INFRASTRUCTURE Dialogues

Intermediate Cities as Destinations for Investment

17 May 2018

1. Introduction

The Integrated Urban Development Framework (IUDF) acknowledges a spectrum of urban municipalities, ranging from metropolitan to rural municipalities, and the important role of intermediate city municipalities (ICMs), which are the group of municipalities adjacent to metropolitan municipalities (metros) on the spectrum. The eight metros are home to 40% of South Africa's population and accounted for 52% of formal employment in 2011. In contrast, the 39 ICMs are home to 27% of the country's population (in 2015) and produced 25% of jobs in 2011. While metros are recognised as "engines of growth" and some ICMs are thriving, many ICMs are uncompetitive, have weak leadership and strategic planning, and struggle to attract human capital. They are also where much of South Africa's heavy industry is based, and so their evolution touches on the direction of our industrialised economy. How South Africa manages the development of ICMs will determine whether urbanisation will merely urbanise poverty or reap the agglomeration dividend.

The 47th Infrastructure Dialogue focused on the infrastructure needs and investment opportunities present in ICMs. The panellists presented national government's strategy for ICMs, some lessons from one ICM (uMhlathuze Municipality) and the complex role of big business as the mainstay of a city's economy. This provided the basis for a discussion on supporting the development of ICMs, including creating a critical mass of winners, insulating long-term plans, getting the basics right, talking to each other and making hard choices.

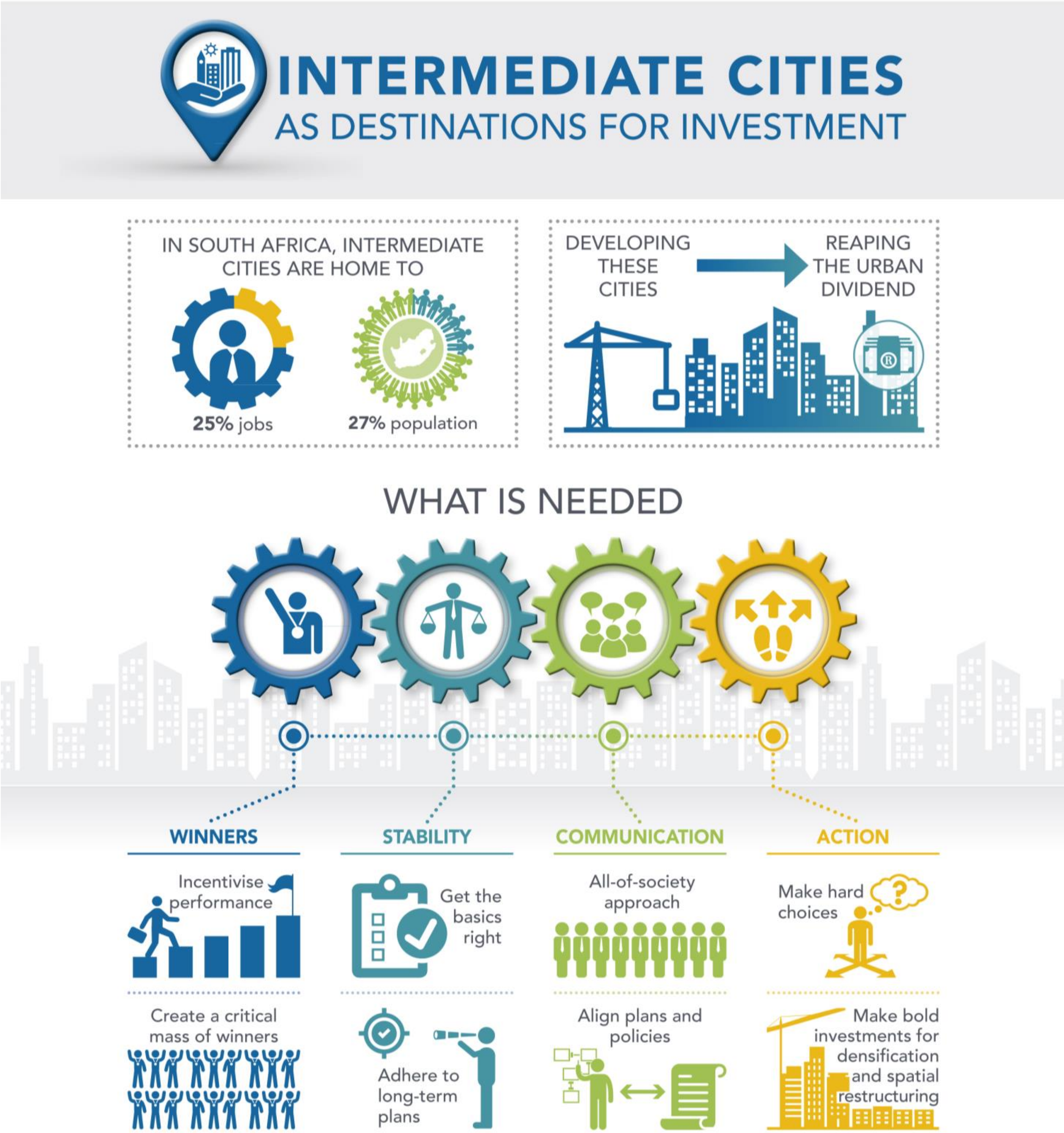
The Infrastructure Dialogues are hosted jointly by the Development Bank of Southern Africa (DBSA), the South African Cities Network (SACN), the National Business Institute (NBI) the Performance Monitoring and Evaluation Department in the Presidency, and the Department of Economic Development, with the Engineering News as media partner.

2. Programme and Panellists

Gugu McLaren-Ushewokunze of the NBI welcomed the audience to the 47th Infrastructure Dialogue and introduced the partners. **Richard Goode** of DBSA facilitated the Dialogue, after introducing the following panel members:

Dr Crispian Olver	IUDF Programme Manager, Department of Cooperative Governance
Nontsundu Ndonga	Deputy City Manager, uMhlathuze Municipality
Wrenelle Stander	Senior Vice President: Corporate Affairs and Real Estate Services, Sasol

3. Overview


INTERMEDIATE CITIES
AS DESTINATIONS FOR INVESTMENT
IN SOUTH AFRICA, INTERMEDIATE CITIES ARE HOME TO
25% jobs
27% population
DEVELOPING THESE CITIES
REAPING THE URBAN DIVIDEND
WHAT IS NEEDED
WINNERS
Incentivise performance
Create a critical mass of winners
STABILITY
Get the basics right
Adhere to long-term plans
COMMUNICATION
All-of-society approach
Align plans and policies
ACTION
Make hard choices
Make bold investments for densification and spatial restructuring

4. Intermediate Cities

An ICM is in essence a municipality that is defined as predominantly urban based on density (i.e. the densest settlements outside the metros) and economic indicators (gross value added). A total of 39 municipalities have been identified as ICMs and comprise a mixed bag economically (for example, some of the mining towns are declining, while others are new mining areas).

List of ICMs by economic type

Large semi-diversified	Mining	Manufacturing	Service centre	Low GVA/high population /high density
Emfuleni	Ba-Phalaborwa	Alfred Duma	George	Bushbuckridge
Mbombela	Emalahleni	Drakenstein	Greater Giyani	Enoch Mgijima
Msunduzi	Greater Tubatse/ Fetakgomo	Govan Mbeki	Maluti a Phofung	Greater Tzaneen
Polokwane	Lephalale	KwaDukuza	Matlosana	King Sabata Dalindyebo
	Madibeng	Metsimaholo	Matlosana	Mafikeng
	Matjhabeng	Mogale City	Mogalakwena	Makhado
	Merafong	Newcastle	Nkomazi	
	Rand West	Ray Nkonyeni	Sol Plaatjie	
	Rustenburg	Stellenbosch	Thulamela	
	Steve Tshwete	uMhlathuze		

Compared to the metros, ICMs:

- Are much smaller, with an average population that is seven times smaller than metros.
- Contain large areas of traditional land that are urbanising rapidly but without township development and planning regimes, which poses some challenges in how these ICMs grow.
- Have very vulnerable economies, because of a narrow economic base or a dependency on declining industries.

These ICMs have a massive infrastructure need, of about R14-billion per year but only 43% is funded from grants. A concern is the low level of borrowing compared to the need and the potential – even ICMs with sustainable revenue sources and large tax bases are not in the market and actively borrowing.

5. The Integrated Urban Development Grant

In 2019, national government will introduce a new infrastructure grant – the Integrated Urban Development Grant (IUDG) – that works differently from the Municipal Infrastructure Grant (MIG), whereby municipalities apply for funding of particular projects that is linked to particular years. Instead, the IUDG will fund municipalities against a long-term (10-year) capital expenditure framework aligned to their Spatial Development Framework (SDF). The grant fits into a funding mix that should include leveraging other sources of funding, including private sector, development finance institutions (DFIs) and public-private partnerships (PPPs). The change in approach makes explicit the need for infrastructure investment to be aligned to the spatial targeting of investments (based on the ICM's economic strategy) and to be located within a broader support plan for ICMs that includes governance, financial management and infrastructure asset management. The IUDG is currently being piloted in two ICMs: Polokwane and uMhlathuze. These two pilots were selected based on certain criteria, including having:

- repeated clean audits,
- top management stability,
- ability to finance capital programmes out of own revenue,
- no unauthorised or wasted expenditure, and
- a proper spatial plan that includes long-term infrastructure budgeting (not simply one or three-year budget).

> "Being a pilot for the IUDG was a rude awakening, to be in the spotlight for the whole of the country […] and to find that sometimes we [the municipality and the private sector] struggle to come to a common understanding about a simple development."

6. Lessons from uMhlathuze

An industrial town in the north-east of KwaZulu-Natal, uMhlathuze has a population of just below half a million and qualifies as an ICM because of its density and economy. The main challenge for the municipality is to diversify its economy, which means being responsive to the needs of the private sector. Infrastructure readiness is key to attracting private investment of any kind. Some of the lessons that emerged from the pilot include the following.

- The municipality must have a clear spatial vision that is owned by all stakeholders in uMhlathuze, in particular the private sector, traditional leaders and other spheres of government. For instance, as one of the biggest landowners in the city, Transnet's investments need to complement the municipality's spatial vision.
- Internally, all departments need to understand and rally behind the municipality's spatial vision, not only planners but also the municipal manager, engineers and finance people, among others.
- Plans need to be aligned to the municipality's spatial vision as expressed in its SDF. This means that strategic and sector plans need to have spatial outcomes and be updated, so that they align to this vision. For instance, in uMhlathuze, the SDF dates back to 2017 but the bulk water master plan is from 2014, the bulk sewerage master plan is from 2015, while the electricity plan dates back to 2010 and the arterial road framework to 2009. An added challenge is that these plans do not include the new area that was incorporated into the municipality in 2016.

7. The Role of Big Business

In many ICMs, the economy is anchored in one industry and dominated by one corporation. Sasol is one such corporation that has to balance its responsibilities as a good corporate citizen and as a world-class competitive producer. Sasol works closely with local government in the Metsimaholo and Govan Mbeki municipalities, as a partner and co-creator. Building on its strengths in asset management, Sasol assists municipalities with their systems. For example, ensuring basis data is accurate in Govan Mbeki Municipality's administrative system, and helping to improve revenue collection.

The company operates the bio works plants in Sasolberg and Secunda and has invested in fire-prevention initiatives, including a satellite fire station, rapid intervention vehicles and training firefighters. To attract staff to Secunda, Sasol invests in schools (about R800-million over five years) and in sport and recreation facilities. It also provides ongoing technical support, such as unblocking big sewer pipes, supporting the operations of firefighting facilities and escorting large, abnormal deliveries.

Sasol contributes to the upgrading of aging and poorly maintained infrastructure in these municipalities. For example:

- The water and sanitation infrastructure, including the Zamdela water demand management project.
- The sewerage system in Emba.
- The substations in Emalahleni and surrounding areas, including installing bulk energy meters.
- Roads needed for transporting projects from the company's sites.

About Sasol

An integrated chemicals company (not just energy) that employs about 31 000 people in 33 countries around the world.

- In Metsimaholo municipality (population approx. 150 000): about 3500 employees and 5000 services providers.
- In Govan Mbeki municipality (population approx. 394 000): about 16 000 employees and 30 000 service providers.

The company has also introduced mobile units to provide services to communities, including mobile clinics, mobile water and sanitation units and mobile libraries.

Overall Sasol works well with the municipalities but is affected by municipal indebtedness to utility companies, which results in load shedding and reduced water pressure that affect operations. A challenge is local government instability, as a result of coalitions, and a lack of continuity (as people rotate). Internally, this co-creation and investment in municipalities is a contentious issue, as the role of the private sector is seen differently in other areas of the world, such as the USA.

8. Supporting the Development of ICMs

The challenge for South Africa is to manage the development of ICMs so that the urban dividend can be reaped, instead of poverty being urbanised. Participants discussed what is needed to support the development of ICMs.

Create a critical mass of winners

The IUDG is premised on a maturity model and designed to create a critical mass of winners, but not at the expense of the weaker municipalities, which still have support from existing instruments. Weaker municipalities can still access the MIG and the municipal support improvement grant (to assist with clean audit and revenue raising) and can get MISA-appointed engineers to help build engineering and asset management systems. The IUDF does not replace existing interventions and programmes, but its approach is different from the way government usually does things, which would be to take all 39 ICMs and bring them up to the same level, concentrating resources on the weaker ones. This is a change from the past and, for some participants, a significant shift in approach, towards rewarding and resourcing (instead of taxing) the good performers.

The IUDG is performance based and is for municipalities that understand what their business is: a utility business that delivers infrastructure and services, and has a customer tax base that is willing to pay for these services. That is the governance deal that sits at the heart of every municipality and requires strong political leadership. The IUDG is designed to incentivise and provide resources to winners, helping them to get to the level (and beyond) of metros. Its aim is to accelerate and reward municipalities that are working well. Being part of the IUDG also helps with dealing with intergovernmental issues, such as the common one of national and provincial governments not paying municipalities or investing without consulting with the municipality and aligning to the municipal spatial plan.

> "To say that we have abandoned the developmental state, that we have gone from one form of the developmental state to a highly authoritarian Korean-style developmental state, would be incorrect because this [the IUDG] is being lain on top of a whole range of social and safety net and other programmes."

Insulate long-term plans

Long-term plans are necessary for big infrastructure projects, such as bulk water pipelines, new sewerage works and major road construction, but persuading people to buy into a long-term vision is not an easy task. These plans need to be insulated from the electoral cycle, so that priorities do not change when councillors change. The challenge is how to respond to the changing mood and desires of the electorate without disrupting the necessary long-term, slow-moving process of properly identifying, planning for and commissioning infrastructure. Politicians want to see results during their five-year term and may push for short-term "fixes" if long-term projects are not proceeding as planned. Integrated logistics support planning, which is a specialised field, can prevent this happening by ensuring the necessary steps are followed (e.g. plan for an EIA and getting servitudes before building a power station). By identifying interdependencies from the onset, such as between electricity and sewerage infrastructure, this type of planning makes deviations from the master plan more difficult. The point was also made that the plan is less likely to change when officials change if end users are consulted and invested in the plan.

There was some discussion on what constitutes long-term plans, i.e. 30 years, not 10 years. All agreed that long-term infrastructure plans are not rigid and have increasing levels of uncertainty in the outer years. What is important is that the really big infrastructure projects (bulk water pipelines, new sewerage works, major road construction), which require capital, procurement and management expertise and have impacts on operating expenditures, are scheduled in the outer years. Having three-year capital projects that roll over closes out the big, ambitious infrastructure spend that is needed for the long-term sustainability of your urban system.

Get the basics right – it's not magic

The pilots chosen are municipalities that are working because they are doing the basics right – it's not magic nor complicated nor requiring lots of resources. One simple example given was the introduction of a WhatsApp group that the municipality's executive management can use to report problems, such as robots that are not working, grass that needs cutting or potholes that need fixing. If the problem is not fixed there and then, a report of the expected turnaround time is given. The municipality provides cell phones for councillors, so there is no excuse for not reporting problems. Cell phones can also be used to advise residents of planned water or power outages. These are some of the basics that make ratepayers happy and willing to pay their rates.

Talk to each other

Urban management is crosscutting and requires everyone to be involved. That's why the IUDF calls for an all-of-society approach, whereby the many roleplayers that set the agenda in the urban space agree on the vision to take forward. The private sector needs to participate more actively and hold local authorities accountable for their outcomes-based plans. This is particularly true in ICMs, whose economic base often depends on an industry or corporation. The challenge is to find ways for the private sector and government to engage effectively. The private sector sees a lack of bankable projects in metros and ICM, while municipalities lack the capacity to bring properly conceptualised projects to the market. Yet despite this lack of capacity, there is relatively little uptake of (often donor-funded) assistance in preparing and taking projects to market. A solution proposed was to hold a bi-annual or annual gathering that brings together ICMs and private sectors/DFIs, similar to the DFI day that is organised with the metros. Such a gathering brings together National Treasury, the people who work on municipal borrowing, ICMs and other stakeholders to discuss common issues face to face.

Within government, the different sectors and spheres of government also need to communicate better. South Africa's industrial policy and urban planning policy do not talk to each other. At municipal level, transport, human settlements and urban planning are not aligned, but that is nothing compared to the silence between economic ministries and infrastructure and local government ministries. One consequence is that the Special Economic Zones (SEZ) are not thought about in relation to local planning frameworks (SDFs etc.). Although some SEZs (for example, in Buffalo City) help build the urban agglomeration effect because they are close to the urban core, others have profound dislocating effects on the urban space and consequently on the economy. Cities work because of the urban agglomeration effect, of the co-location of multiple factors of production and the development of specialisation – physical or virtual proximity leads to urban efficiency. Consultation is currently taking place about this issue, of an economic and industrial development strategy that is not aligned to city strategies.

Make hard choices

The current system, accepted as the business-as-usual approach in politics, is a form of legal clientelism that prevents municipalities from making the hard choices needed to deal with the apartheid spatial legacy in cities. The pressure is to spread the budget evenly across wards, as the IDP rolls out every year and ward hearings are held and councillors present budgets for their wards. Consequently, cities are spending money that just replicates the existing highly fragmented and inequitable spatial structure instead of making the bold investments aimed at densification along activity nodes and corridors, to produce the desired agglomeration effect. To achieve spatial distribution and spatial equity will mean making hard, tough choices and being as bold in the spatial restructuring of our cities as the apartheid planners were in ripping them apart.

> "The biggest problem we are sitting with in the urban sector is the deadweight inheritance from the apartheid dislocation of communities."

9. Conclusion

The IUDF recognises the role of ICMs, which are the group of municipalities adjacent to metros on the urban spectrum. ICMs are home to much of South Africa's heavy industry and to 27% if its population and 25% of its jobs. Therefore, their development will determine whether or not South Africa reaps the urban dividend. National government has introduced a new infrastructure grant – the IUDG – that funds municipalities against a long-term capital expenditure framework aligned to their SDF. It is currently being piloted in two ICMs: Polokwane and uMhlathuze. Lessons from uMhlathuze include the need for a clear spatial vision that is owned by all stakeholders, as well as all internal departments, and the importance of aligning plans to the spatial vision. In many ICMs, the economy is anchored in one industry, which alters the dynamics between the private and public sector, as illustrated by Sasol's relationship with Govan Mbeki and Metsimaholo municipalities.

The challenge for South Africa is to manage the development of ICMs and thereby reap the urban dividend. The 47th Infrastructure Dialogue looked at what needs to happen to achieve this and highlighted several elements, including creating a critical mass of winners, insulating long-term plans, getting the basics right, talking to each other and making hard choices. There was some consensus at the end of the dialogue that, while cities may not be making all the necessary hard choices, the IUDG is a step in the right direction, as it aligns incentives to performance. Conversations such as those of the dialogue are important and can provide momentum to the changes that are happening in the economy. The 47th Infrastructure Dialogue will hopefully be the catalyst for a broader discussion and add value to other processes taking place.

> "There are three things that I took away from this dialogue: head (planning), heart (partnerships) and hands (piloting things); when these three things are in resonance across the stakeholder map, then things happen."

Intermediate Cities as Destinations for Investment

Speakers Biographies

Nontsundu (Mihali) Ndonga is Deputy Municipal Manager responsible for City Development in uMhlathuze Municipality. She is a professional planner, registered with the South African Council for Planners (SACPLAN), and has worked in provincial and local government in various capacities. Her portfolio at uMhlathuze includes planning, human settlements, public transport planning and local economic development. Nontsundu holds a Master of City and Regional Planning (University of Cape Town), a Bachelor of Social Science (Hons) and a Bachelor of Social Science (University of KwaZulu-Natal), and served as the Chairperson of SACPLAN from 2008 to 2016.

Dr Crispian Olver is the IUDF Manager for Cogta. He is a public policy and management expert with extensive experience at senior management level of local government, environment and development issues. Since 1994, he has held various senior management positions within the South African government, including Director General for the Department of Environmental Affairs and Tourism, coordinating the hosting of the 2002 World Summit on Sustainable Development in Johannesburg. He has led South Africa's international negotiations on a host of environmental treaties and conventions. He was the architect of South Africa's local government and environmental legislation and oversaw the establishment of several key institutions, including the Municipal Demarcation Board, the National Biodiversity Institute and the SA Weather Services. Since 2005 he has focused on public sector consulting in the fields of local government and sustainable development and has led a number of multidisciplinary teams managing large and complex multi-donor programmes at international, African and local levels.

Wrenelle Stander is Senior Vice President: Corporate Affairs and Real Estate Services at Sasol, having previously held the position of Managing Director: Sasol Gas. She has worked for 25 years in the aviation and energy industries, including 15 years at executive leadership level. Prior to joining Saso in 2008, she held a range of executive leadership positions within the South African civil aviation industry, including Managing Director: Air Traffic and Navigation Services Company and Deputy Chief Executive Officer: South African Civil Aviation Authority. She was part of the team that privatised the Airports Company South Africa (ACSA) and the team that established the South Africa Civil Aviation Authority (SACAA) on a user pay basis. Wrenelle served as a Non-Executive Director on the Comair Limited Board (JSE listed) for over eight years and currently serves as a Director for the Sishen Iron Ore Company Pty Ltd, as well as on several Executive Boards within the Sasol Group. She holds an MBA from Oxford Brookes University (UK) and a BA (Hons) degree from the University of Cape Town.

Dialogue in Pictures

Picture below: 47th Infrastructure Dialogue speakers

From left to right: Dr Crispian Olver (Department of Cooperative Governance), Nontsundu (Mihali) Ndonga (uMhlathuze Municipality) and Wrenelle Stander (Sasol)

Pictures below: 47th Infrastructure Dialogue – Dialogue participants listening, speaking and participating