informal enterprise economy within the broader restructuring that is taking place in Johannesburg is ambiguous. Undoubtedly, the key explanatory factor behind the establishment of most informal economic enterprise is supply-push rather than demand-pull considerations (Rogerson, 2000). The slow labour absorption of the formal economy, associated high unemployment levels, and pressures for basic survival mean that the bulk of informal entrepreneurs operate out of necessity rather than choice (Chandra *et al*, 2001). Recessionary economic circumstances and the slow pace of employment expansion in the formal economy account for the surge of survivalist enterprises within Johannesburg in often already overtraded income niches, such as home-based *spaza* retailing, street trading or informal urban cultivation on vacant land. Most research suggests that the growth in the size of Johannesburg's emergent SMME economy has been led by the replication of informal businesses, a pattern of *involution*, rather than the evolutionary expansion of existing enterprises which would result in the increase in the number of employees.

Another key factor affecting the growth of Johannesburg's small enterprise and informal economy relates to the development and intensification of business linkages between larger formal enterprise and micro-enterprise (Rogerson, 2000). It has been argued that competitive pressures – including from globalization – are unleashing a process of the informalization of formal enterprise in South Africa's cities. Overall, this phenomenon creates a set of potential new opportunities through subcontracted work for the expansion of growing microenterprise (especially in the industrial and construction sphere) albeit it also holds the danger that the most prevalent outcome of informalization might be heightened levels of exploitation and poverty-level working environments for (informal) employees.

Overall, a critical factor determining the positive contribution that might be made to cities by the SMME economy, especially of micro and informal enterprise, is the policy and support environment offered by local as well as national governments. Regrettably, national programmes post-1994 have delivered little in the way of positive support for most informal enterprises. Accordingly, for most groups of informal

enterprise the most effective level of policy intervention and support is at the local level rather than the national scale of government (Rogerson 1999).

One good example of local level interventions and planning to support the informal economy is provided by Johannesburg's inner-city garment district. The making of the Johannesburg garment district is a classic example of a pro-poor local economic development initiative and is supported by the Johannesburg Development Agency, which views the fashion district as a project in line with the city's long-term economic development strategy. Within this initiative there are a number of sub-projects which are designed to enhance the overall performance of this cluster of almost 1000 clothing micro-enterprises. Among these are, initiatives to improve the skills base of entrepreneurs, to link these emergent entrepreneurs to more established businesses outside of the cluster, to promote joint action or cooperation among South African clothing entrepreneurs and to seek to promote synergistic networks of opportunity which also begin to tap the strengths of immigrant entrepreneurs (Cachalia et al, 2004).

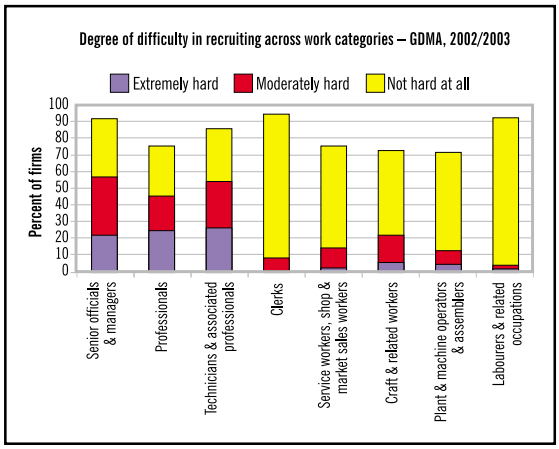
MICRO-ECONOMIC FOUNDATIONS FOR AND CONSTRAINTS ON PRODUCTIVE CAPACITY

Urban economic growth is dampened not only by weak domestic demand but also by supply-side constraints. National data shows substantial declines in the rates of savings and investments over the long term. This limits the country's ability to invest in future productive capacity. There is little that can be done at city level about this. More important from the vantage point of the cities are various weaknesses in efficient economic production because of what are called 'micro-economic constraints'. These refer to factors that impact on the ability to produce innovative new economic offerings, the costs of production at the firm level, and the ability to efficiently move or exchange products and services. This in turn impacts negatively on the capacity of the economy to construct demand, both locally and abroad.

City business surveys to determine constraints

A number of the SACN cities have very recently seen extensive surveys of what their business communities believe to be some of the primary constraints on their own expansion and broader urban economy growth. These surveys have either been commissioned by the municipality, or conducted by independent agents. A full review of these is not possible here. But figure 25 below indicates some of the factors. By way of illustration, 53% of firms in eThekwini believe it is moderately hard to recruit either technicians/associate professionals or senior officials/managers with the necessary skills. Professionals are slightly easier to recruit, perhaps reflecting the loss of jobs in this occupation group noted above.

Businesses assessment of some of the major constraints to growth shows sensitivity to a complex amalgam of factors. On the one hand, the survey supports similar findings in Johannesburg that crime and theft, and the general uncertainties associated with it, are major growth inhibitors. This factor has everything to do with the way cities work. On the other hand, businesses indicate that their expansion is at the mercy of international currency fluctuations, over which cities have zero control.



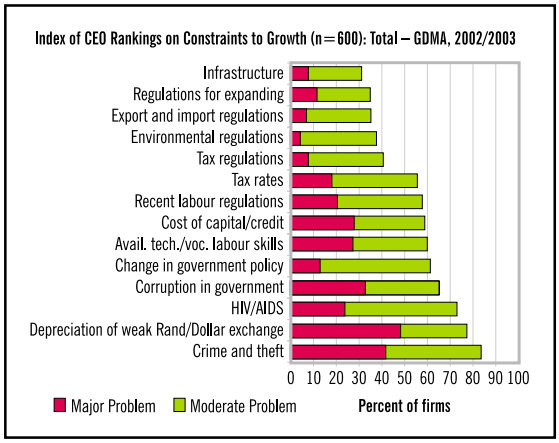


Figure 25. Results from a study of constraint on growth and employment in eThekwini, September 2003.

Logistics pathways

Something often identified as a major constraint on efficient business activity is the ability to move products quickly, easily and cost-effectively both within the city and through cities en route elsewhere. Where transport networks for goods and people are inadequate or over-stretched this may severely impact on the ability of industry to reliably supply customers. Where the costs of utilising transport networks are prohibitive, or where firms have to make special transport arrangements to compensate for inadequacies in the system as a whole, these costs are invariably factored into the price. This affects demand.

There is limited data on the efficiency of transport networks for economic goods and services. That which is available gives a mixed picture. Figure 26 shows National Department of Transport data on the intensity of movement of goods and people through major transport interchanges. On the two indicators of goods passing through ports, and airport travel, the nine SACN cities show mixed progress since 1996.

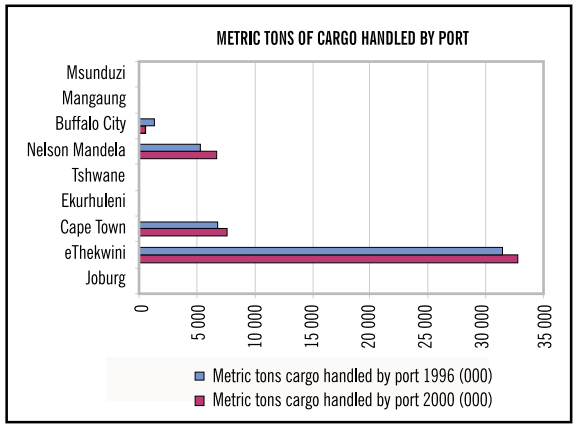
Growth in the total tonnage of goods handled by South African ports was unspectacular between 1996 and 2001, and the total number of vessels handled dropped significantly in three of South Africa's major port cities. However, whether this reflects on the poor quality of port infrastructure in these cities, forcing shipping lines to reroute through other ports such as Maputo or Richards Bay, or whether it reflects persistently weak connection of the national economy with the global economy, is not clear. Both reasons are serious.

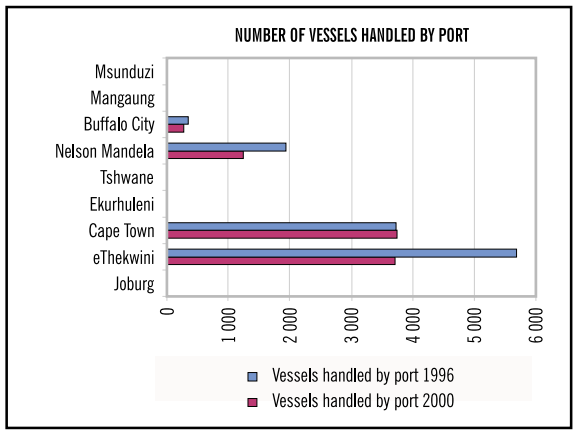
By contrast, there has been considerable growth in the number of international and local passengers passing through airports in the nine cities. This suggests a burgeoning tourist industry and more densely networked city-to-city business linkages. It speaks well to the ability of the cities to connect to the rest of the national economy, and the world. This is positive for economic activities such as finance, where the movement of manufactured goods is not a major consideration.

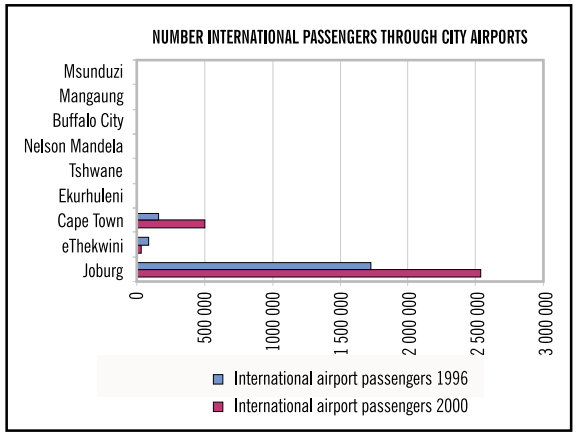
Knowledge concentration

The knowledge and skills base of cities is increasingly being seen as a major factor impacting on growth. The survey data suggests that this is a key weakness of South African cities. There is a relatively poor education base in the cities generally. Only 26,9% of SACN city residents had a matric certificate in 2001, and only 11,9% had any form of post-school higher education.

There is also an increasing tendency for skills supply to be mismatched to demand for key competencies in formal sector employment. Middle-level scientific and technical skills are in increasingly short supply.







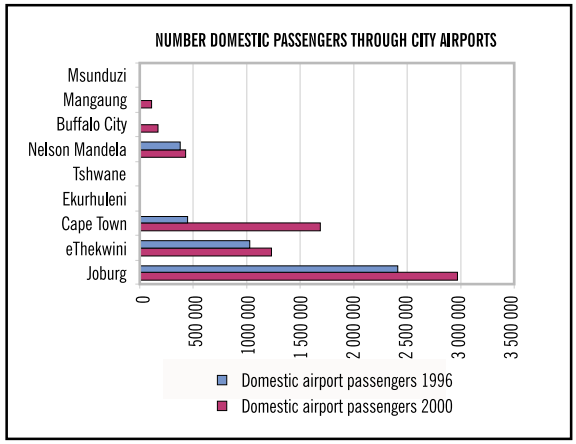


Figure 26. Movement of goods and people through airports and ports.

	City of Joburg	eThekwini	Cape Town	Ekurhuleni	Tshwane	Nelson Mandela	Buffalo City	Manguang	Msunduzi
Total number of applications in 2002/03	12 021	13 983	—	13 026	—	—	3 363	5 096	932
Total estimated 977 value of applications? (R '000)	3 567 715	2 517 168	4 122 588	2 073 921	—	—	385 812	361 097	465
Average processing time (in days) for a pplications on:									
Minor Building Works	5	4	—	5	—	—	10	2	1
Dwellings	10	20	—	15	—	—	10	15	1
Industrial /	27	38	—	35	—	—	10	25	5
M.B.W. or dwelling with circ to ext dept	27	20	—	NA	—	—	10	4	1

Figure 27. Length of time taken to process planning applications.

Local government institutional efficiency

Some economic activity is extremely sensitive to the broader functionality or efficiency of the urban environment. For example, much just-in-time production depends on consistently reliable supplies of water and electricity, and on a transport infrastructure that enables the smooth mobility of inputs and outputs across the city. One key indicator of urban efficiency is how efficient local government is in enabling businesses to operate. Figure 27 compares the average number of days it takes each municipality to process various kinds of planning applications.

Safety and security

According to a survey conducted by the World Bank for Johannesburg in 2001, perceptions, and the associated real costs, of crime seriously undermine established businesses confidence in South African cities. It therefore undermines their propensity to invest. Furthermore, crime impacts seriously on the costs of doing business locally, both directly through stock and finance loss, and indirectly through higher insurance premiums and the costs of securing buildings and goods in transit. Lastly, crime diminishes the quality of life of residents, and throws them into a perpetual state of insecurity. This limits their development and creative application of latent productive capacity.

Chapter 9 of this report looks at crime levels in detail, but it is worth highlighting here the levels of crime that typically impact on business. Figure 28 shows that levels of crime that increased in the late 1990s has now stabilised. Some crimes such as burglaries at non-residential properties have reduced fairly substantially. However, they are all still very high. Theft of and from motor vehicles remains the largest problem

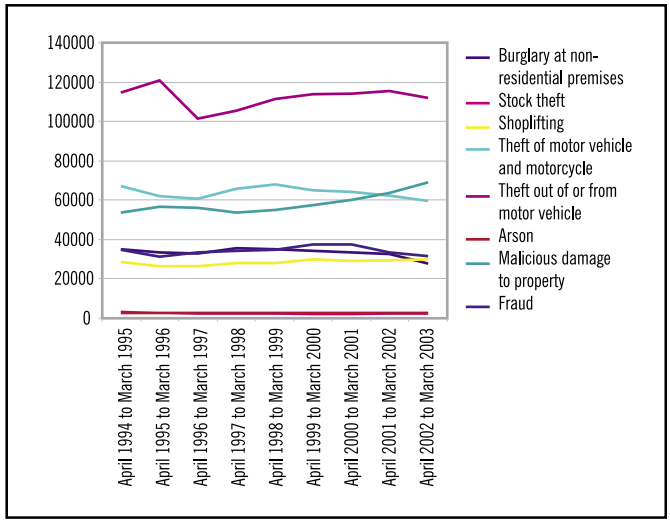


Figure 28. Levels of crime typically affecting business directly 1994-2003.

Investments in property

Shifts in the property market give some clues as to the strength of the urban economy. A flourishing industrial and commercial property market reflects positively on the number of firms operating and the expansion of business activities. In turn, property is an important factor in production. Renewal of commercial and industrial property obviously facilitates more efficient business operations.

Municipalities may facilitate industrial and commercial property renewal through urban renewal initiatives. Urban renewal typically involves the use of targeted interventions by government to resuscitate declining urban areas. However, much depends on the clarity of purpose with which these interventions are made. A recent study into urban renewal programmes in South Africa found that a coherent understanding of the policy objectives of urban renewal is lacking, with officials in different sectoral departments of cities defining urban renewal narrowly in terms of their sector. For example, officials located in economic development units tend to perceive urban renewal as the redevelopment of economic nodes while officials in housing departments most often understand urban renewal as an inner-city housing intervention.

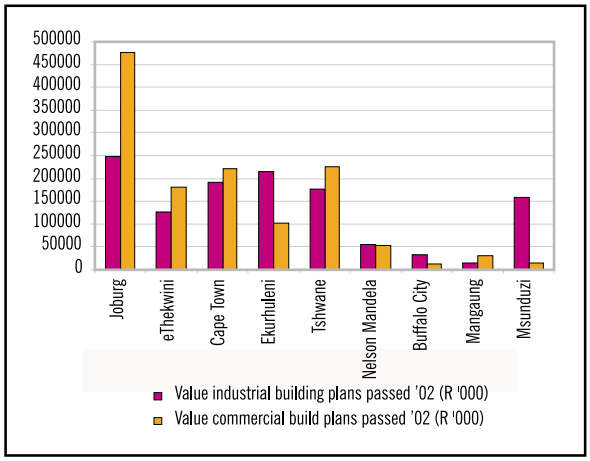


Figure 29. Value of industrial and commercial building plans passed in 2002.

Figure 29 compares the total value of industrial and commercial building plans passed in each of the nine SACN cities in 2002. Some of the levels of new investment are unsurprising. But it is worth noting that Ekurhuleni has the second highest investment in new industrial space after Johannesburg, and that Tshwane is seeing quite strong growth in its commercial sector. Most interesting is R159 million of new industrial investment in a city that has never been a strong manufacturing centre, Msunduzi. The box below analyses the changing strength of the commercial and industrial property sectors over the last decade.

INDUSTRIAL AND COMMERCIAL PROPERTY TRENDS IN SOUTH AFRICAN CITIES

To many, a city is defined by its built environment. Office blocks, shopping centres and factories are visible and tangible, and often symbolic of a particular place. But, like the wider urban economy, the property market shifts and changes, and South African cities have been no exception to this rule. In 2004, there will be a sharper focus on residential investment and development, while the office sector remains quieter after several years of excess supply. A few new regional shopping centres are on the cards, like the Clearwater Mall in western Johannesburg, and industrial developments move closer in type to the low-bulk office parks that have emerged in the past decade.

To a greater or a lesser extent, the trends and dynamics of the commercial and industrial property market are repeated throughout South Africa's urban areas.

There's a point about the property market that's often misunderstood. The demand for property is a derived demand, driven by activity in different sectors of the urban economy, combined with the significant change in expectations of space. The heavy, smokestack factories of a decade ago have been replaced with the clean, landscaped industrial estates of today. Linbro Park Business Estate in north-eastern Johannesburg is one example. There are even cases of industrial parks with clubhouses, jogging tracks and trout fishing dams. As demand for high-rise office buildings has declined, for a plethora of different reasons, companies have opted increasingly for low-density office complexes with gyms, restaurants and crèches. In fact, the popularity of the so-called home/work/play model is on the rise – think Melrose Arch in Johannesburg's northern suburbs, or Century City outside Cape Town.

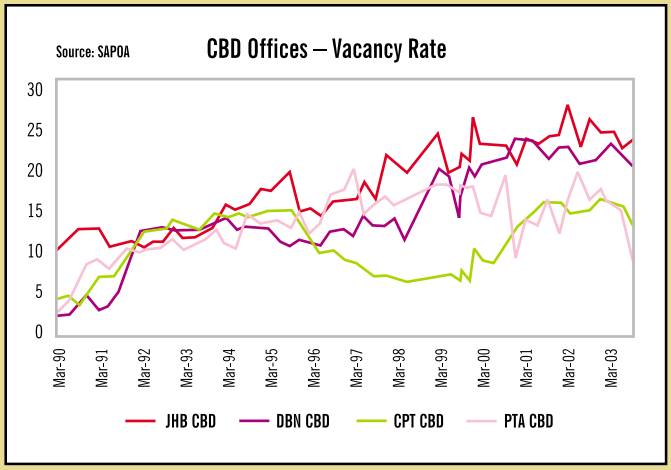
Retailing remains a specialised field in its own right, but as a sector it has outperformed the overall market during the last eight years. Regional centres and convenience centres remain the most successful investments, pointing to the attractive force of critical mass, and 'quick shopping', respectively. Another trend that looks set to emerge is that of re-developing and re-positioning centres, but in a far more dramatic way than the straightforward 'seven-year' refurbishment. The transformation of the Randburg Waterfront into the Brightwater Commons is one such example. Drivers include stricter environmental legislation and higher levels of traffic congestion.

The following table illustrates the total returns, by sector, for property investments over the past eight years. Note specifically the rapid drop in office returns in the late nineties, underpinned by a strong suburbanisation trend in corporate headquarters, and the consistent success of the retail sector overall.

TOTAL RETURNS BY SECTOR% PER YEAR, STANDING INVESTMENTS ONLY								
	1995	1996	1997	1998	1999	2000	2001	2002
Retail	16,9	17,2	23,0	9,1	17,9	10,4	13,4	11,0
Office	14,8	10,1	12,8	1,6	9,5	12,7	7,8	5,1
Industrial	13,5	17,9	16,8	2,1	8,3	7,1	7,5	8,8
Other	15,2	16,9	18,1	5,1	24,9	16,6	10,0	20,5
All property	**15,3**	**14,1**	**17,5**	**5,1**	**13,7**	**11,2**	**10,6**	**9,5**

There are broad risks that affect all sectors of property in South Africa, country-wide.

First, is the lack of reliable and comprehensive data. Although great strides have been taken in recent years – the launch of the Investment Property Databank report in 1998 being one – the sector faces a dearth of investment information compared with other asset classes. There is furthermore an urgent need for scenario planning and forecasting for the industry as a whole, something that is currently not happening.

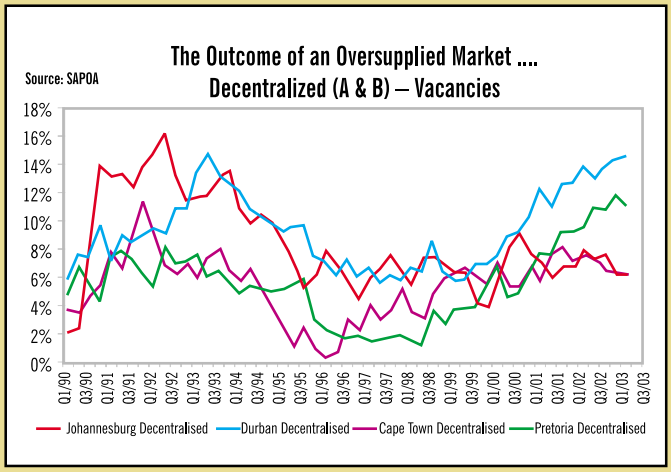


Second, there is the more cyclical problem of over-supply, which has been particularly noticeable in the office market since 1999. Ongoing decentralisation and urban decay have played a role, but so has over-enthusiastic lending and development, perhaps related to insufficient research. Over-supply spins off into lower rentals, shorter leases, tougher tenant negotiations and higher vacancies. In Johannesburg's decentralised office sector, typical vacancies have steadily increased from around 5% in the mid-nineties, to a prevailing average of about 15%.

Third, although lower interest rates could signal new development, lower inflation often means lower net lease and operating cost escalation rates, and low economic growth may put a dampener on demand levels. International experience shows that, over time, property does adjust to a lower-inflation environment.

Fourth, the legal environment surrounding property has seen some significant changes over the past year, with certain pieces of legislation creating a furore in the sector. Monitoring of legal considerations has become all the more critical, with landlords citing the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act, the Rental Housing Act of 1999, and the proposed Property Rates Bill as cases in point. Indeed, the point is that property operates in a challenging environment and more sophisticated risk assessment is a necessity.

Fifth, is the changing nature of demand. Traditionally, large property owners have looked for blue-chip tenants on a long-term lease of at least five years. Today, lease terms are coming down and three-years is more typical, although there is demand for 12-month, or even month-by-month leases. The need to accommodate smaller, entrepreneurial and start-up businesses has become more acute, and successful landlords are those that can offer flexibility and personally attention to their tenants.



The residential marketplace has, for the first time in many years, attracted a significant amount of attention from investors and developers over the past three years. What may have started as a reaction to commercial property saturation, seems to have developed a momentum of its own, with even some institutional investors shifting into the residential sector.

Many developers have changed gear and moved from the office sector, into residential development – focusing on the perennially-popular golf estates, apartment blocks in prime areas like central Sandton, and even the conversion of downtown office buildings into upmarket residential spaces – in both Cape Town and Johannesburg city centres. It seems that 2004 will see this trend continue almost unchecked, although there is a growing view that the much-touted 'buy-to-let' market has peaked, and that some sense will return to house prices in the next 12 months.

For cities in general, the management of land and the built environment is crucial. Given the long-term nature of the property market, investors and developers alike seek out cities with clear economic and town planning, competent metropolitan officials and consistent application of policy. The role of catalytic government initiatives like the provincial government precinct in downtown Johannesburg, and the Blue IQ mega-projects in Gauteng, or the impact of the Cape Town Central City partnership, has become more evident. The focus provided by, say, the 30-year economic strategy for Johannesburg, Joburg 2030, has been invaluable.

The key to attracting property activity is certainty, combined with an increasing need for space in the specific sectors of the built environment. Perhaps most importantly, the market will guard against "bricks and mortar" projects that don't address demand or the needs of end-users; an empty, derelict building makes no positive contribution to the urban economy.

HOW CITIES ARE RESPONDING TO WEAK DEMAND AND MICRO-ECONOMIC CONSTRAINTS ON PRODUCTIVE CAPACITY

No city in the world has quite enough demand or productive capacity, or indeed has these in perfect balance. However, there is a growing recognition that if South African cities are to grow their economies at a pace able to provide all their residents with the means to earn a living, productive capacity and demand will have to increase exponentially. How are cities responding to this challenge?

THE NEW PHILOSOPHY: GEAR INTO EXPORTS AND FIX MICRO-ECONOMIC CONSTRAINTS ON COMPETITIVE ENGAGEMENT WITH THE GLOBAL ECONOMY

There is growing consensus on how cities should go about deepening demand, and thereby spurring the growth of productive capacity.

The current wisdom says that weak local demand need not necessarily be a major problem. In today's nationally and globally networked economy it is possible to compensate for a lack of domestic demand by growing off the demand of others elsewhere. Cities that serve as national economic hubs, or that have emerging export-driven economies, can depend on incomes being earned in other parts of the country or the world by exporting goods and services. By capturing shares of national or global markets, they can drive up earnings across the local population. This in turn boosts local demand for other city products and services, and kick-starts a virtuous upward cycle of investment (both domestic and foreign), increasing demand, further investment, and so on.

The new consensus also says that the key to this economic growth path is promoting productive capacity that is suited to export economies. This means addressing those factors that limit the capacity of local economies to feed, and feed off, global demand. South Africa has done just about as much as it can over the last decade to stabilise its macro-economic environment. It has managed its fiscus prudently and controlled money supply well, bringing public sector debt under control and driving inflation down from double figures to an acceptable band around 6%. Interest rates have been high compared to

those in other parts of the world, but these were necessary to encourage capital inflows, and are now coming down. This stable macro-economic environment is a necessary condition for economic growth. But it is not a sufficient one.

The added ingredient must be micro-economic reforms to make local economies more competitive. Cities have a key role here. Through a range of interventions they can address constraints on the productive capacity of a local economy. One example is the importance of knowledge generation and retention. It creates a basis for entrepreneurial behaviour that underpins the export of high-value added soft products such as business services and systems. Cities may intervene to widen and deepen the pool of skills, or encourage the agglomeration of knowledge-based industries that may benefit from co-location and sector collaboration.

There are, of course, other possible growth paths that do not rely on the motor of foreign demand. For example, a deliberate policy of promoting domestic demand by boosting household buying power may stimulate certain kinds of industry. As profits begin to accumulate and circulate, this may in turn lead to a sustainable increase in market depth and sophistication across a wider range of economic sectors. Scandinavian economies are today amongst the world's most competitive through this approach. It is also possible to use new productive capacity itself as the basis for an economic growth path. Massive investments in public infrastructure, coupled with a corporate spending increase, both carrying the risk of debts incurred today being repayable tomorrow, may create enough jobs and new-generation products and services to, in effect, construct new demand. The American IT and telecommunications revolution of the 1990s was essentially this.

Both growth paths are constrained in the South African context. The first relies on a large-scale 'wealth distribution' through taxation and welfare. It may stimulate a local economy, but it could just as easily emasculate it by causing hyper-inflation and capital flight. The second relies on the evaporation of both national government fiscal prudence and business uncertainty. This is unlikely in the short term. And in the long run the approach may also collapse local economies under the combined weight of inflation, high interest rates, unproductive spending on 'white-elephant' capacity, and, as the sum of all this, public and private sector debt. Both of these growth paths also look risky in the face of the AIDS epidemic's likely impact on household spending patterns. And, in any event, cities have very little influence over the national economic policy-making processes required to shift gear into these approaches.

There is growing agreement that export led economic growth, driven by global demand, and facilitated by addressing those micro-economic constraints on capacity for production of high-value adding goods and services, is the strategy to adopt. Many of the SACN cities are consciously or unconsciously following this economic growth path.

EXPORT-ORIENTATED STRATEGIES AND SECTOR SUPPORT

The economic development plans, IDPs or broader restructuring plans of the municipalities in a number of South African cities indicate a new focus on positioning the city in the global economy. This usually involves picking a number of winning sectors or sub-sectors that the municipality believes, through targeted support, may become their city's competitive advantage in the global economy.

The fact that Johannesburg's economic activity is in line with international trends is extremely significant as it has been demonstrated that local demand, which has all but stagnated, is unable to provide sufficient local demand to enable the City to grow at a required rate of approximately 6 percent per annum. As such Johannesburg's economy will need to rely strongly on external demand from foreign countries.
(Joburg 2030, Foundation Report February 2002)

Durban has a profile of economic activity that remains outdated in terms of global trends for more mature economic environments to shift to service and knowledge-based activities. It is critical for Durban to extend its profile in these areas, as they will offer the foundation for future growth and are already highly sought after in terms of existing economic sectors.
(eThekwini IDP, 2003-2007)

Cape Town's future growth will depend on:

- Global economic growth of our main trade partners;
- National and local policy implementation to address competitiveness factors, for example, investor perceptions, crime levels and skills constraints;
- Cape Town's ability to market and build on its numerous strengths, eg its natural environment, trade infrastructure, relatively skilled labour forces and world class tertiary institutions, and strengthening of globally competitive sectors;
- Private and Public sector prioritisation of investments in human resource development, information technologies, and the exploration of new global market opportunities.

(City of Cape Town's Economy: current trends and future prospects, 2001)

The City economy can be strengthened by developing and promoting global and regional competitiveness in niche clusters and sectors present in Tshwane.
(City of Tshwane, Restructuring Grant Application, July 2003)

Examples of cities' export-orientated thinking

A look at city economic development strategies and IDPs gives some idea of what cities have in mind.

The City of Johannesburg has introduced a 30-year economic development strategy called Joburg 2030. This identifies a number of 'preferred economic sectors' – financial and business services, transport and communications, manufacture of professional equipment and other chemicals, etc – targeted support for which may position the city better as a node in the global economy. Graphing economic sectors on the axes of attractiveness (contribution to GDP growth, contribution to employment creation, multiplier effects etc) and competitiveness (export potential and productivity), Joburg 2030 sees particular hope for financial and business services: 'opportunities exist for the sector not only to become more productive, but also to reach across the border and export its services to a greater degree than at present'. As for transport and communications: 'while this sector contributes less than financial services and business services in terms of GGP growth and employment, it is more export orientated and hence has the potential to migrate further up the attractiveness scale'.

The eThekwini IDP has a balanced set of objectives. But amongst other initiatives it emphasises the importance of an 'accelerated programme to deliver on medium term growth opportunities' specifically to 'reinforce its position as a key location in global manufacturing processes'. It also stresses the need to 'realign its competitiveness platform' by 'facilitating the emergence and development of new growth sectors' and the 'development of new logistics and trade platforms'. Key actions in support of these goals include efforts to: 'Seed fund and facilitate partnership initiatives with educational institutions and other stakeholders with an emphasis on co-operative ventures to extend and deepen IT, financial services, biotech, organic and indigenous medicine capabilities'; 'work with government and private sector partners to secure next generation port facilities'; and 'invest in development of local technological and skills development capabilities'.

The City of Tshwane recently submitted a Restructuring Grant Application to the National Treasury. A component of this is an outline City Development Strategy. One of its key focus areas is 'strengthening key economic clusters to gain leverage from growth trends in manufacturing, government and business services'. Actions include: 'City support for the automotive, defence and metal industries clusters, all of which have the potential for further growth and increased global competitiveness, including potentially forming a 'super cluster' with mutually reinforcing initiatives'.

Investment attraction and local investment promotion

Recent studies have found that investors primarily seek stability in their investment destinations in terms of broad variables (such as taxation rates) that secure the certainty of returns. This means that investment decision making is more sensitive to macro-economic policy, political stability and the security provided by aspects of operating environments such as reliable power supply and an established body of contract law, than to special local incentives such as tax holidays or rebates. It has also been demonstrated that fiscal incentives may risk attracting 'footloose' investors who leave investment destinations as soon as a better offer arises (Buffalo City recently lost the interest of Malaysian investor Ramatex after Namibia provided a more attractive rates rebate package, for example). These kinds of investors often end up costing the rates base more than they benefit it.

Nevertheless it is a victory for a city to lure major new investment. It signals the increased connection between the city and the world economy, and it holds out the promise of a thickening of these connections over time. So investment attraction still holds appeal. SACN cities have started to use more sophisticated strategies to attract industries to the city. For example, Cape Town has given special attention to locking investment into its growing film industry, and both Cape Town and Johannesburg have targeted the attraction of high employment generating call-centres. Johannesburg, eThekwini and Cape Town have started to use their conferencing facilities to host major events that may bring spill-over investments.

INTERVENING TO IMPROVE SKILLS BASES AND KNOWLEDGE CONCENTRATIONS

Closely tied to interventions to facilitate clustering are efforts to promote the knowledge base that underpins so called agglomeration economies. Some SACN cities have seen the development of intellectual capital as one of the key strategies to build urban economies well-networked into a global economy on terms that benefit South Africa. They regard the skills base, concentrations of knowledge-based industries, and clustered centres of innovation and R&D as fundamental pillars of a productive city.

Education and training is not a local government competence. However, some municipalities have begun trying to leverage commitment and contributions from a wide range of city stakeholders who do carry skills development responsibilities. For example, the Johannesburg City Skills Project has tried to address the perceived mismatch between the city's demand and supply of key technical and professional skills. The Joburg 2030 identified 40% annual demand growth for skills in 'super-growth' occupations: computer scientists, computer systems analysts, chartered accountants and computers programmers. It also identified 15–40% growth in demand for skills in various economic and financial occupations: for accountants, actuaries, engineers (electrical and chemical) and mathematicians. They have entered into local partnerships with various education service providers to concentrate on the production of these sorely lacking skills sets.

IMPROVING INSTITUTIONAL EFFICIENCY AND THE EFFICIENCY OF THE URBAN FORM

Municipalities in the nine SACN cities have recognised the very important role they play in managing the costs associated with economies of urbanisation. This specifically entails:

- Reducing the costs of doing business in a city by: mitigating and managing the impact of pollution and development on productivity; reducing business costs by improving utility infrastructure in order to ensure minimal disruptions in water and electricity supply; and streamlining planning approval;
- Strengthening the relationship between infrastructure investment and economic growth by improving a city's logistical pathways so that goods can be moved efficiently (especially in the instance of major ports that act as gateways). eThekwini's spatial planning is a useful example of this. The municipality has tried to help improve the port infrastructure through various spatial interventions that better link the port with lagging industrial and employment nodes;

BUFFALO CITY/ EAST LONDON IDZ

Buffalo City's West Bank is the site of one of South Africa's first Industrial Development Zones (IDZs), as a focused local response to investor demands within national trade and industrial policy. Unlike conventional Export Processing Zones (EPZs), pioneered in countries like Mauritius and Taiwan, IDZs do not seek to compete on fiscal incentive but rather on the efficiency of a locality, based on existing or upgraded infrastructure (or physical attributes such as the deep water potential at Coega), cluster projects, sector training and streamlined bureaucratic processes, with a focus on export led growth.

The East London IDZ is intended to further develop the manufacturing and agro-industries of the Eastern Cape, leveraging of the regional automotive industry, and access to a dedicated motor export terminal at Buffalo City's port (which is to be expanded), as well as the airport. The IDZ's first major (R400 million) investments were by Condomi SA and Weisengold during 2002. The IDZ's Customs Secured Area (CSA) amounts to 250 hectares with a total of 1 500 hectares available for new industry, of which 570 hectares is owned by the Buffalo City Municipality.

- Reducing the costs of living in a city so residents can allocate income to savings and investment. This requires integration between economic and social objectives, with planning priorities and infrastructure spending specifically devoted to reducing urban living costs on consumers and small business.

SAFETY AND SECURITY

According to surveys such as those conducted by the World Bank for Johannesburg, perceptions, and the associated real costs, of crime seriously undermine established businesses confidence in South African cities. It therefore undermines their propensity to invest. In addition, crime diminishes the quality of life of residents, and throws them into a perpetual state of insecurity. This limits their development and creative application of latent productive capacity.

Cities have tackled crime in various ways, ranging from innovative city-based initiatives such as the installation of closed circuit television (CCTV) in city centres, to closer collaboration with national police services in executing strategies. For example most South African cities are presently engaged in the roll-out of this infrastructure, and integrating CCTV infrastructure with private and public response systems.

URBAN RENEWAL: IMPACTING ON ECONOMIES BY RESHAPING THE USE OF SPACE

Many municipalities are undertaking urban renewal interventions as part of city economic development strategies. Many of these interventions continue to focus on property development and the physical environment upgrading in inner city areas. Business Improvement Districts (BIDs), often linked with such interventions as CCTV, are typical. Limited attention is being given to renewal of areas of the city where small and large industry is located.

THE RISKS IN THE STRATEGY: UNDERSTANDING AND MANAGING POSSIBLE FUTURE IMPLICATIONS OF CURRENT TRENDS

The SACN cities have embarked on a number of economic development strategies. Although varied, many implicitly assume that the key to unlocking urban economic growth is to address those factors that constrain businesses from expanding (ideally to international markets) or that discourage international investors from putting their capital here. Current trends suggest that these approaches may hold risks for cities whose primary concern must always remain the ability of its residents to earn a living.

MANAGING RISKS IN EXPORT ORIENTATED GROWTH PATHS

Limited growth from export orientated strategies

There has been some growth in the export economy over the last decade, but nowhere near as large as one might have expected. Cities saw significant jumps in the volume of exports in 1994/5, what economists sometimes call the 'democracy dividend', and again in 1999/2000. But these volumes are

'The share of total remuneration of employees in total factor income declined from an average of 56,5% in the 1990s to 54% in 2000. This ratio came down to 50,5% in the fourth quarter of 2002 before it edged higher to an average of 52% in the first half of 2003. The decline in the share of the compensation of employees relative to total factor income was the mirror image of marked increases in the gross operating surpluses of business enterprises, mainly reflecting the good performance in nominal value added by the goods-producing industries since 2000. This could, among other things, be attributed to the paring of labour resources, moderate wage growth, impressive productivity growth and the general increase in realised product prices, especially in the export-oriented sub-sectors, resulting from the depreciation in the value of the rand over the medium to long term.'

'When the exchange rate of the rand depreciated, the initial benefit was in the support which it rendered to exports as South African goods became internationally more competitive. In addition to that, the weaker rand led to increased production due to import substitution. These benefits started petering out in the second half of 2002. Growth in the real value added by the manufacturing sector amounted to an annualised rate of 5% in the first half of 2002, but slowed down to 3,5% in the second half of 2002. Following a solid performance in 2001 and 2002, real manufacturing output stagnated in the first half of 2003. This can be ascribed to faltering world demand and the slower momentum in the growth of domestic demand. Stagnant output was spread throughout the major manufacturing sub-sectors. It was particularly pronounced in the chemicals and chemical products, basic metals, transport equipment, clothing and textiles, as well as electrical machinery sub-sectors.'
(Various extracts, Reserve Bank Annual Economic Report 2003)

certainly not racing up and in fact saw a decline in 2001/2002. The *value* of exported services has understandably tracked currency fluctuations. It increased significantly in 1996 when the Rand dropped sharply against the dollar, and again in 2001/02. However, as the recent appreciation of the Rand against the dollar has proven once again, it is easy to mistake short term export gains from an undervalued currency as a real improvement in the performance of export sectors. Value added in this sector between 1997 and 2000, when the Rand was declining but at a slower pace than in 1996 and 2001/02, was fairly negligible.

Difficult choices

Cities face difficult choices over what kind of economic future to promote, and how to best allocate limited capacity and resources in support of this. The choices are all the more difficult where an export-orientated strategy is being led, because in an unforgiving global economy decisions may carry costly unintended consequences. New opportunities for growth and wealth-creation are certainly available in a globalising economy. Cities that can position themselves as key nodes in international business circuits will almost certainly grow from strength to strength. But choosing an economic strategy that helps city industry 'go global' also has large risks.

First, it is quite possible that a city's export orientated industry does not really need any help to thrive. Public sector support may end up simply subsidising existing lucrative business that already adds considerable value under its own steam.

Second, public-sector support may sometimes be counter-productive. It may help firms enter global markers in the short term, but excuse them from making the investments and hard decisions needed to stay competitive over time. If support is eventually withdrawn or diverted, firms that seemed competitive may suddenly be exposed as too costly or not sufficiently flexible and dynamic. In many parts of the world this has trapped governments politically into having to continue to subsidise unviable enterprise.

Third, supporting those industries geared towards global market access may just expose the local economy more to the whims of a global economy, and end up worsening poverty and inequality. For instance, cities may want to use local comparative advantages to lure international investors. But this strategy may very easily squeeze new local market-entrants, trying to get access to emerging opportunities, out of lucrative niche-market shares and see locally earned profits exported. Similarly, cities may want to promote the 'export competitiveness' of local business, but this may depend on many firms pruning back jobs or labour benefits to increase relative 'productivity'.

Fourth, promotion of globally competitive industry may result in undesirable consequences in the urban form. For example it may lead to the 'hyper-concentration' of high-value commercial activity in certain parts of the city, such as new 'edge city' developments. These are usually close to the residential neighbourhoods of wealthier, more highly skilled residents, and far from working class areas. As opportunities in traditional manufacturing decline, a mass of unemployed people may grow on the periphery of the city. Here they end up with the additional burden of needing to travel further to find any new work opportunities the city has to offer, and working harder to get into circuits where viable new business ventures can be put together. Their poor location exacerbates their lack of economic access. Ironically, this increasing spatial and economic disparity may be detrimental to the economic prospects of a

OPPORTUNITIES FROM BIG EVENTS AND CONFERENCES

As eThekwini's International Convention Centre (ICC) has demonstrated, there are tremendous and ongoing benefits to be had from hosting major international and regional conferences – to the extent that the eThekwini Municipality is contributing to further upgrading of the ICC facilities in its latest budget. Similar approaches have been followed with the development of the Sandton Convention Centre in Johannesburg and the new Cape Town International Convention Centre. These are also a good illustration of the potential for private sector led investment and growth in cities.

Cities are also able to take advantage of other large scale events such as the recent successfully hosted Cricket World Cup and, potentially, the 2010 Soccer World Cup. However, these large-scale once-off opportunities can also entail risks. The reason for this primarily is that the benefits and costs do not accrue equally to the public and private sectors, especially where cities must invest significantly in new infrastructure.

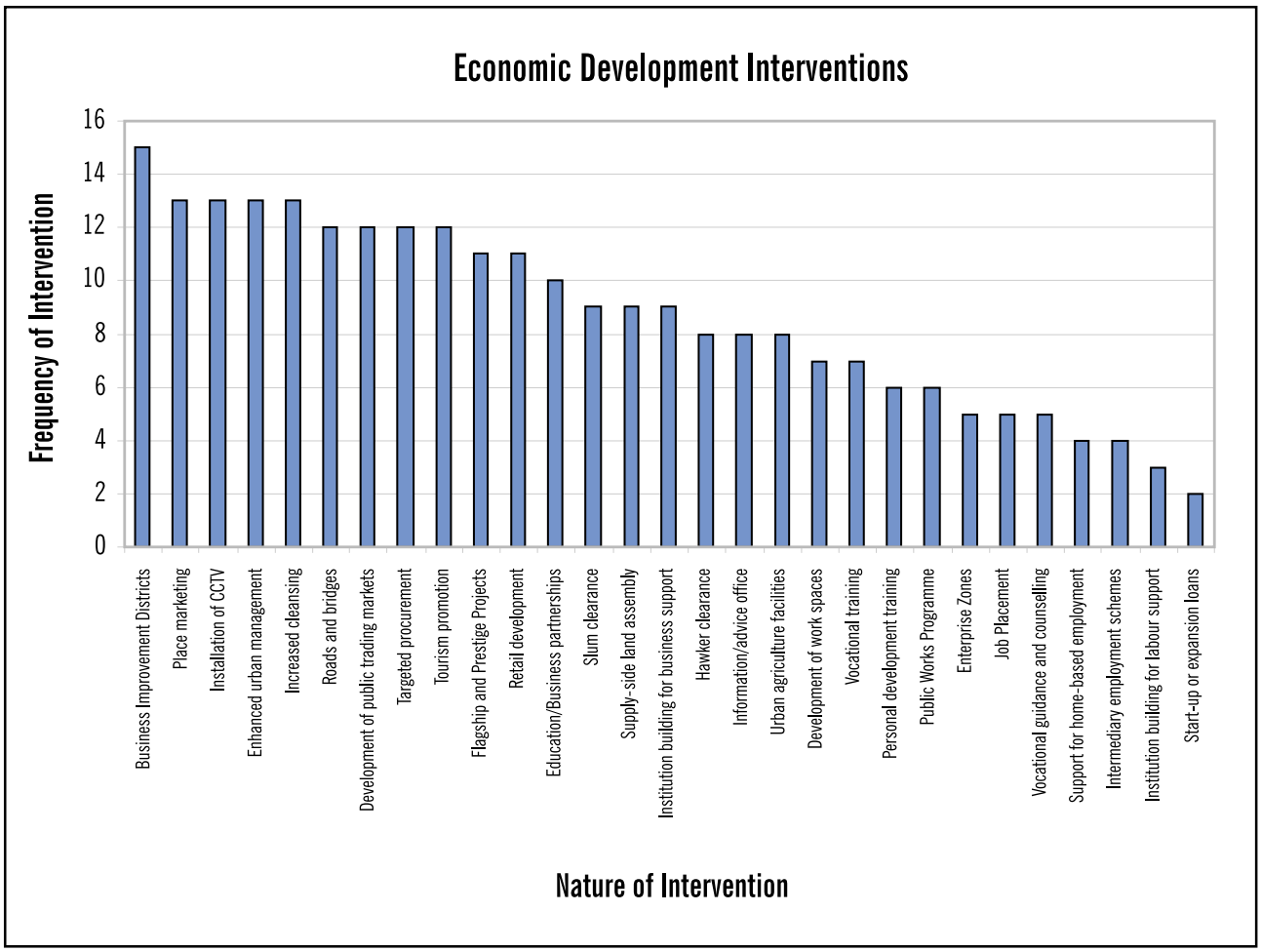
globally oriented city. Large and obvious divides between wealth and poverty suggest to any astute international business partner the possibility of future social and political instability. With reliability such a vital component in today's fast paced, often 'just-in-time', international trade system, the mere possibility of disruption may be enough to see international investors and foreign consumers look elsewhere.

DIVERSIFYING GROWTH PATHS?

The future of the global economy cannot be accurately predicted. However, recent uneven global economic performance, and the lack of positive impact that even a surging global economy of a few years ago had on the ability of cities to provide residents with a means to earn a living, do raise the issue of whether cities should put all their eggs in one basket. For example, the recent SACN report on urban renewal noted that city interventions which focus on the development of skills, support for entrepreneurs and job creation, are all clustered at the lower end of the frequency scale. This is surprising, considering the possibility that the recent huge growth in households, as well as a vibrant informal sector, may provide the anchor points for diversified city growth paths.

At the very least the appropriateness of more balanced approaches, that aim to harness global economic growth where appropriate, but which also see value in supporting higher domestic demand and the unlocking of latent local productive capacity, warrants more discussion.

Figure 30. Frequency of urban renewal initiatives focused on economic development, from SACN Urban Renewal investigation, August 2003.



MELUMZI ROAD, NELSON MANDELA METROPOLE

About 18 km along the R75 highway to the north of Port Elizabeth, Joe Slovo Village informal settlement rises from the hills. On the city planning maps, Joe Slovo Village looks well organised. In theory the main street, Melumzi Road, passes neatly the settlement. In reality, the village grew, largely unplanned, as people moved into the area. What would have been the main road is now a winding single-lane dirt track with shacks built haphazardly in the road's proposed path.

Without even a sign to distinguish it, people have dubbed it 'the road without a name'. It starts as an open piece of land next to the R75 with a small graffiti-covered post office and community centre, but then quickly disappears between the shacks. Stones and boulders make it impossible to drive on as most of the topsoil has been eroded.

Slovo Village was the site of an organised land invasion in July 1996. Homeless and poor people from the surrounding areas moved on to the vacant land. Despite being evicted twice, a Communal Property Association was formed and the Department of Land Affairs bought the land for the community. Since then, the Association has helped 350 of its members to build formal homes through private loans subsidised by the uTshani fund, a brainchild of the Homeless People's Federation. The scheme allows community members to build their own houses, paying back the money how and when they can.

A dreadlocked Rastafarian in faded army cargo pants and a thick brown corduroy jacket that barely reaches his wrists, Noble Majeke moved here in 1996. His home is one of the many that has blocked the road. 'Rasta' as he is known to the community, has been a part of the Communal Property Association, even chairing it for a while. He says that the community was well organised when they were given the land, but now fighting between different factions has reached new levels.

'As time goes, things have changed – people are against what we are doing. I have had enough. I have decided to just plough my garden,' he says. 'We even have problems amongst members. Pensioners say they can't pay back loans. You can't force somebody to pay if you don't know the problems in their home,' he laments.

Those with formal houses, mostly in Phase 1, receive municipal services such as sewage, refuse removal and water from the Nelson Mandela Metropolitan Council. Those with informal houses want to remain part of the Communal Property Association because they will still have a say in how the land is distributed and used.

'We are still proud of this land – we can do development on our own,' he says proudly. His tone suggests that this recent rift in the community runs deep. They have been divided between the have-nots and the have-not-so-much. 'We did not want to become political, we just wanted the land.'

When new people move into the area, they are told that they can build a shack wherever they find an open space of land. But they are also told that when a formal house is to be built on that site, they must be willing to move. This has lead to a situation where every available inch of land has been claimed.

In an effort to make some money, some residents have started a choir – the Mighty Angel of God choir. They will sing anywhere and for anyone, says choirmaster Simphiwe Vubela. Unemployment is common with only about 60% of the community in full-time jobs. Of these, 70% earn less than R700 a month. There are some exceptions, like Simphiwe who earns R2 200 per month as a health worker. This does not mean that he lives the high life: 'I have to support seven of my family members. I am the eighth one. I have to make sure that my family is catered for and my choir is functioning,' he says standing in front of his one-room home. A poster of Nelson Mandela and FW de Klerk stares from the wall, as he fingers silent notes on an old electronic keyboard. His shack has no electricity.

Rasta leaves Simphiwe to his music: he has to water his garden. Mielies, spinach, carrots and cabbages stand tall in the neat green patch. He collects water for his garden and family twice a day from one of only four communal taps in Phase 2.

For some of his neighbours, the municipality is a source of hope for future. 'The municipality will make things better,' says Milton Vabha. 'They will give us houses and water. They will make this place tidy again.'