Second Economy Strategy:
Addressing Inequality and Economic Marginalisation

Strengthening the Impacts of Economic Development Strategies on Urban Poverty

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For Urban LandMark
October 2008

An initiative of the Presidency, hosted by TIPS

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Acknowledgements

This paper draws from a number of key sources, including work undertaken by the author for the 2006 State of South African Cities report, the 2005 World Bank project on pro-poor urban local economic development (LED), the 2007 Cities Alliance report on Understanding Your Local Economy: A Resource Guide for Cities, the International Labour Organisation's (ILO) project on employment in housing and other urban development programmes in South Africa, and a variety of ongoing research initiatives in regional and urban economic development. Work by colleagues in the School of Development Studies (SDS) of the University of KwaZulu-Natal (UKZN), including that on informal labour markets by Caroline Skinner and Imraan Valodia, has been consulted. This paper also benefited from valuable feedback offered by participants at a workshop organised by Urban Landmark on 3-4 April 2008. This document and any flaws herein are the responsibility of the author.

1. Introduction

South Africa is continuing to urbanise, perhaps not as rapidly as some developing countries but certainly at a rate which has generated a considerable degree of policy anguish over its accompanying rising levels of urban poverty. The Presidency of the Republic of South Africa expressed concern that there is an apparent and emerging disconnect between the urban poor and other urban residents participating in networks of economic activity within these growing urban spaces. Statements from government sources describe circumstances in which many urban residents remain substantially marginalised from the engines of growth as are outlined in the National Spatial Development Framework (Presidency, 2007), and, as such, the intended poverty-reduction benefits have been minimal. Those who experience this marginalisation are said to be part of the "second economy". While this paper will not engage directly with the "second economy" concept, it will seek to explore the scope of urban development programmes' – primarily those originating within cities but including those originating in other spheres of government – contributions to urban poverty reduction in a meaningful manner. Although urban economic initiatives are the paper's focus, it is the case that all urban programmes have an economic impact of some sort; that means that the discussion which follows will stray from the narrow confines of what are considered generally to be urban economic development programmes.

Since the start of the local government transition in the early 1990s, South African cities have been urged to find ways to respond to their economic circumstances. At that time, those circumstances were characterised generally by low levels of growth, high unemployment and deepening poverty (UNDP, 2005; Adelzadeh, 2007). For some years now, governing structures of major urban centres have committed to economic development interventions within either their Integrated Development Plans (IDPs) or their standalone economic development strategies (Nel and Binns, 2003). At a national level, policy signals, such as those related to the National Spatial Development Plan (NSDP), have also acknowledged increasingly the centrality of a number of urban centres to the country's economic prospects, and have suggested an appropriate level of focus on these centres from national and provincial governmental departments.

To a large extent, these processes have centred on the local state's role in mobilising urban actors to collaborate in interventions supporting economic growth (Nel and Rogerson, 2005). Two objectives motivated that. In the first instance, there is a widespread belief that this growth has the potential to generate employment and incomes which will benefit increasingly a growing number of households in terms of direct opportunity. Such thinking is partly derived from policy signals from the national government via its frameworks such as the Growth, Employment and Redistribution Strategy or GEAR (Government of South Africa, 1996) In the second instance, a case was made that a growing local economy will support a more robust revenue flow into local government's coffers and, therefore, would secure resources for upgraded urban living environments. Many of those endeavours were accompanied by processes with varying levels of redistributive intent, such as those encompassing small business development and broad based black economic empowerment (BBBEE). A variety of assessments of such endeavours have suggested, despite often laudable goals, that efforts were often been erratic, fragmented and lacking in sustainability (Nel and Rogerson, 2005; Rogerson, 2006). Furthermore, many urban residents living in the former townships or informal settlements have not witnessed the gains accruing from such processes; the rising levels of urban inequality suggest that the so-called "pro-poor" orientation of such agendas has been lacking and underemphasised (UNDP, 2005).

National endeavours, as well as particular provincial ones, to boost local economic circumstances have, as of yet, not demonstrated a significant degree of success in supporting directly and at scale the urban poor's livelihood prospects. Initiatives such as Spatial Development Initiatives and Blue IQ, among others, have lacked an informed urban perspective and while, in some cases, they have responded to critical investment imperatives, they have also left the bulk of the urban poor little better off in immediate terms than might have been suggested in some of their motivating documentation.

In response to the persistence of high levels of urban poverty and the apparent shortcomings in the policy and delivery frameworks guiding different spheres of the state, this paper argues that the urban agenda in South Africa needs to give particular attention to:

- National urban economic development funding (with both capital and operating provisions);
- Public works and poverty-linked cash transfers;
- Public space investment and management; and
- Decentralising nationally-driven economic development initiatives.

This paper's discussion opens with some key conceptual issues and follows that with a short discussion of the experience of cities in other regions of the world. After that, the particular experiences of South African major cities are highlighted, both in relation to their own commitments and how they might have been impacted by initiatives of other spheres of government. In the conclusion, some possible fields for policy attention in South Africa are identified.

2. Urbanisation, economic development and poverty: an exploration of selected issues

Traditionally, researchers and policymakers have argued that processes of urbanisation are correlated strongly with enhanced welfare for the bulk of those who are urbanising. That assumption, which was based largely on the urbanisation experiences of the developed “north”, has been subject to major criticism and rejection as urbanisation has unfolded in the developing world.

As per the experience of developed countries’ urban centres, developing countries’ cities have begun to assume rapidly the mantle of the economic driver of their respective countries’ economies. For more than a decade, more than 50% of global gross domestic product (GDP) has been generated in urban centres; in some countries, that exceeds 80% (UN Habitat, 2004:16). Therefore, the traditional correlation between urbanisation and welfare improvements is not one related to shifts in the location of economic activities from rural to urban. Rather, welfare gains for the bulk of developing countries’ residents who have urbanised have been weak, at best, and absent, generally. Today, it is not uncommon to find that urban neighbourhoods or, more often, informal settlements are home to some of the most deprived communities in those societies. In the bulk of developing countries’ cities, a majority of the citizens in those cities live in poverty.

Why, then, does urbanisation persist in such contexts?

Various studies have suggested a range of possible reasons, many of which potentially occur in conjunction with one another. Some studies have pointed to declining returns from traditional systems of peasant agriculture; a trend itself caused by a mix of climate change and economic processes. Other studies have pointed to the agglomeration of services and financial resources in cities within contexts where accompanying rural areas have little basic infrastructure. In other instances, governments (of one sort or another) have orchestrated major changes often, but not always, in collusion with particular economic interests in ways which have accelerated urbanisation rates. Another growing influence is that of the globalising form of urban culture which draws new residents to less constrained and less resented forms of social organisation that might persist in rural societies. Importantly, international literature generally supports the view that urban migration in and of itself does not drive economic growth; rather that urban growth drives urbanisation (DFID, 2004). Whatever the reasons, and despite very weak welfare improvement prospects in cities, urban areas tend to offer, through a variety of forms of agglomeration, a density and range of livelihood opportunities that are more attractive than people’s experience of rural survival.

A number of explanations have been offered for why there are low welfare gains from urbanisation. Some have argued that the pace and scale of urbanisation has simply overwhelmed many developing countries’ cities, suggesting that developed countries’ cities, to a large degree, had nearly a century to adjust and where the absolute numbers involved were far more modest than those characterising many developing countries’ cities. Others have suggested that the legacies of colonialism and economic exploitation have a combined effect of depleting national resources, weakening the scope of post-colonial states’ responses to urbanisation pressures and generating very limited urban infrastructure platforms. The weak urban agenda of many states in the second half of the twentieth century has also been highlighted, with the result that there has been under-investment and longer term planning has been poor. In some cases, such as in South Africa, states had only the interests of a small elite at heart and saw potential gains from cheap labour to support national development strategies. Under such circumstances, the emergence of large informal settlements, as a number of authors have pointed out, exacerbates the state's policy and investment weaknesses and generates also an "agglomeration of labour" allowing for certain growth forms to be supported in those urban spaces.

Critically, the literature on economic growth and urbanisation has focused traditionally on the narrow productivity gains accruing from denser labour markets and the like. Very little attention is paid to the externalities of urbanisation within various urbanisation models; and that is despite the representation, by authors like Charles Dickens, that urban spaces are sites of much moral and physical decay. Recently, it has been recognised that urbanisation processes bring with them many negative externalities which can feed on each other in the absence of effective, ameliorating action from the state and other urban role players. Such externalities include congestion, pollution, societal conflict and other forms of social distress. Authors writing about the persistence of an urban underclass in many developed countries' cities make the case that this underclass bears the brunt of these externalities, receiving little of the state's attention because that is directed at growth zones or more affluent neighbourhoods; consequently, the underclass tends often be trapped. A case in point would be the immigrant dominated neighbourhoods in cities such as Paris or Amsterdam (Dekker, 2007).

Case study research has demonstrated that national, regional and local spheres of government generally are reluctant to orchestrate tax-related transfers in order to secure the scale of public investment needed to either counteract the effect of these externalities upon the urban poor or improve the livelihood platforms of the residents in these areas. Furthermore, national governments have tended to cut back on funding for services and investments which cities might have traditionally relied on, thus, cities are exposed to more market-based funding which tends to shy away from what financial institutions might term low-return, higher-risk neighbourhoods. Unsurprisingly, where there is a weaker state and fragile economic processes the externalities of urbanisation are more likely to be negative and a key factor. In income terms, while urban residents might make some gains from the process of urbanisation, such negative externalities can work to undermine their livelihood prospects through poor health, the disruption of families, and a loss of assets, among other things. Consequently, the income benefit that could arise from being an urban resident may still be insufficient to overcome the externalities concentrate in urban spaces.

Urban residents' productivity gains from the types of urbanisation processes referred to by Alfred Marshall (2006) or, more recently, by Jane Jacobs (1969) can be difficult to secure in many developing countries' cities. Glaeser (1996), continuing the legacy of Marshall and Jacobs, points out that urban workers in the United States of America (USA) earn higher wages and have higher increases that reflect the higher productivity of urban environments for firms. While that may be the case for some developing countries' city residents, it has not necessarily been so for the majority of the urban poor. The persistence of substantial urban-centred crises relating to shelter, service provision, and health, among others – and which are crises that are difficult to respond to at scale within complex urban communities – impose a substantial inertia on productivity gains that might otherwise have been expected from urbanisation. That has direct impacts on livelihood opportunities and limits the scope of the urban poor to seize opportunities that might “trickle-down” from governmental growth-oriented initiatives. In many cases, the requirement that the urban poor carry most of the burden of growth-related project externalities of a negative sort (such as relocation to make way for a development) means that the pro-poor gains from such enterprises, as envisaged by the policymakers, actually do not reach many households in their daily struggles for survival.

3. Selected developing countries' experiences of poverty and urbanisation: two cases

Exploring other developing countries' cities' experiences of economic development and poverty has merit for South Africa even though it is important to bear in mind that much of this experience, while instructive, pertains to very different local and national contexts. The two cases explored in this section are India and China. The significance of these countries relates to both the scale of their urbanisation dynamics as well as to their attempts to reduce poverty and secure economic growth.

> *"In 1980 China had 999 million inhabitants, India 689, i.e. 310 million less. Fifty years later, in 2030, China and India will have approximately the same population, 1.45 billion. In 2007, China counts 1,332 billion inhabitants, India 1,135. …in 1987, China and India had the same rate of urbanization, 25%. In 2007, China is 42% urban, India only 30%. The rates of urban growth are 2.7% per year in China (going down towards 2%) and 2.35% in India (going up towards 2.5%). …in 2030, according to UN projections, China should be 60% urban and India 40%. China is likely to reach the 50% urban threshold by 2016" (Biau, undated: 2).*

3.1 China

The People's Republic of China has demonstrated considerable poverty reduction dynamics in its urban regions. Despite a national government which imposes a considerable degree of control on urbanisation, China has among the highest rates of contemporary urbanisation in the developing world. As the most populous country in the world, it is expected to dominate the list of the world's largest cities for the next two decades. Cities such as Shanghai, Guangzhou, Dalian and Guandong have emerged on the leading edge of the fastest growing economy in the world and are sites with a scale of public and private investment unmatched in any developing country to date. In these urban conurbations, citizens with a legal urban status have seen their welfare increase markedly in the past decade because they have been direct beneficiaries of rising employment, increased investment and large-scale public commitments in infrastructure, housing, education and health. However, such welfare gains are not matched by those who migrate to China's major cities without official permits and whose status is often ignored in the official records. It is estimated that a quarter of urban residents (much higher in some cities) are so-called temporary migrants. A recent DFID report suggested that some 10% of official urban residents live in poverty while more than 15% of temporary migrants experience poverty; it is a total of around 63 million people (DFID, 2004).

China's official response has been to commit to major expenditure thrusts to meet growing urban needs. Public investment on an enormous scale has been undertaken, including the delivery, in the space of one year, of public housing in excess of the amount that South Africa generated in one decade. Yet it has occurred in an environment of continued economic reforms, including laying off of millions of State Owned Enterprise employees, as the Chinese government has sought to restructure and encourage more market activity. The increased space under urban development for economic and residential purposes has also displaced many older neighbourhoods – areas where residents sought well located cheaper accommodation – and consumed major land areas as cities have expanded spatially and also displaced directly many inhabitants. For that context, while the country has seen net gains in the reduction of total poverty, the distribution of such gains to marginalised urban residents has been limited. DFID (2004) also refer to studies suggesting that the total proportion of women living in poverty has risen in recent years, reflecting further complexities of urban labour markets and in the characteristics of migration.

The persistence of a dual labour market system has been criticised because it allows for the large-scale persistence of urban poverty but, given that inflation pressures are beginning to pressurise China's low wage export economy, there is little policy appetite to enhance the earning prospects of these workers. In fact, the government has sought to extend the differential by supporting investment in more remote areas where wage pressures are significantly lower and where urban services and infrastructure very limited. According to the DFID report:

> *"Considerable migration has occurred despite the hukou [unofficial migration] system, but nevertheless over the years, hukou has limited the flexibility of the labour market since it has acted as a restraint on labour migration between rural and urban areas, and between regions and cities. … The analysis shows that removal of physical restrictions would remove most wage and income inequality across the 31 provinces. Even when reworked to reflect differences in labour efficiency across regions, the model indicates that lower restrictions reduce inequality (measured by using Gini coefficients). The effect of restricting urban-rural movement is to cause divergent wage levels while maintaining surplus labour on farms too small to permit efficiency and productivity improvements" (DFID, 2004: 1-12).*

Lyn and Song (2002), cited in the DFID report, state that:

> *"Evidence suggests there has been no convergence of GDP per capita in Chinese cities, and the gap between rich and poor in cities has not narrowed in the 1990s" (Lynn and Song, 2002 in DFID, 2004: 1-7).*

Also noteworthy in the Chinese case is that research evidence shows that regions with significant clustering of particular types of industry, at a regionally (Asian) or globally significant scale, generate agglomeration benefits that allow for ongoing productivity growth in an environment of ongoing urbanisation. However, where such agglomerations are less significant or absent, urbanisation processes do not yield major productivity growth. As is stated in the DFID report:

> *"Econometric findings suggest that every doubling of city size results in a 3.6 percent gain in the productivity of firms and that the major source of agglomeration benefits comes from the concentration of firms in the same industry within one*

> *geographical area, rather than externalities from urban development itself (Pan and Zhang, 2002)" (DFID, 2004: 1-7).*

Beyond a governmental commitment to annual double digit percentage increases in budgeting for urban infrastructure and services, the Chinese government has also sought to generate an improved safety net for the urban poor. In recognition of the impact of temporary job losses that are very common, the unemployment insurance fund programme has been upgraded and extended. A Minimum Living Standard Scheme (di bao) has been introduced, too, and now covers cash transfers to over 22m urban residents on an annual basis.

> *"At the end of 2000, there were operational Minimum Living Standard Schemes in 667 cities, including 427 county-level towns. … the number of recipients has risen dramatically, due to greater government commitment of funds… In 2003, 22.3 million people received benefits, an increase of some 19 million in three years. The local MLA schemes are underpinned by the State Council regulations of 1999 and 2000. These regulations lay down a broad framework and leave the details of the schemes, such as the poverty (benefit) line and the exact method of financing, to be determined by sub-central, mostly city, governments. Local governments have issued supplementary regulations to implement the scheme in line with their circumstances. As a result, the financing and operation of the scheme vary from city to city (ADB, 2004), although central government is currently working on guidelines for local government. The scheme provides a subsistence allowance to all urban residents (with hukou) to make up the difference between household income per capita and the local poverty line" (DFID, 2004: 3-10).*

Overall, China has made some impressive gains in reducing poverty, although the scale of the challenge remains a significant one. Recently, the government has introduced some innovative programmes and continued to scale up its levels of investment. It is clear that a key element of China's urbanisation approach has been driven by the country's economic strategy which informs directly the implementation of that strategy by local level party officials in the cities. Core to this strategy has been securing manufacturing production at scale through offering a cheap and disciplined labour force. That has enabled China to become the factory of the world.

Critically, though, the gains from such processes, accrued through the state and through the taxation of businesses, have been directed towards medium to long term endeavours related to building a more skilled workforce in certain cities and to raising the quality of infrastructure and services in emerging business areas. It is a choice which has left a gap between the needs of the urban poor and the willingness of the state to meet their immediate needs. China recognises that it is part of a globalised economy and it recognises, too, that making a choice not to commit to various forms of expenditure can undermine its economic prospects. Consequently, China has accelerated testing of the waters for some schemes, including the MLLS described above. Should progress be made in reducing the major negative externalities of a growth driven programme and in increasing the voice of the urban poor, then scope exists for China to reduce further its persistent urban poverty.

3.2 India

India's experience is somewhat different from that of China's for a number of reasons. In the first instance, India's rates of urbanisation and total proportions of urbanisation are lower than those of China's. The fact that the Indian economy was growing very slowly or was stagnant during much of the second half of the 20th century has much to do with these differentials when compared to China. It is also noteworthy that while China had adopted clear urban strategy objectives as early as the 1970s, it was only around 2005 that India sought to develop a more coherent urban policy with much responsibility, prior to this date, devolved to state level governments. Despite these differences, the country and its cities is interesting case.

Recently, the Indian government announcement that federal funds will be used in support of a drive to develop between 60 and 75 new cities, each with over one million residents, by 2025 and where each new city would be surrounded by a series of satellite towns designed to reduce pressure on the core city. According to http://news.indiaventure.co.uk:

> *"In 1981, India only had 12 metros in which the urban issue by the governments own admission had been subjected to benign neglect. However, under the new Jawahar Lal Nehru Urban Renewal Mission, policy will focus on making Metro cities in India desirable places to live. Such policy considerations include a proposed puplic private partnership to provide city wide rail and bus based rapid transport networks" (http://news.india-venture.co.uk/news_detail.php?nid=5).*

The Jawaharlal Nehru National Urban Renewal Mission[1] (or JNNURM), initiated in 2005, seeks to reduce pressure on existing mega-cities through increased

[1] "In December 2005, the Indian government launched the seven-year, US$11 billion Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to guide urban development across the country. The aim is to improve basic services in over 60 cities, including those with a population of over one million, all state capitals and selected cities of religious, historical and tourist importance. The Mission represents a fundamental change in attitude of the Indian government which had previously focused primarily on rural development. JNNURM reflects the realisation that cities are the engine of India's growth and attempts to reinvigorate the 74th Constitutional Amendment's aspiration to devolve power and redistribute wealth at the state and city level. The Urban Renewal Mission focuses on three areas: integrated infrastructure, basic services to the urban poor, and wide-ranging urban

investments and by encouraging new growth nodes where urbanisation has already been in evidence. The policy has been accompanied by an opening up of India's investment markets for private participation in a range of urban services and infrastructure ventures, particularly those relating to the transportation sector which is regarded as the Achilles' heel of the country's economy because of the poor state of its infrastructure and service inefficiencies.

For a number of years India's economic growth levels have neared those of China's and that has created a considerable urbanisation impetus because much of the growth is driven from urban-based economic processes in manufacturing and business process outsourcing. That growth rate reflects India's first, real foray into export oriented economic adjustments; in contrast, China has had an export orientation for around two decades. As has been the experience of China, the export orientation in the economy requires cities that are able to become key production and distribution nodes within the global economic processes. That has prompted much of the recent investment commitments in cities such as New Delhi, Mumbai, Chennai and Bangalore where transport infrastructure has been upgraded, new business districts created and communications and other infrastructure enhanced.

Superficially, JNNURM seems to have a strong orientation towards increasing the voice of the poor in urban development processes. It seeks, too, to set new minimum standards for cities, along with state governments, to strive to meet. However, its actual impact on the ground, as some have suggested, will be determined largely by the balance of local and state power interests. The delicate balance of political power between national and state level authorities is a factor largely absent in China's more authoritarian context. The JNNURM holds promise for a considerable degree of differentiated implementation approaches to emerge. The Indian government, though, has few of the financial resources that were available to the Chinese authorities; as such, it has struggled to secure momentum in the programme to upgrade existing urban centres and develop new ones. According to Kundu (2007):

> *"Given the effects of globalisation and more general macro-economic trends, it is likely that the bulk of industrial and infrastructural development will concentrate in and around a few large cities, not small towns and backward regions. Large municipal corporations, particularly those located in states with a strong economic base, enjoy a higher capacity of resource*

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sector reforms, offering cities access to national funds if they comply with the general agenda put forward by the National Ministry of Urban Development" (Urban Age, 2007: 8).

> *mobilization which will stimulate economic and demographic growth in these regions – not in smaller towns and rural areas" (Kundu, 2007: 6)*

The growth pressure in Indian cities, and the accompanying economic liberalisation, has a considerable impact on urban labour markets. There is already some evidence that urban workers in fast growth segments of the economy are moving towards a slightly more formalised employment platform because international markets require, what Kundu (ibid) refers to as, standardised quality products. Kundu goes on to point out that:

> *"This process of 'formal informalisation' has several other implications. Many of the rural migrants, lacking in basic levels of literacy, communication skills or market awareness will find it increasingly difficult to get a foothold in the more demanding urban job market. Consequently, urban India faces a paradox. Despite unprecedented growth in employment, it will continue to experience high levels of unemployment in the future, especially at the heart of its cities" (Kundu, 2007: 6).*

This process has also been accompanied, between 1999 and 2004, by a decline in real wages for urban informal workers, suggesting that increased exposure to global economic processes has not yet delivered improved welfare gains for poor urban residents. A similar trend was witnessed in China during its early opening up phase and persists for new non-permitted migrants. While the JNNURM brings with it major commitments in the urban sphere, observers emphasise that the processes have to be contested in democratic processes. For instance, should Mumbai allocate its national and state grants towards extending and upgrading a metro rail system that many will not be able to afford? Or, should it focus on the transport needs of the majority of urban poor who are pedestrians and cycle users? It is likely that different cities will choose a different mix of initiatives for renewal and some will benefit the poor more than others. Importantly, a significant scale of funding could be made available and most choices about the specific use of that funding could be devolved to the local level.

Both the China and India offer some insights into how countries with very different circumstances from South Africa's are confronting urban poverty and growth agendas. Clearly, many contradictions are likely to confront urban policymakers and cities seeking to ensure economic growth while maintaining often tenuous, but critical, global economy connections yet all the while confronting poverty, a phenomenon which is generated partly by these very same economic processes. In both cases, across all spheres of government, China and India have scaled up their commitments substantially, recognising, at some level, that the negative externalities and forms of poverty and exclusion, which are exacerbated by global resources flows and local economic dynamics, must be confronted.

Allen J Scott (2001) captures this conundrum by pointing out that:

> *"Because of the nature of the development process based on rapid urban industrialisation and high levels of urban migration, the populations of global city-regions in developing countries are almost always highly segmented in terms of social class, income, and, sometimes, in racial terms. These city-regions then assume spatial forms that express this social segmentation, as*

reflected above all in the segmentation of rich and poor. At one extreme, one finds massive poor communities living in shantytowns … and at the other, the more spacious communities of the middle class and the rich" (Scott, 2001:25).

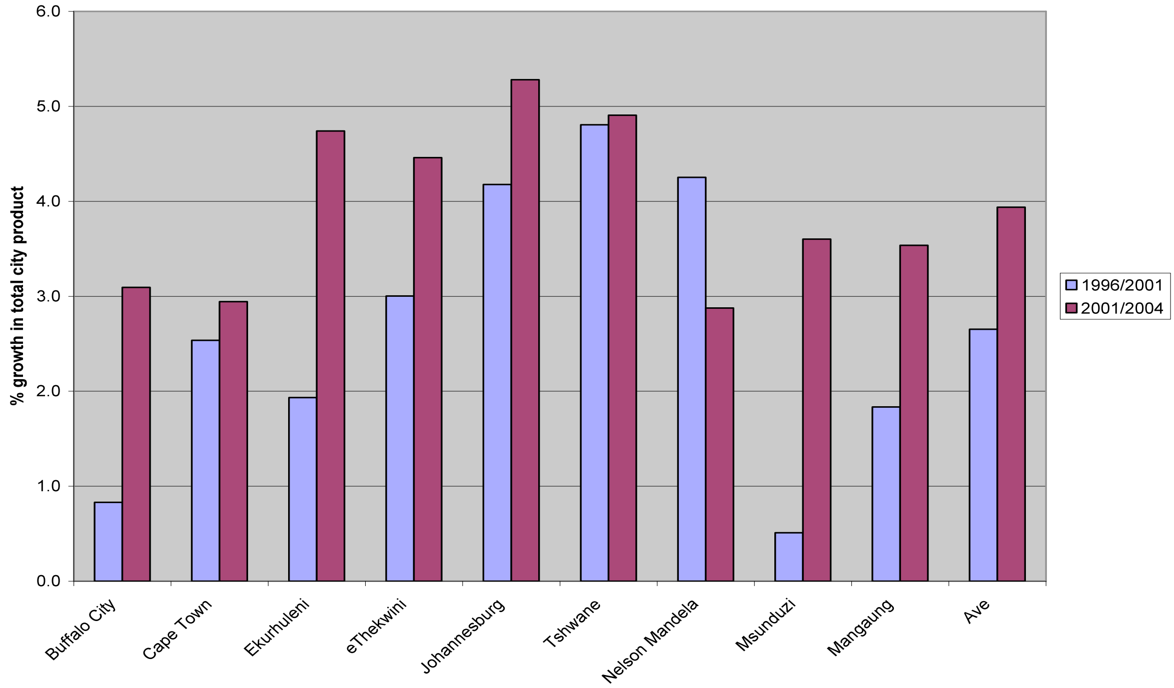
4. The experience of South African cities' economic development programmes[2]

Exploring the interaction of South Africa's leading cities with economic development processes, through an examination of policy frameworks and programme commitments by the cities, is the focus of this section. The discussion does not represent the totality of what South African cities have attempted to do in relation to urban poverty, particularly in a context where national policies have tried to orient municipalities' focus towards basic service provision for the urban poor. Such activities have strategic merit at a municipal level and beyond; as such, they deserve some consideration given that it is often argued that cities increasingly are concentrations of poverty and of economic opportunity.

South African cities, in the last decade, have been exposed to the full force of global economic change as South African policymakers have sought to open up the country's economy. These processes of restructuring have had major impacts on all cities, but the character of the changes has differed markedly from place to place. For instance, depressed commodity prices and rising extraction costs resulted in Ekurhuleni, Johannesburg and Mangaung witnessing the closure of mines which employ tens of thousands of people from surrounding regions. During this same period, eThekwini, Buffalo City and Cape Town experienced the loss of in excess of 50,000 clothing and textile jobs due, in part, to the process of trade liberalisation that left many firms unable to compete with cheaper imports. It is not surprising, therefore, that in the period many of the challenges confronting the country, such as rising inequality, deepening poverty and growing levels of unemployment, have been at their most stark in the cities. Between 1996 and 2001, the average rate of economic growth in the nine South African Cities Network (SACN) cities was 2.65% rising to 3.94% in the period 2001-2004. All cities saw a growth in unemployment during this period and most recorded only modest increases in formal employment.

[2] The bulk of the material in this section draws on work undertaken by the author for the State of the South African Cities Report 2006 (SACN, 2006).

Figure 1: Percentage change in total city product: 1996-2001 and 2001-2004



Source: SACN (2006)

As is evident in Figure 1's post-2000 figures, for nearly all the cities included in the sample, the gains from South Africa's economic restructuring, as well as the exposure to some more favourable global trends, have begun to yield some increased levels of growth. This has provided a more conducive environment for city stakeholders to collaborate to seize economic opportunities and confront its challenges. Economic development strategies in South Africa's nine largest cities have been through a period of rapid evolution. A decade ago, very few urban centres in South Africa had explicit economic development programmes. Today, all nine SACN cities, to varying degrees, have what could be considered as economic development strategies. The content and format of those have strategies varies considerably as municipalities have sought to gain a clearer understanding of the dynamics within their local economic environments.

A key factor driving the differentiation in the content and format of economic strategies is the level of capacity built up during the late 1990s. It is notable that, despite the dominance of economic development outcomes in city IDPs, a number of cities have had little more than one or two people with direct responsibility for focused economic development programmes in the past five years. Under these circumstances, it is not surprising that documented strategy material from these cities is considerably less elaborate than that of cities with some consistent economic development staff capacity and a matching budget to buy in the necessary economic analysis expertise.

A closer look at the content of these economic development strategies identifies a relatively common set of focus points. According to a survey conducted by Nel et al (2004), the following were the most likely to receive some attention in city economic development strategies:

- Small business development;
- Investment promotion and facilitation;
- Marketing;
- Local procurement and empowerment;
- Localised income generation projects;
- Urban renewal; and
- Infrastructure development or upgrades.

Nel et al (2004) point out that the rationale behind undertaking economic development programmes in cities has been those factors dominating the cities' economic spheres for most of the last decade: low levels of local economic growth and high levels of unemployment and poverty.

In a survey of the nine large cities conducted as part of the research for the State of the South African Cities Report (SOCR) for 2006, further information was obtained to identify factors influencing economic development strategy choices. It is notable that of the nine cities, seven have standalone economic development strategies and the remaining two are in the process of developing such strategies. This reflects common practice across the cities to give special attention, from a strategic perspective, to priority development issues such as housing, environmental and economic development. As noted earlier, there is variability across cities' strategies. In reflecting on the cities' experiences of selecting strategies and programmes, it is important to identify particular areas of focus that have characterised such activities. The list in Table 1, compiled from the SOCR 2006 LED survey, contains these key foci identified by the cities and ranked in descending order of strategic importance.

Table 1: LED strategy focus areas, based on average score for the nine cities, in descending order of importance

Ranked importance	Focus area
1	Regeneration of economic zones
2	Property development
3	Manufacturing sectors
4	Small business development
5	Partnership building
6	Regeneration of townships
7	Investment marketing and facilitation
8	Institutional development
9	Skills development
10	Improving city administrative effectiveness and efficiency
11	Development of new economic assets
12	Black economic empowerment
13	Urban agriculture
14	Informal economy development
15	Tourism marketing
16	New bulk infrastructure
17	Knowledge and services sector
18	Information provision

Source: SACN (2006)

In examining Table 1, it is important to note that very few of the cities ranked any focus area as having no importance or even minor importance; almost all of the cities suggested that they attributed some strategic importance to the bulk of the items on the list. The ordering of the strategic LED priorities changes when one looks at the four largest cities compared to the rest of the SACN cities' priorities. Large cities attach greater importance to knowledge and service sector activities while smaller cities emphasise information provision and development of local institutions more. Both the variants, based on the size of the cities, and their relative economic positions are expected because the services sector is dominant in larger cities' economies while market and institutional failures are more common in smaller local economies.

It is highly significant that the closely related issues of regeneration and property development are given such prominence by city officials working in economic development. Interviews with city officials suggest a number of reasons for that. Firstly, cities have considerable influence over capital investment choices in public spaces as well as extensive direct and indirect effects on matters relating to property. Secondly, in realising other strategic objectives (such as investment facilitation or black economic empowerment), cities often find they can wield influence best through their interests in the property market and via capital investment decisions. Hence, the day-to-day importance of regeneration and property related activities increases because they offer a tangible and meaningful point of leverage for the cities. Worth noting, too, is that senior officials from a number of cities pointed out that while property and regeneration-type activities were often presented as an accessible point of leverage, these were not always the most effective direct or indirect tool to use to achieve other objectives. Factors like the legal restrictions on how the city can dispose of land, limitations on knowledge of how real estate markets function, and a lack of transparency in processes were seen as problematic. The high visibility of such interventions and their ability to make a noticeable impact in a short space of time resulted in a bias towards those types of activities and, possibly, towards an under-investment in more process-oriented interventions that may yield gains over a longer period of time and in less tangible ways.

The LED survey of city officials also reflected, appropriately, a strong focus by the individual cities on matters that reflect their unique economic circumstances. Therefore, it is not surprising that eThekwini and Ekurhuleni have prioritised manufacturing sector development. Johannesburg, on the other hand, has a focus on the information and communications technology (ICT) sector as a prominent programme. A number of the smaller cities with a significant rural hinterland place considerable emphasis on urban agriculture; such is the case for Buffalo City and Mangaung. Some cities have focused substantially on working to facilitate a shift in their economies towards faster growth sectors.

Despite the widespread recognition of skills as a key factor in improving economic prospects, only Ekurhuleni and Mangaung identified it as one of the most important focus areas in the IDP; eThekwini and Johannesburg gave it some prominence in their longer term city strategies. Although it does feature within LED commitments by all the cities, its place in some cities' strategy and planning processes is of concern given the widely acknowledged developmental gains from improving skills of communities. In response to that concern, city officials stated that central and provincial governments tended to do little to include local government in skills related processes and also that a lack of decentralised decision making in the field did little to secure appropriate levels of municipal responsiveness.

In reflecting on the most significant economic development gains made during the past five years, there was considerable consensus. Most of the cities identified the creation of a dedicated LED capability, usually within LED units, as a success because most had not had dedicated LED capacity before. The cities confirmed that small, medium and micro enterprises (SMME) development was a shared priority focus area, but it was also seen as an arena where economic development strategy has been most effective because of the roll out of a variety of SMME support programmes. Claims of success do require further verification as most cities reported weaknesses in their monitoring and evaluation systems – not just for economic development work but also at municipal-wide level despite the relatively high profile given to performance management systems.

The least successful economic development activities were identified as tourism marketing and branding; procurement reform; public-private partnerships; governance and effectiveness problems at municipal-related economic development section 21 companies; efforts to support non-sustainable SMMEs; and the extent of integration of economic development with other municipal activities. Failures and constraints identified by the cities generally included the following:

- The persistence of a lack of understanding of proper institutional arrangements for economic development and silo thinking in municipalities;
- A tendency to manage processes in an excessively bureaucratic manner combined with inconsistency arising from changes in procedural and legislative circumstances;

- Funds allocated to enterprise development programmes, processes and entities were invariably used to cover rising fixed costs – programme activities, therefore, suffered;
- Limitations on dedicated resources (both human and financial);
- A lack of integration of plans among local, provincial and national players, with a particular concern at the lack of consultation on key economic policy matters;
- A lack of an effective, organised local business voice;
- No coherent partnerships among business, civil society and government, and a lack of leadership among these parties at the local level; and
- Poor management of decision making interfaces between politicians and officials which led to confused roles and responsibilities relating to policy choices and technical processes.

In looking at economic development strategies and their role and impact in the cities in the recent past, it is important to consider the allocation of resources to those related activities. The prominence of economic development in city strategy is without question; all but two of the cities reported it as either the top priority or one of the top three strategic priorities within their city's strategy. The question, though, is how budgets match up to that alleged prioritisation by the cities?

The average allocation to support economic development work in a city's operational budget is a paltry 1.8% of total municipal operating spend. The removal of the one outlier city, where the spend is above 4%, reduces the sample's average to around 1%. Cities have some way to go to match capacity and programme spending with their strategic intentions for economic development. Importantly, it is funds from operating budgets that enable cities to build the knowledge and capabilities to match their status as significant local economic actors. A possible factor behind such low allocations could be that LED operating budgets have been built up from a very low base - and in some cases, from a zero base – and within a highly constrained budgetary environment where the decision to shift resources to a new function invariably entails cutting them from another function. Officials also identified the limited – almost non-existent – amount of programme funding allocated to local economic development processes through central government grants.

Yet the picture changes considerably when one looks at the cities' capital budgets. Here, economic development related expenditure reported by cities appears to be much stronger in proportionate terms; generally, it was reported as growing as a proportion of total capital expenditure. Interestingly, the smaller cities, which have relatively limited capital budgets, spend almost double the 4.3% average for all nine cities on LED-related capital projects; the larger cities' spend falls within the 1.5%-5% range. That fact reflects an attempt by the smaller cities, within a limited capital budget, to raise absolute spending on economic development-related capital spending to a sum closer to that which the large cities are spending in absolute terms. While one of the larger cities might allocate 4% of its capital budget to LED-related projects, possibly amounting to R70m-R80m, a smaller city's 8% allocation of a capital budget might only amount to R20m-R30m. Such expenditure varies substantially from year to year and according to the nature of projects being funded as well as due to the shifting definitions of what constitutes economic development-related capital spending. Clearly, all capital spending has some economic impact but it is far from clear how much of the expenditure captured under this label was intended by the cities to have explicit economic benefits.

Box 1: Examples of city LED-related capital projects pre-2010 stadium projects

- East London industrial development zone (IDZ) infrastructure (Buffalo City)
- Bloemfontein-Mangaung LED corridor (Mangaung)
- Freedom Square in Pietermartizburg (Msunduzi)
- Infrastructure maintenance in Kempton Partk (Ekurhuleni)
- Khayelitsha node project (Cape Town)
- Inner city node in Johannesburg (Johannesburg)
- Beachfront upgrading in Port Elizabeth (Nelson Mandela)
- Science Park (Tshwane)

Source: SACN (2006)

Apart from this lack of clarity in defining categories of expenditure, the apparent mismatch between the scale of capital spending, on the one hand, and operating funding of LED work, on the other, deserves discussion.

The cities expressed a lot o concern about the effectiveness and sustainability of much LED-related capital spending. For instance, it was noted that to leverage effectively the projected benefits of a LED-related asset, that would need to be supported by a range of non-capital programmes. There appears to be a tendency to expect highly visible capital investments to trickle down benefits. Funding and the capacity to "sweat" the asset, so as to ensure that it can yield ongoing benefits, is often absent. A lack of post-project maintenance is present but so is the lack of envisioning the type of institutional and programme arrangements that could ensure that the asset is used and able to deliver on its employment creation and economic growth objectives. The bulk of cities identified those as major challenges for cities with limited operational funds and rising staffing and support infrastructure costs.

Municipal officials were also asked to identify the most important factors for enhancing the effectiveness and impact of LED work within their cities. Perhaps unsurprisingly for a survey conducted with municipal LED staff, the most important factor was identified as employing more LED staff members and enhancing their skills. Closely related to this was a call for increased and more consistent attention to economic development challenges by municipal political and bureaucratic leadership. Additional factors identified as mostly likely to impact on the effectiveness of LED at the municipal level were improved partnerships with business and improved partnerships with national government. Smaller cities indicated that improved nationally-verified and low-cost data on the local economy and its trends was important in helping the city move to more effective policies and interventions.

Officials from South Africa's largest cities also commented on national governmental factors that had most benefited local LED activities to date. Those included:

- Auto cluster initiatives;
- Industrial Development Zones;
- Department of Labour support for skills development;
- A stable fiscal policy environment and the emphasis on generating growth and employment;
- Broad-based black economic empowerment; and
- The ongoing attention being given to SMME development.

The mention of the Motor Industry Development Programme (MIDP) and various cluster processes is not at all surprising given that five of the cities in the sample have some exposure to the manufacture of automotive components and motor vehicle assembly.

Officials were asked to identify national processes which they believed had most constrained the effectiveness of local LED strategies. The following were identified in descending order of importance:

- Poor interaction and coordination between the three spheres of government;
- The lack of delivery of explicit programmes across the spectrum of Department of Trade and Industry's (DTI) work that took account of cities' particular needs;
- A lack of a clear national perspective on cities in national policy;
- Ongoing institutional changes; and
- Factors hindering the creation of local development agencies.

City officials suggested that it was not uncommon for cities and provinces to work at cross-purposes on various programmes; that resulted at times in duplication or project delays. Although a number of examples of explicit and effective cooperation was cited, such as the investments made by Gauteng in the Blue IQ initiative, concern was raised by all of the cities about the failure of various national governmental departments to consult with cities, which are home to much of the country's economic activity, whenever those departments rolled out their initiatives. Most of the cities emphasised that they had built up an understanding of the local dynamics of their urban economies over a period of time and pointed out that this knowledge could be put to good effect in the design and delivery of national programmes. One of the examples cited in this regard was the commissioning of Customised Sector Plans by the DTI for priority sectors. In that case, there was no requirement for processes and related studies to consider the role of cities within those possible programmes. In many cases, the commissioned reports did little to differentiate between regions in terms of their positions in those value chains.

Lately, the spectre of hosting the 2010 Soccer World Cup has loomed large for many of South Africa's largest cities. It has demanded a considerable commitment of staff and funding to match the capital contributions from National Treasury. For some cities, that commitment has meant redirecting of sizeable sums of capital from other economic development capital programmes, although this appears to depend somewhat on previous arrangements between provinces and the cities for World Cup spending. Much of the work done to manage economic development programmes has involved responding to the imperatives and opportunities of the

2010 endeavour. Cities' economic development units, despite appearing to be in a slightly stronger staffing and budgetary position now, have suggested that 2010 demands are likely to result in curtailment of other work as those deadlines approach.

All host cities made a case for their status as hosts by arguing for the direct and indirect benefits of hosting World Cap matches in their cities. Yet the degree to which there has been follow up to secure wider benefits from the development phase of those projects, as well as during the event and in the post-event phase, appears less certain. For example, some of the pronouncements of the developmental gains accruing from World Cup transport-related projects do not appear to be backed by the available evidence. The experience of host cities from other countries suggests that securing ongoing developmental gains from major trophy events, as well as for their related investment spend beyond the actual short-term event spin-offs, are not at all easy to guarantee.

5. Improving the urban poor's gains from economic development initiatives in South Africa's cities

Conventional policy assessments tend to focus on the gaps between existing performance and required performance in order to overcome whatever gaps have been identified. When working with the state sphere, policymakers need to be very cautious about their assumptions about what the state might possibly achieve should it wish to overcome those gaps. An examination of nationally and locally driven processes for economic development and their impact on the poor suggests that there is a considerable gap between the requirements and the existing patterns of delivery.

A few key factors must be considered before suggesting particular interventions which could have a major bearing on any assumptions underpinning proposed interventions. Firstly, at the local level, municipalities see the bulk of their activities as already directed to the needs of the urban poor. This is true for capital investments and is supported by substantial grants from the national government towards this end and takes the form of Municipal Infrastructure Grant (MIG), equitable share and other instruments. Such endeavours are often heavily influenced by national government's conditionality which offers very little in terms of directives to integrate economic aspects into service delivery programmes. There are a handful of exceptions: perhaps, most notably, the extended public works programme's (EPWP) requirements that have accompanied the MIG projects which have yielded a greater commitment to public works projects from municipalities. Despite some evidence of a shift, a nationally funded programme, such as that related to housing, still tends to be devoid of intent to secure particular economic impacts for the proposed beneficiaries (Robbins and Aiello, 2006). Also, at a municipal level, officials report that elected representatives often tend to view economic development as a rare discretionary space within which to exercise nationally prioritised objectives for growth – such as is articulated in the Accelerated and Shared Growth Initiative for South Africa(ASGISA) – at a local level. Economic development agendas, therefore, have the potential to reflect a bias that is not aligned with the core commitments of municipalities towards the urban poor. While the project profile of many economic development units is very diverse, often covering a full range of impact fields, their resources tend to be skewed to larger growth impact projects.

Secondly, biases are introduced into municipal economic development intentions by responses to nationally defined municipal financing frameworks and from pressures on municipalities to secure substantial local revenue streams from sources of taxation. Rates income from residents and businesses can generate well over 50% of municipal revenue and there is considerable pressure to direct economically generating expenditure towards initiatives that have direct, rates-generating capabilities. More often than not, the best returns come from municipal expenditure on infrastructure which is required for the development of new business districts; rate returns are very lucrative where property values and built environment investments are high.

Thirdly, there is a tendency to see economic development initiatives in cities as needing to support growth primarily because these arenas are where more visible successes have been recorded. Such projects appear to be those able to generate the greater opportunity for local entrepreneurs, attract investment and secure the growth of existing industries. Notable about work in this regard is that generally it is with those sectors of the community that have influence on local processes, whether it be from BEE lobbies or from other organised business formations. Government can find within those sectors relatively capable and fairly representative formations representing the interests of core stakeholders. Much of the drive for these programmes also depends on the private sector's capacity to respond; where there is a match between private capacity and interest and the state's intent, important synergies can be generated. It could be argued that public interventions have, at times, tended to be in excess of what is required or to duplicate existing initiatives. Those can crowd out private enterprise and generate costs well above the returns expected from such public commitments. International literature has identified tourism marketing as an example of where there is a mismatch between public marketing intent and the particular intent of private sector players, with the result that an allocation of public resources fails to leverage private spending in an effective manner.

Fourthly, and in juxtaposition to the above trend, projects focused on poor urban communities have often tended to show high failure rates. Some ascribe that to a lack of municipal commitment; certainly, evidence exists that there has been in some cases a lack of appropriate policy, execution and oversight attention. Yet, it is also a fact that within many target communities there is a very weak fabric in place to absorb successfully those projects that require them, as marginalised participants, to engage with market processes with which they have had little experience, except as consumers. Existing formations in such areas do not always lend themselves to the task of economic activity-generating projects and, in many cases, municipal implementers pay too little attention to the groundwork needed to build absorption capacity or to provide ongoing support and localised capacity enhancement so that medium-term troubleshooting can be effected. Non-governmental organisations (NGOs) that have been active in this space, many of which, for one reason or another, are bypassed by local government, argue that successes in these arenas demand deep local knowledge, trust and consistent support for an extended period of time. Unlike the situation described above, there is little in the way of latent institutional energy that can respond rapidly to opportunities in many poorer urban communities. Furthermore, municipal officials often tend to have little experience of the delicate and discreet processes that are required for interventions within such marginalised communities; they also tend to measure success in terms of the numbers of projects initiated rather than by their longer term impacts.

Lastly, both national and metropolitan initiatives tend to value strategic intent above local adaptability and insight. Projects are supported because of an alignment to some grand metropolitan or national vision and its related targets. Together, that dispatches more localised endeavours, which address very space-specific circumstances, to the margins of policy interest. That is true for economic development programmes as well as for a wide range of urban-related initiatives. It is a reason that one finds relatively uniform-looking reconstruction and development programme (RDP) housing projects in very different communities across the country. Furthermore, smaller initiatives with localised and community specific impacts are often perceived as less significant than larger projects with a supposedly metropolitan scale impact. Municipal officials working on urban renewal projects have indicated to researchers that their local knowledge is dismissed as parochial and of little value in meeting strategic city-wide goals. That attitudinal pattern is reflected at a national level where officials tend to dismiss city-linked requests for special treatment on particular issues as contrary to the national interest. Today, more exceptions exist as national departments have noted some of their own shortcomings and formed local partnerships to realise the national goals in more differentiated ways. Unfortunately, the problem persists in many quarters and continues to play out in relatively centralised local administrations.

The question that arises is: where is the scope for action in the field of urban economic development?

In suggesting possible interventions, the particular constraints mentioned above need careful consideration, as does testing alternatives, some of which are more market-based, to accompany such strategies and enhance the outcomes for certain segments of the urban poor. The suggestions are not an exclusive agenda; rather, they could be part of a range of strategies used to confront ongoing economic marginalisation of the poor in South Africa's urban centres. It is intended that the proposed initiatives be oriented around both mainstream, formal economy engagement (highly unlikely for the majority of those living in extreme poverty) and a range of possible livelihood opportunities. Such initiatives should encompass better articulation for the urban poor in formal and informal economic processes as well as in arenas aimed at supporting their voice and access to a full range of livelihood enhancing resources.

Underpinning the proposals is a requirement that municipalities take a close look at their economic development mandates and play a role in making resource allocation choices across all municipal functions. Key there is the need to examine the inevitable, but often ignored, opportunity costs of continued attempts to scale up a variety of standard municipal programmes at the margins of municipal capacity.

The suggested policy adjustments (detailed in Tables 2-4) are informed by discussions with a range of municipal stakeholders but combined with common sense so that over-elaborations of the state's role can be avoided while still recognising the benefits of direct resource transfers to the urban poor.

Table 2: A three-pronged national urban economic development grant fund

Key question	Details
What?	A significant (in terms of total funds relative to MIG) new outcome-centred (conditional) grant for priority national urban nodes that offers three equally distributed categories for municipal economic development programmes.
Why?	Research commissioned by the SACN suggests very strongly that cities generally respond quickly and effectively to Treasury centred conditional grants. At present, the balance of grants tends to drive municipalities to prioritise narrow categories of urban infrastructure capital spend in poor communities from grant sources and rates generating expenditure from municipal generated revenue to optimise income prospects. Categories of funding need to gravitate towards those that enable greater consistent operational support to leverage benefits through non-capital supporting programmes.
Who?	National Treasury, municipalities
How?	Three sub-elements of the grant to include: (i) an alternative to the DTI’s under-spent and bureaucratically complicated Strategic Infrastructure Programme for a wider range of rates and employment generating infrastructure support; (ii) the present Neighbourhood Development Grant enhanced with a greater emphasis on supporting longer term localised institutional formations and partnerships with local NGOs, that are able to work on an ongoing basis to enhance unique local livelihood processes in major townships, informal settlements and key urban nodes of significance to the urban poor, i.e. providing operational support as well as capital funding; and (iii) an integration fund for operational programmes to enhance local capacity and partnership capabilities to allow for the leveraging of economic gains for poorer communities from growth oriented endeavours.

Table 3: Public works expansion and phased roll out / pilot of poverty-linked cash transfers

Key question	Details
What?	Further expansions and enhancements of MIG-related EPWP and consideration of rolling out an Employment Guarantee Scheme (as per India) or a Minimum Living Standard Scheme (as per China) programme.
Why?	In South Africa's surplus budgetary environment, and in a context where spheres of government are continuously citing constraints on spending existing budgets and expensing programmes as cash transfer scheme, where linked to yet independent of public works activities has been shown in many countries to offer a rapid and meaningful path to improving the prospects of the urban poor.
Who?	National Treasury; social security agencies; municipalities
How?	In public works terms, consideration could be given to expansion of public works type efforts into the field of urban services, as well as extending the reach of existing activities in capital-related projects to a greater proportion of total municipal spend. Supporting a major expansion of cash transfers to the poor through increasing the scale of public works programmes (beyond the present focus on MIG-related EPWP civil works), extending the minimum participation periods and improving skills enhancement processes including those relating to life skills, to ABET and vocational training. A Living Standard-type transfer could be rolled out progressively to qualifying households as affordability is dealt with. Critical attention would need to be paid to issues related to municipal service charge packages to the urban poor to avoid the scheme simply becoming a burden shifting exercise.[3]

[3] It should be noted here that it is relatively common in Latin America for such cash transfer schemes to be operated at the city level. Variable impacts have been achieved but it has been argued by the UNDP's International Poverty Centre (www.undp-povertycentre.org/) to provide for important livelihood enhancements that have a further, deeper reach than non-cash grant type systems.

Table 4: Public space investment and management to maximise economic opportunities for the poor and, in particular, women

Key question	Description
What?	Securing and investing in major public space zones in and around key economic threshold nodes for informal economic activity supported by ventures to enhance voice and enterprise capabilities, with a particular focus on women.
Why?	Public space has become the point of interface between informal economy workers and their markets. Public space in the bulk of South African cities was never designed for such a purpose , in many cases, municipalities and other stakeholders have sought to exclude the urban poor from using this space. Experience from a range of interventions suggests that commitments to generating public space that can meet a range of needs can have a meaningful impact on those dependent on such spaces to make a living. Well managed public space, alongside appropriate services and institutional development, can enable urban actors to harvest externalities of agglomeration that are often lost in chaotic public spaces subject to a wide range of insecurities.
Who?	Municipalities (and National Treasury: see point 1)
How?	A policy imperative to accommodate and enhance the scope of public space in key economic nodes with high threshold to offer stable and appropriate operating environments supported by both necessary infrastructure and developmental programmes.

Table 5: Shifting the strategic imperative of nationally driven economic development initiatives to core urban centres

Key question	Description
What?	Decentralisation of strategy and implementation and knowledge sourcing for industrial, skills and technology programmes.
Why?	South Africa has maintained a system of largely centralised delivery around some of its key economic strategy interventions. Those, in many cases, have been shown to deliver an overly generalised or spatially inappropriate set of interventions that often struggle to secure traction in local spaces because the drivers are disconnected from local realities. By localising the strategy, implementation and knowledge sourcing aspects of these processes, along with the relevant national capacity, a twin benefit could be secured for more relevant interventions undertaken by stakeholders with a greater knowledge and trust of one another. It is this localised insight and networking capability that could permit greater scope for leveraging the gains of such processes for the urban poor. Generating more complex forms of agglomeration that allow for sustained advantages in cities are most often successfully orchestrated from the local level.
Who?	Relevant national departments and provinces (including trade and industry, labour, and science and technology); municipalities
How?	The creation of regionally semi-autonomous strategy, delivery and knowledge sourcing entities/agencies through a decentralisation of staff, funding and mandates to core urban locations combined with a partnership forming requirement across all programmes.

Such interventions must be supported by ongoing enhancement of security in areas where the most vulnerable live and work, attention to lowering the costs and improving the efficiency and effectiveness of public transport, and ongoing investments in neighbourhood infrastructure and services. Core to these processes must be a drive to increase tenure security and the degree of place commitment of urban dwellers in marginalised communities. In particular, a drive to secure shack dwellers' rights in core urban regions is critical if they are to seek a more secure engagement with the urban economy, and if the state's and other stakeholders' initiatives are to take root. Situating the proposals within a broader livelihood enhancement agenda for the urban poor, as mentioned previously, is essential.

6. Conclusion

The purpose of this paper has been to explore the scope of urban economic development programmes, primarily those originating from within cities, but including those originating in other spheres of government, to contribute to urban poverty reduction in a meaningful manner.

The point was made that economically generative processes associated with (but generally not driven by) urbanisation have to be worked and leveraged alongside ongoing upgrading of urban infrastructure and service delivery. That is necessary in order to secure spill-over effects of agglomeration to the widest spectrum of urban dwellers and, specifically, the urban poor. Insights from India's and China's approaches were outlined before a fuller discussion of the experience of economic development in core urban spaces in South Africa was provided. The shortcomings of such endeavours were also discussed, as were factors such as inadequate policy signals from various national frameworks and local policy alignments. Finally, some particular instruments, informed by demonstrated experiences in other countries and based on conclusions from local experiences, were proposed.

A considerable degree of doubt lingers in South Africa – and as is articulated by national leaders and often entrenched in policy frameworks – as to the potential for local government to contribute more effectively to consistent positive outcomes for the poor. While that may be true for some municipalities, in the bulk of the country's major urban centres the cause for many of the disconnects in urban system development are a consequence of fragmented mandates and authority being entrenched at a national level as much as they are a product of local failings. All of the suggestions made in this paper require consideration towards enhancing commitments in capacity around more complex, long term endeavours – and those must be supported by appropriate signalling from the national sphere. National government's own experience in the scaling up of the EPWP has demonstrated the imperative of securing the full commitment of the country's major urban centres as well as a readiness to allow for appropriate adaptations to local delivery frameworks through recognising the scope for locales to find alternative paths to a common set of objectives.

The scale of urban poverty in developing countries presents a major challenge to the global development objectives, such as the Millennium Development Goals (MDGs). As with developed countries' urban agglomerations, developing countries' cities increasingly are the hubs of the bulk of domestic economic activity; they provide critical centres of linkage into global economic processes that are essential to harnessing and realising particular nations' development agendas. Yet an examination of the state of developing countries' urban spaces reveals that most urban residents have a very tenuous relationship with these economic engines. In fact, as some observers point out, the very existence of economically marginalised communities can be a consequence of the particular linkages that a country has with the patterns of global economic processes. Undeniably, cities must seek to engage with global economic processes and invest in this agenda, but they should also be bold in their attempts to empower communities to engage on better terms with whatever point in a global value chain they are relegated to; and that engagement should enhance rather than constrain their livelihoods. To reiterate Scott's point:

"Global city-regions in developing countries represent the best and the worst of the development process. They are places where highly productive and innovative economies are often in evidence, but they are also places where there are the multi-faceted market failures, historical imbalances, and brutal power relations of the development process are painfully in evidence… despite the desperate social conditions that are found in the large cities of these countries, economic development in one way or another is probably more likely to be achieved in combination with large scale urbanization" (Scott, 2001: 26)

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