With research support from:

Economic Development in Municipalities

Case Study Development

City of City of Cape Town

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1. Introduction

The South African Cities Network (SACN) and the South African Local Government Association (SALGA) have commissioned a follow-on phase to an original study exploring the economic development function in municipalities. The first phase of the study highlighted that economic development is not an isolated function and not the sole responsibility of the Economic Development Department, or Local Economic Development unit, but rather serves as a transversal municipal function. In addition, the study identified that imbedding and economic development focus within the economic development-planning-skills nexus of municipal functions is central to the ability of local governments to facilitate economic growth across the formal and informal economy spectrum.

With a focus on inclusive economic development in metropolitan cities, the study objectives of this follow-on phase are described as follows:

- Understand the municipal economic development institutional status quo within each case study, with an emphasis on how inclusive economic development relates to the institutional status quo;
- Inform subsequent work in which comparative and individual City diagnostics can be undertaken towards a design process for establishing general and specific organisational and institutional guidance on optimising an inclusive economic development function in cities.

Where the previous study developed case studies of four municipalities representing different municipal typologies (i.e. metropolitan, secondary city, small town, and district municipality), this phase of the study has focussed exclusively on three metropolitan cities, namely: the City of Johannesburg (CoJ), the City of Cape Town (CoCT), and eThekwini Metropolitan Municipality. Comparing similar cities with each other allows for the identification of trends, and opportunities to take forward into subsequent work on optimising the inclusive economic development function on cities. This case study report is focused on the City of Cape Town Metropolitan Municipality.

1.1. Case study approach

Due to the complexity of economic development and challenges around its definition, this case study aims to understand the municipal approach to inclusive economic development through developing an understanding of the direct function (i.e. institutional function), as well as the diffuse function (i.e. systems function), to understand where these metropolitan municipalities have successfully mainstreamed inclusive economic development across a range of municipal functions. To develop these case studies, the following approach was adopted:

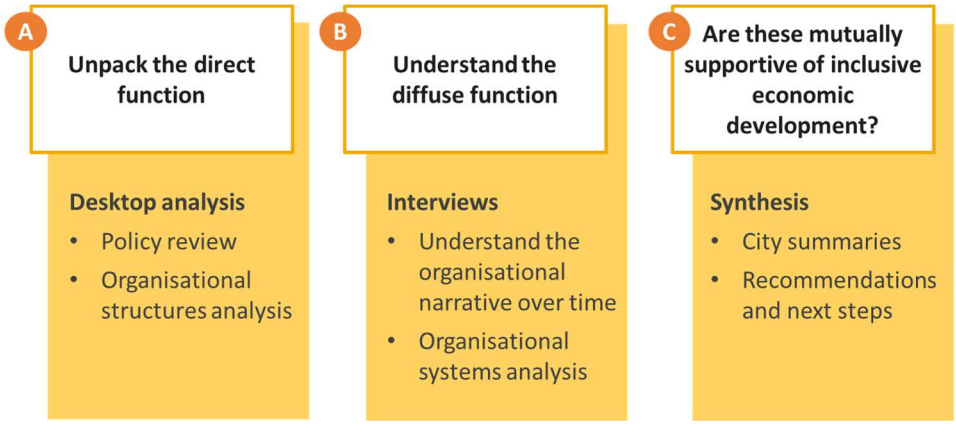


Figure 1: Study approach

In order to develop this understanding of how inclusive economic development is internalised within the municipality, this case study report presents a discussion of the following:

- Socio-economic profile: This chapter begins with a brief unpacking of the current status of the local economy and history of the spatial form of the region. This includes a description, the municipal socio-economic context (i.e. unemployment, education, demographics, etc.), the drivers of the local economy, and how the municipality fits in to the broader spatial economy of neighbouring regions and Kwa Zulu Natal more broadly.

- Municipal economic policy review: This chapter identifies local policies, frameworks, and studies which have been developed in response to the local economy, and should highlight the municipality's intentions regarding its economic development objectives. Through this discussion, this chapter provides insight into how the municipality articulates the strategic aspects of the inclusive economic development function.

- Organisational structures analysis: This chapter explores the organisational structures designed to implement the strategic policy response to economic development within the municipality. In addition, the historical narrative is explored to understand how the municipal interpretation of the economic development function as evolved over time and may potentially continue to evolve into the future.

- Towards institutional indicators for implementation: Based on the understanding of the municipality's objectives and organisational response, the institutional review aims to understand how the case study cities have successfully mainstreamed inclusive economic development within the municipal system, and the relationships or preconditions which support these successes. This closing chapter provides a closing summary of the key discussions and findings, providing a summary of where the city has successfully mainstreamed the inclusive economic development function within its organisation.

2. Socio-economic profile

The City of Cape Town Metropolitan Municipality had an estimated population of 3,7 million people in 2010, with an estimated 1 060 964 household units. The population is projected to grow to 4,25 million by 2030. This growth exacerbates the range of challenges facing Cape Town, including, but not limited to, unemployment, drug use and crime incidence. The City is the metro with the second-largest economy, and is the second-biggest contributor to South African economic output. In 2010, the city contributed 11,12% of national gross value added (GVA), its contribution to the national economy having grown incrementally from 10,5% in 2001, and 10,9% in 2009. Cape Town's economy has a number of key positives on which to build. It is known to have solid economic infrastructure and a good services base with which to attract international and national industry.

Main Economic Sectors include: Finance and business services (36.1%), manufacturing (16.1%), community services (15.6%), trade and hospitality (15.6%), transport, storage and communication (11.2%), agriculture (9.7%), construction (4.1%).

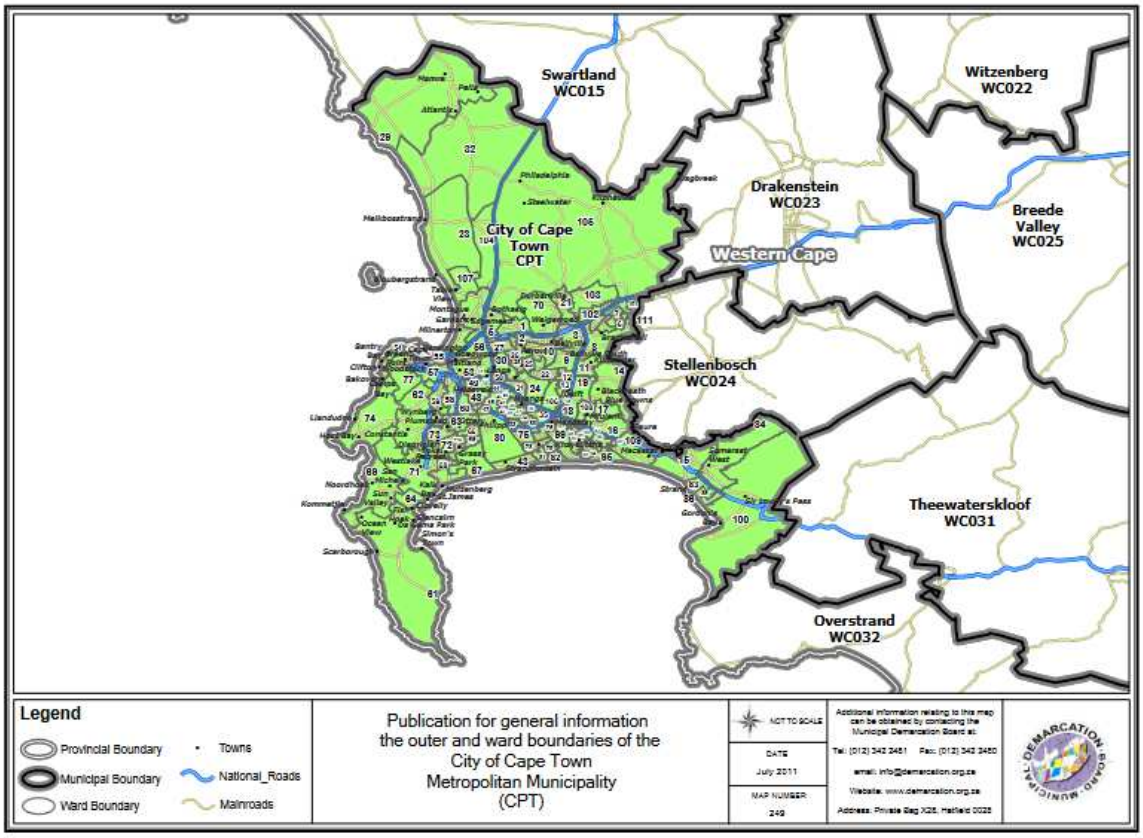


Figure 2: City of Cape Town locality map (Demarcation Board, 2016)

The Cape Town economy is progressively shifting towards services industries, with the largest areas of growth being finance, business services, trade, catering, accommodation, tourism, transport and communication. The envisaged increased availability of bandwidth will benefit Cape Town's growing knowledge-based economy, and can help attract foreign investment, which in turn raises the potential for major economic and social benefits.

The informal economy in Cape Town is involved in activities - mainly wholesale and retail trade, home-based catering and accommodation, and working in private households - that are not linked to the City's main economic activities. In 2010, the Cape Town economy supported only about 11% informal employment opportunities out of the total employment in Cape Town, compared to a national average of 17%.3. Up to 75% of businesses in Cape Town are classified as small and medium enterprises (SMEs), and account for 50% of the city's economic output. Up to 93% of all small and micro firms are low-tech operations in mature, traditional industries, with very little interaction with large firms.

The poorest households live on the outskirts of the city, putting them furthest away from potential employment opportunities and making them least able to afford the costs of urban sprawl. Most often, poorer residents have to commute longer distances and times, using public transport modes that are currently not optimally integrated.

The city grew by 40% in developed-land area between 1985 and 2005. More recently, the city has been developing at an average rate of 1 232 hectares per year. Cape Town's geography with its long coastline and mountains, the airport location and other hazardous, noise-generating activities limit the amount of land available for development, and make it essential that any such development is effective and efficient.

The average population density for the city is low, at 39 persons per hectare. One of the city' s challenges is to transform its spatial and social legacy into a more integrated and compact city, with mixed-use zoning areas that bring residents closer to work and offer opportunities to break down the social barriers.

All of these challenges outline the need for a development path for Cape Town that promotes economic growth, reduces poverty and social marginalisation, and builds residents' engagement in making the city more resilient in terms of its economy, natural and cultural landscapes, at household and community levels, and in terms of its ecosystem. This is a highly integrated city, and it requires integrated solutions.

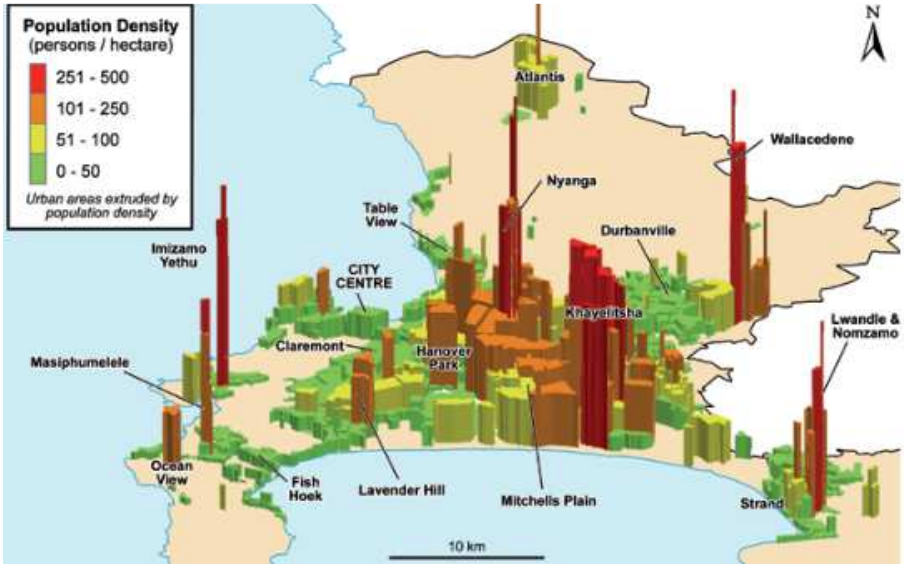
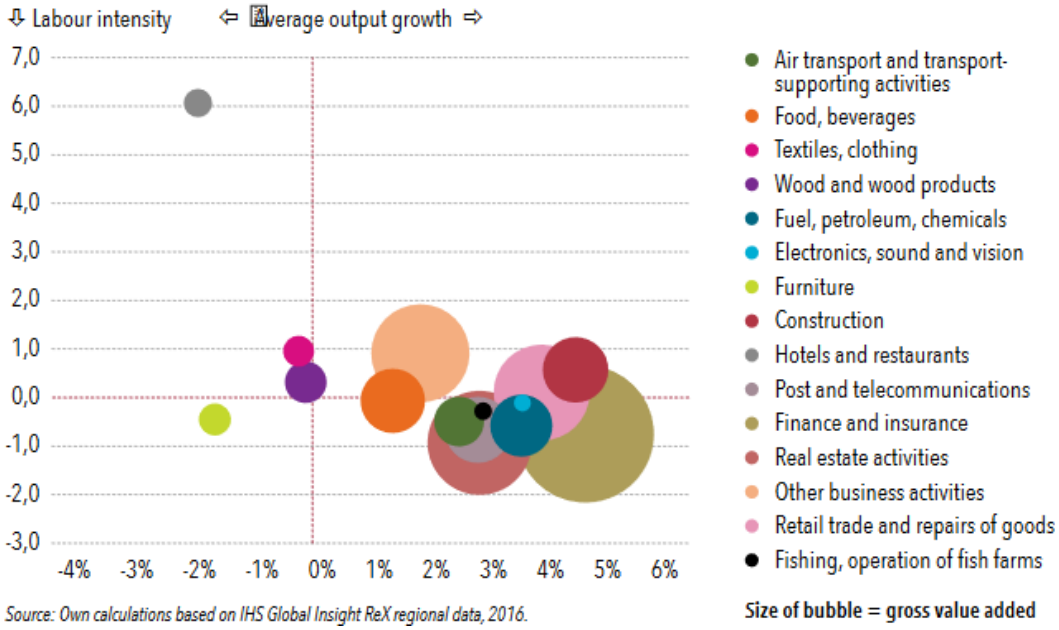


Figure 3: City of Cape Town population density and distribution



Source: Own calculations based on IHS Global Insight ReX regional data, 2016.

Figure 4: Industry performance for Cape Town

3. Municipal economic policy review

The following high-level review of municipal strategies and plans relating to inclusive economic development are reviewed against the economic development-planning-skills nexus high-lighting the functions of the economic development, spatial planning and asset management, and social upliftment through skills development and training. From the perspective of seeking to mainstream inclusive economic development as a transversal function within metropolitan municipalities, the starting point and emphasis of this policy discussion is to what extent economic development, specifically inclusive economic development, is prioritised in municipal strategies and plans.

3.1. Integrated Development Plan

Dubbed, strategic focus area (SFAs), the IDP presents five key pillars for service delivery, as follows, underpinned by the principles of infrastructure led growth and spatial development:

1. The opportunity city: To create the economically enabling environment in which investment can grow and jobs can be created. This pillar is covers a range of inclusive economic development objectives and interventions. Including rationalising the zoning scheme (which has since been completed),
2. The safe city: This pillar is based on the premise that is citizens feel threatened by violence or crime, they can never truly access the opportunities that the city and other cities offer them. Including policing, disaster and risk management, traffic enforcement, and fire and rescue services.
3. The caring city: people and the environment, provision of public facilities.
4. The inclusive city: overcoming apartheid legacy if segregation, connecting people, and allowing free movement through transport programmes. Access to the city. People should not feel economically excluded.
5. The well-run city: underpinning all government programmes, focus on good governance.

In order to position the City of Cape Town as an opportunity city, six key objectives have been identified:

- Objective 1.1: Create an enabling environment to attract investment that generates economic growth and job creation
- Objective 1.2: Provide and maintain economic and social infrastructure to ensure infrastructure-led economic growth and development
- Objective 1.3: Promote a sustainable environment through the efficient utilisation of resources
- Objective 1.4: Ensure mobility and access through the implementation of an effective public transport system
- Objective 1.5: Leverage the City's assets to drive economic growth and sustainable development
- Objective 1.6: Maximise the use of available funding and programmes for training and skills development

Cities around the world are becoming drivers of growth. Regional centres, revolving around cities, have become the hub of economic activity. As urbanisation accelerates, the size and power of cities will only increase. That growth, however, brings with it a concomitant growth in needs. As a city, Cape Town must position itself to embrace these twin realities and maximise growth, while providing services to a growing population. As economic growth shifts to the more dynamic developing world, we must do all we can to ensure that we are part of the economic shift. Only innovative and dynamic policies that make us a flexible city can help us in that task. The plans articulated in this IDP will go some way towards helping us position ourselves for the opportunities of the future, and will guide us as we work to build the African city of the future, today.

The IDP also acknowledges that the inclusivity is complex and requires all these pillars to succeed, which supports the theory of "transversal" economic development function, as a cross cutting, municipal-wide function.

3.2. Economic Development Strategy

The principal objective of the Economic Growth Strategy (EGS) is to grow the economy and create jobs - the overarching objective of the Opportunity City. It presents the City of Cape Town's response to the most fundamental challenges facing Cape Town in the years ahead: too many people are unemployed, too many people are poor, and the city's lacklustre current and projected growth rates means that this situation is unlikely to change if the organisation follows a 'business as usual' approach. At the same time, demand for city services is increasing every year. This trajectory will be unsustainable in the long-term unless incomes rise, and City revenue from households and businesses increases. The EGS marks a departure from previous approaches to the economy by the City in that it adopts a 'whole organisation' approach. Previously, economic development had been relegated to a relatively small and under-resources department, which focussed its attention on a number of discrete projects. The current EGS recognises that many of the most important roles played by the City in the economy – roles such as regulating building development and providing basic services such as water, electricity and transport infrastructure – are the responsibilities of other departments. Others, such as the City's green economy initiatives, require coordinated action across the organisation.

Based on the latest research on globally competitive cities, the EGS is structured around five strategic areas:

- Building a globally competitive city through institutional and regulatory changes
- Providing the right basic service, transport and ICT infrastructure
- Utilising work and skills programmes to promote growth that is inclusive
- Leveraging trade and sector development functions to maximum advantage
- Ensuring that growth is environmentally sustainable in the long-term

Without a transversal approach, it will be impossible to address the constraints to growth that limit the expansion of the Cape Town economy and prevent the city from reaching 'the next level'. To take one example, a key constraint limiting the expansion of firms in many parts of the city is the municipality's onerous planning regime, which often adds to the time and cost of doing business in Cape Town - ultimately undermining the city's competitiveness as an investment destination. Another constraint is posed by the city's old and creaking infrastructure, which similarly limits opportunities for much-needed development. The economy of Cape Town will face a number of critical challenges in the years ahead. The two most pressing of these are the city's consistently high rates of unemployment and the high proportion of Capetonians who continue live in poverty7. Although the respective figures (21.69% and

19.7%) are marginally better than other South African cities, they are still very high by international standards. By comparison, the unemployment rate in Istanbul (Turkey) is 11.5% and in Mumbai (India) it is 11.7%8. Only by pursuing robust economic growth can the administration address this and begin to build the foundations for a true Opportunity City.

Prioritising the economy and articulating a cogent strategy that positions Cape Town as a competitive and dynamic business destination is fundamental for the city's future prosperity. It lays the foundation for the City's equally important responsibility to build an Inclusive City and Caring City that assists vulnerable population groups, especially the poor. In many instances, the specific interventions undertaken to address these socioeconomic challenges are detailed in the Social Development Strategy (SDS). Others, such as programmes to address spatial inequalities through infrastructure development, are covered here.

Further, the EDS acknowledges the bulk of levers for job facilitation options lie with national government. In addition, the task of equipping young South Africans with the basic literacy and numeracy skills they need to gain a foothold in the modern economy is primarily the responsibility of the provincial education department in cooperation with the national Department of Basic Education. Articulating the role of local government as "enabler, connector, and regulator".

3.3. Spatial Development Framework

The language of economic development is clearly articulated within the policy statements of the City of Cape Town's Spatial Development Framework (2012). The plan firmly places economic development at the centre of the spatial plan, clearly linking spatial challenges presented by increasing urbanisation and population to infrastructure supply and maintenance, land availability for development, changes in the supply-demand dynamic of the residential development, and addressing inherited spatial inefficiencies. All of which are critical to enabling economic development. A lack of employment-generating opportunities, specifically in areas with large population concentrations, remains the key challenge to the city's economically active population. In order to address inequalities, the City must promote inclusive, shared economic growth and development, support the informal economy, and improve people's access to economic opportunities and urban amenities. Emphasising that the City must direct public investment towards and encourage private investment in marginalised areas, and focus on improving public transport system.

With this context in mind, the SDF has three key strategies:

- Key strategy 1: Plan for employment, and improve access to economic opportunities
- Key strategy 2: Manage urban growth, and create a balance between urban development and environmental protection
- Key strategy 3: Build an inclusive, integrated, vibrant city

The sub-strategies and land use policies that will be used to plan for employment and improve access to economic opportunities are outlined below:

SUBSTRATEGY	POLICY NO.	POLICY STATEMENT
Promote inclusive, shared economic growth and development	P1	Maintain and enhance the features of Cape Town that attract investors, visitors and skilled labour
	P2	Support investors through improved information, cross-sectoral planning and removal of red tape
	P3	Introduce land use policies and mechanisms that will support the development of small business (both informal and formal)
	P4	Encourage area specialisation and the development of a diverse, mutually supportive system of economic areas
	P5	Encourage the use of available economic incentives
	P6	Promote regional economic planning
Address spatial economic imbalances	P7	Unlock employment-generating opportunities within the Metro Southeast and Atlantis
	P8	Support private-sector development initiatives in locations that are easily accessible from the Metro Southeast
	P9	Improve public transport links between the Metro Southeast and the main economic nodes of the city
Establish an integrated, city-wide public transport system that supports the accessibility grid	P10	Create a hierarchy of integrated public transport services related to the accessibility grid
	P11	Ensure that new urban development is supported by appropriate public transport infrastructure and services
	P12	Lobby for the introduction and/or expansion of passenger rail services
	P13	Include walking and cycling as essential components of land use planning
	P14	Introduce parking policies to encourage use of the most context-specific and appropriate modal travel choice
Integrate land use, economic and transport planning	P15	Reinforce and enhance metropolitan development corridors
	P16	Encourage medium to higher-density forms of urban development to locate on or adjacent to activity routes, development routes and activity streets
Support the rationalisation, upgrade and/or development of economic gateways, and manage land uses around them appropriately	P17	Support the development of an integrated system of airports and appropriate surrounding land uses
	P18	Create and manage a functional interface between ports/harbours and their surrounding areas

Figure 5: CoCT SDF Economic Development Policy statements[1]

[1] CoCT MSDF Statutory Report, 2012: 39

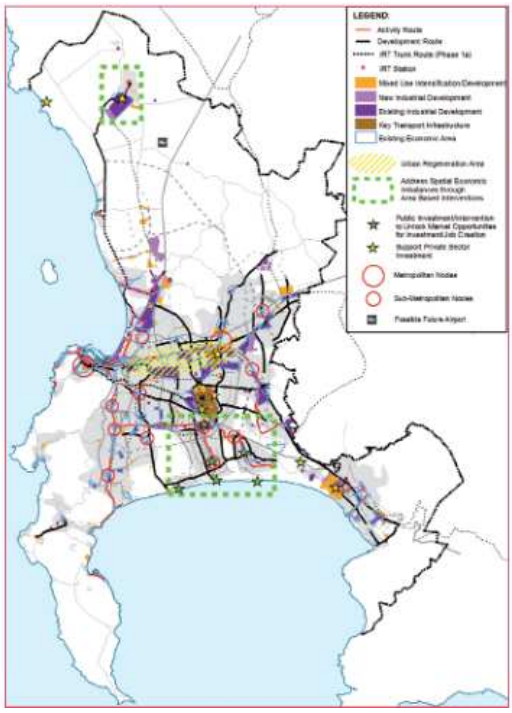


Figure 6: Spatial representation of economic activities within the City of Cape Town (SDF, 2012)

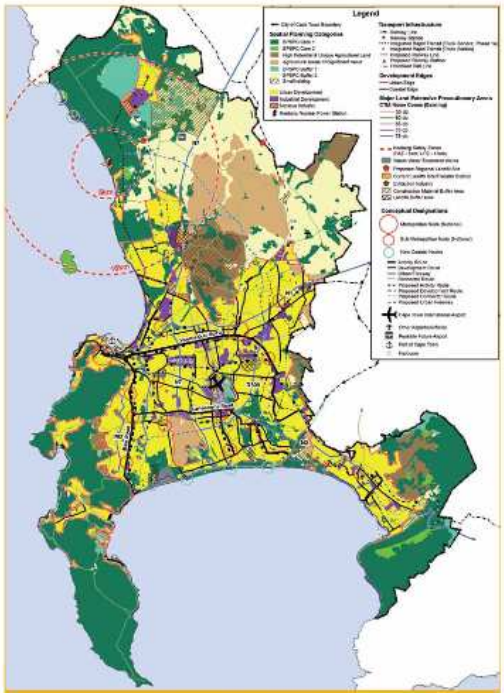


Figure 7: Consolidated Spatial Development Framework for the City of Cape Town (2012)

3.4. Synthesis

The City of Cape Town has developed plans that are clearly geared towards a vision focused on economic development and urban inclusivity. The way these plans refer to economic development as a "transversal" function and embedded within all aspects of municipal functions, is a significant evolution in the municipal economic development debate, as it shows a more nuanced understanding of the economic development function. While not as clearly reflected in the SDF, the topic of job creation is addressed within the scope of what the City as a Metropolitan Municipality is able to develop and implement within its own processes, and not focused on national or provincial government initiatives. That said, the City has initially emphasised attracting business and investment as its primary concern in the short term, from which more inclusive opportunities will emerge.

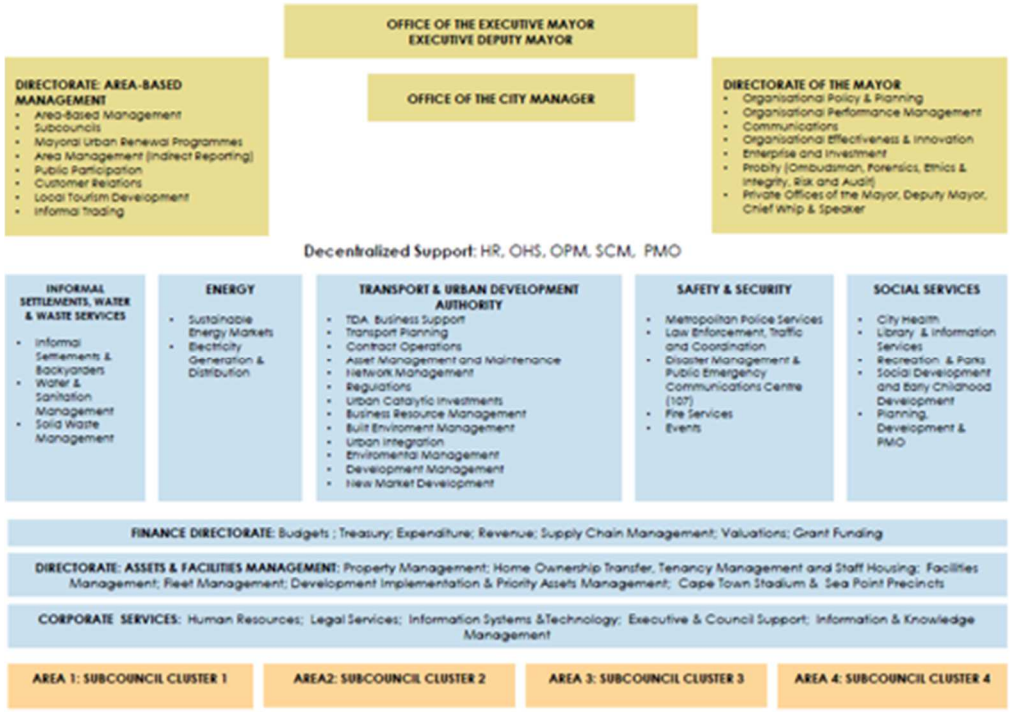
4. Direct function: Organisational review

The following discussion of municipal organisational structures relating to inclusive economic development reviews these structures against the economic development-planning-skills nexus, highlighting where the functions of the economic development, spatial planning and asset management, and social upliftment through skills development and training are located within the municipal organisational structure. From the perspective of seeking to mainstream inclusive economic development as a transversal function within metropolitan municipalities, the starting point and emphasis of this organisational structures review is how the land management functions (i.e. spatial and land use planning, and land asset management), relate to direct economic development functions.

This chapter provides (1) an overview of the municipal organisational structure, highlighting functions that directly relate to inclusive economic development, (2) a deep-dive into the direct economic development structures to understand the scope of these, and (3) a review of how these direct economic development functions, or other departments, are structured to influence the mainstreaming of a transversal economic development function within the municipality. The chapter results in a synthesis which supports the development of institutional indicators for the successful implementation of inclusive economic development.

4.1. Organisational overview

The City of Cape Town has recently undertaken a city-wide organisational restructuring process in January 2017, the implementation of which is currently being finalised. During this organisational redesign, three key changes impacting on the inclusive economic development function namely: (1) the establishment of the Enterprise and Investment Unit within the Directorate of the Mayor; (2) the Directorate: Area-based Management incorporating traditional "LED" functions such as tourism and informal trading; and (3) the establishment of the Transport and Urban Development Authority (TDA), streamlining transport, planning, and human settlements into one department, as illustrated in the figure below. The new structure places inclusive economic development as the leading strategy of the organisation.



As mentioned in the policy review, the City of Cape Town is focused on mainstreaming inclusive economic development as a transversal function across all municipal departments. While the municipal functions overall contribute to economic development within the municipality, the Directorate of the Mayor currently drives the economic strategy and sets the pace and mode of action. As such it would be fair to argue that the following departments are the core locations of inclusive economic development functions within the municipal organisational structure:

- Directorate: Area-based Management
- Transport and Urban Development Authority (TDA)
- Finance Directorate: Supply Chain Management
- Directorate: Assets and Facilities Management: Property Management
- Directorate of the Mayor: Enterprise and Investment

However, since the Directorate of the Mayor: Enterprise and Investment is location of the primary function as interpreted by the City, we will unpack it in more detail. The department comprises six inter-related teams that work closely to provide a seamless investment facilitation service:

- Development Facilitation
- Enterprise Development
- International Relations
- Investment Facilitation: Proactively seeking private and pulic sector
- Place Marketing
- Support to Catalytic Sectors

Through these teams the Enterprise and Investment Department seeks to create an enabling environment to attract investment that generates economic growth and job creation in Cape Town by positioning Cape Town as a forward-looking, globally competitive business destination, through the Invest Cape Town initiative; working with key economic stakeholders to improve the business environment and support industry development in Cape Town; helping prospective investors find development and investment support; advising line departments on maximising the economic benefits of their public investments and service delivery activities.

4.3. Economic development-planning-nexus

In order to, understand how the case study cities, differ in their approach, a high-level review of the economic development-planning-skills nexus in each city was mapped. It is noted that the Directorate of the Mayor: Enterprise and Investment is the primary driver of the economic development function, it is observed that the department acts as an internal consultancy with the municipality, engaging with other departments as projects demand. In terms of the economic development-planning-skills nexus, these engagements to occur with the property, planning, and infrastructure functions. This top down approach to influencing the organisational culture regarding the mainstreaming of inclusive economic development is unusual and shows promise, but appears to be based on the ability of personalities within the team to engage well with colleagues in different departments and advocate for the integration of economic development as a transversal function.

Figure 8: City of Cape Town direct economic development function

4.2. Synthesis

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5. Diffuse function: Systems review

This chapter seeks to understand the institutional drivers of the inclusive economic development agenda within the City of Cape Town Metropolitan Municipality and how these enable the diffuse, transversal aspects of the inclusive economic development function, through (1) a review of the evolution of the economic development function, (2) identifying key municipal drivers of the economic development function, (3) understanding perspectives of successful inclusive economic development approaches and initiatives.

5.1. Evolution of the economic development function

Understanding the evolution of the economic development function within municipal structures is a useful indicator of how the function has been interpreted and prioritised over time, and has the potential to provide insight and lessons into how cities could successfully implement the inclusive economic development function into the future.

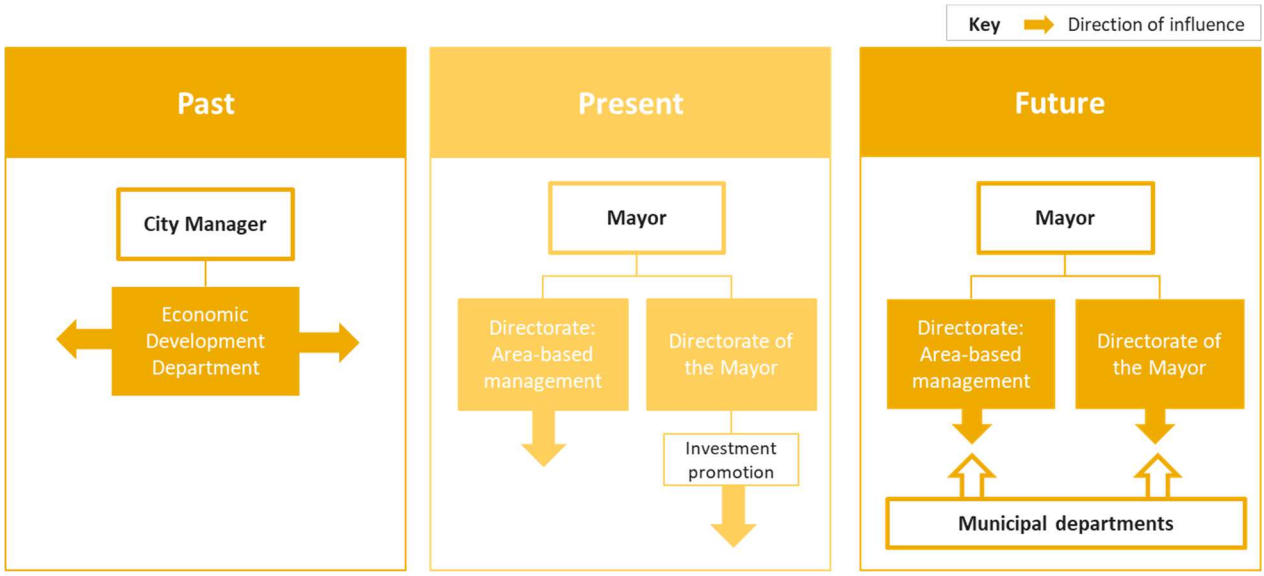

Figure 9: Evolution of the CoCT economic development function

As per Figure 9 above the evolution of the economic development function can be described as follows:

- Past: The Economic Development Strategy explains that over the past few years the City has focussed its attention on immediate service delivery issues and on improving its own institutional processes and functions. The economy remained the domain of a relatively small, and under-resourced, department and a few external agencies, which led to and approach to economic development that was fragmented, parochial and unambitious.

- Present: Top-down approach, using municipal strategic focus on economic development and public transport as a key lever for spatial transformation through Enterprise and Investment Department and the TDA respectively. However, the City is not yet focused on inclusive economic development.

- Future: It is envisaged that the municipality will be able to overcome the complexity of inclusive economic development by influencing municipal departments such that inclusive economic development is considered

at all levels of municipal decision-making, and that officials approach the Enterprise and Investment team to identify projects and interventions from the bottom up.

The evolution of the economic development is characterised by three key aspects, (1) political focus on inclusive economic development to enable spatial transformation (2) focus on attracting investment and growing the city economy; and (3) internal consulting approach to integrate economic development considerations across all municipal functions.

5.2. Identifying the municipal drivers of the diffuse function

The discussion regarding the evolution of the economic development function in the City of Cape Town Metropolitan Municipality highlights that the key drivers of the inclusive economic development function include:

- Directorate of the Mayor: Enterprise and Investment Department. Mayoral leadership has spearheaded the concept of economic development as "everyone's business", which is a positive message, however, while this department is influential, it does place economic development firmly within the political realm.
- Transport and Urban Development Authority: In addition, since the transit-oriented development is such a core component of the municipal strategy, the Transport and Urban Development Authority (TDA) is also a key driver of the inclusive economic development agenda, as realising the objectives of TOD also requires an integrated approach with buy-in (and investment) from a range of municipal departments and stakeholders.
- Area-based Planning Directorate: Holding the traditional local economic development functions, but located more strategically from an organisational perspective means that this department has the potential to influence the economic development agenda through mechanisms similar to that of the Enterprise and Investment Department.

5.3. Municipal perspectives in successful inclusive economic development

The interpretation of success inclusive economic development is useful indicator to determine how inclusive economic development is interpreted as a concept and function. Key economic development successes identified by the City of Cape Town Metropolitan Municipality are noted below:

- Using municipal levers to influence township economies: As an example, the process of implementing active rezonings in Langa to enable residents to access improved land use rights for development and business, was highlighted a municipal success.
- Realising the transversal function: Success in influencing other departments to consider economic development in decision-making
- Partnerships with local investment and business institutions: Including the promotion of the city as an investment destination, and development partner.

6. Towards institutional indicators for implementation

Key considerations emerging from this case study on the mainstreaming of inclusive economic development in Cape Town include the following:

- Facilitate job creation and education opportunities provided by National and Provincial Government, however, when describing economic development strategies, focus on levers and opportunities within the municipal sphere (i.e. enable, connect, regulate), these provide metrics that the municipality is able to control and influence, many of which have a broader city-efficiency impact;
- Identify inclusive economic development champions and provide them with a clear mandate to engage with officials across the municipality using a strategic project-based approach.