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Summary

Inclusive development is the seductive idea that a more dynamic and productive economy can go hand in hand with reduced inequality and exclusion. This requires crafting together different values and realities, through cooperation and negotiation between different economic and social interests. This is particularly difficult in South Africa (SA) because of the deep-seated social divisions and stagnant economy. The dominant discourses emphasise either 'growth and redistribution' or 'radical economic transformation'. Both are driven from above, by national government. Neither recognise the value of mobilising the energy and talents of different communities and institutions within cities and regions to engage in democratic renewal and to support joint efforts to enhance skills, build capabilities, create assets, generate jobs, and improve livelihoods. Tracking progress through carefully chosen indicators can provide timely feedback and assist learning, to ensure that bold initiatives actually work and can be scaled up to achieve greater equity while expanding economic opportunities. Cities have considerable potential to combine prosperity with social inclusion, and thereby provide pathways out of poverty – but this is not automatic or inevitable, because a flourishing urban economy can also squeeze out the poor through the housing market. Proactive policies are required to manage the process of urban land and property development in ways that accommodate in-migrants and prevent social exclusion. A positive approach to investment in marginalised groups and communities is also necessary, so that they can develop and prosper over time, and reciprocate through higher productivity.

Keywords: inclusive development; spatial inequality; urbanisation; affordable housing; participation; migration; South Africa.

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Preface

This Working Paper is an output of a Rockefeller-funded project on inclusive economies, led by Chris Benner of the University of California Santa Cruz, along with Manuel Pastor of the University of California and myself. In the mid-2010s, the Rockefeller foundation had constructed a fivefold conceptualisation of an inclusive economy, involving equity, participation, growth, sustainability and stability. Chris and Manuel worked with this to develop an indicator framework for guiding progress towards more inclusive economies, starting with these five dimensions, breaking them down into 15 sub-categories, and relating these to 57 indicators. (See this report focusing on the national application of this framework). In this project, we built heavily on this work.

One of the main tasks of this latest project has been to adapt and apply the framework just mentioned to three very different sub-national contexts: rural India, cities in Colombia, and metro-areas and their rural linkages in South Africa. This Working Paper represents the South African component of this work, undertaken by Ivan Turok and Justin Visagie of South Africa's Human Science Research Council, with support from the Institute of Development Studies. An earlier version was presented at a lively workshop in Johannesburg, which brought together a range of very well informed and engaged participants, whose comments contributed to the quality of this document.

It is hard to imagine any indicator system which would judge South Africa's economy inclusive, despite two decades of constitutional democracy and comparatively ambitious redistribution programmes. Conventional measures indicate that the economy is flat and its inequality is the highest in the world. The challenge for an indicator system is not to confirm that South Africa does not currently have an inclusive economy, but to help understand why not, how better to achieve one, and to set a benchmark against which to measure progress in the future. Of particular concern for this Working Paper are the actual and potential roles of metro areas in achieving the different dimensions of an inclusive national economy.

Ivan and Justin have adopted the inclusive economies framework critically but constructively. The system of indicators is at the core of the paper, and they use it both to explore the performance of South Africa's metros, and the quality of their data. However, they have situated the discussion of indicators in a wide ranging and insightful account of related politics, policies and power. They have not only adapted the framework to South Africa, but also to the focus on metro areas. For example, they have added in a novel analysis of the shifting poverty levels of people's migration, including into metro areas, a dimension of inclusion difficult to capture with conventional place-based indicator systems. This quantifies the impact of rural-urban migration on the reduction in economic poverty for the first time, and raises questions about whether there are exclusionary processes preventing migration from being more attractive. They have also worked to identify the sort of actions likely to achieve a more inclusive economy in South Africa: actions that cannot be read off a set of indicators, but must come to terms with them. In essence, the challenge is to enhance the opportunities that urban labour markets offer for economic inclusion, while countering the tendency of urban land markets to reinforce exclusion.

Gordon McGranahan

Introduction

> *The most urgent task before our nation is to ignite inclusive, job-creating economic growth.*
> National Treasury (2017)

> *Let this be the year of renewal, revitalisation and a steep change in progress in fostering inclusive growth which rolls back unemployment, poverty and inequality.*
> Malusi Gigaba, Minister of Finance, 2018 Budget Speech, 21 February 2018

The conventional wisdom that poor communities prosper as national economies expand and wealth is created has lost credibility over the last two decades. For example, post-apartheid South Africa (SA) has the highest recorded levels of inequality in wealth and income in the world (Alvaredo *et al.* 2017; World Bank 2018). The gap between rich and poor has continued to widen since the 1990s, despite economic growth averaging around 2 per cent per annum over this period. This is widely perceived to be unfair and unwarranted, which contributes to social and political instability and violent crime. The unemployment rate is between 26 per cent and 40 per cent (depending on how it is measured), compounded by stark disparities in health, education, housing and many other aspects of social and economic life (Stats SA 2017). The 1994 democratic government inherited serious grievances, deep-seated inequalities and structural distortions from apartheid, which have proved difficult to reverse and dismantle, including a relatively uncompetitive and resource-hungry economy, concentrated corporate ownership, a dysfunctional public education and training system, and profound spatial divides within cities and between regions.

The political settlement and peaceful transition to democracy promised a new social order, epitomised by a new constitution and new legislation. The constitution was founded on the values of human dignity, human rights, freedom, non-racialism, non-sexism and the rule of law. It refers explicitly to the need to 'heal divisions of the past' and 'lay the foundations for a democratic and open society'. It sought to provide a framework through which poverty would be progressively eliminated and society transformed by safeguarding democratic accountability and an independent judiciary, and guaranteeing important socioeconomic rights and free speech. Since then, progress has been made to extend access to basic services, education, health care and social grants through a deliberate process of redistribution driven by a relatively centralised state and funded from national tax revenues. However, a large section of the population lacks any real stake in the economy and remains trapped in poverty. Upward social mobility is severely restricted and race persists as a key marker of hardship and exclusion (Schotte *et al.* 2017).

The goal of 'inclusive growth' features frequently in the national discourse – and from right across the political spectrum – although often as a casual catchphrase with no real definition of what it means. The need for far-reaching economic and social change is widely accepted, yet there is no agreement about what this should involve and how it could be achieved. The stakes are high and rising because of the fragile state of the economy (recently downgraded to junk status by two ratings agencies because of the slowdown in growth, rising budget deficit and escalating government debt) and serious political malaise and policy paralysis. Poor communities in many urban townships and rural areas have grown impatient at the faltering social progress and the persistent skewed distribution of wealth, opportunity and privilege, except for the emergence of a small black elite linked mainly to an enlarged public bureaucracy and to black economic empowerment schemes in the private sector. People who can afford private education and health care increasingly opt out of state provision, rather than try to improve it. Popular discontent fuels violent protests, racial tensions, xenophobic attacks and extreme political rhetoric about nationalising the banks and mines.

In recent months, the idea of expropriating private land without compensation has gained considerable traction and caused great concern among established interests.

Within the ruling party and among some leftist groups there has been burgeoning interest in an alternative concept of 'radical economic transformation'. It signals a rejection of the cautious macroeconomic orthodoxy pursued since 1994, and a belief that the wellbeing of the poor majority has been sacrificed to placate financial markets and multinational corporations. A search for more direct ways of driving progressive change has homed in on using the state's sizeable procurement budget for goods, services and big infrastructure projects to shift resource allocation patterns away from white-owned companies towards new and emerging black businesses. There is mounting evidence that the language of transformation has been used to justify flouting official laws and regulations, and served as a smokescreen for a centralising power elite pursuing patronage politics, cronyism, rent-seeking and corrupt practices (Swilling *et al.* 2017). Other consequences have been to weaken public institutions and subvert state-owned enterprises, thereby undermining the delivery of cost-effective public services and eroding confidence within the private sector. The impact on the investment in mining, manufacturing and other industries has been very damaging. The transformation agenda could well backfire by crippling a system that is not sufficiently inclusive because it does not recognise how the economy works.

An alternative, more conventional agenda gaining ground among economic insiders is that the priority is to halt the slide, restore faith among domestic and foreign investors, relax onerous regulations hampering business activity, provide greater policy certainty, and rebuild integrity in public institutions. This means replacing dishonest political leaders and public officials, re-establishing the principles of good governance and accountability, reinstating fiscal disciplines, raising taxes and reining in public sector spending and wages.[1] There is an assumption that bold structural economic reforms and other fundamental changes are incompatible with growth and should be eschewed because they are risky to a rattled market economy. They threaten powerful economic interests and mobile talent, who could withdraw their resources and undermine the prospects of recovery. Reinstating normalcy, predictable rules and patience will pay-off as confidence gradually returns, investment and spending pick up, businesses expand, employment increases, the labour market tightens and wages rise over time. Rising tax revenues will pay for improved public services, enhanced redistribution and poverty alleviation for those without jobs. Of course, the risk with this cautious, growth-first agenda is that too much will remain the same and its credibility will not survive.

The obvious question is whether, in contrast to both of these perspectives, it is possible to reform or transform the economy without undermining its very existence. In other words, can policies to expand opportunities be combined with measures to steer the trajectory of the economy, so that it becomes inherently more equitable and inclusive over time? Deep fault lines between the key economic stakeholders and widespread social mistrust mean that things cannot stay unchanged, and that a growth-first agenda will not prove resilient to political attacks. A shared vision of a more inclusive and broad-based growth path is urgent, but what might this look like and whose responsibility should it be? In addition, what are the main dilemmas and trade-offs needing to be confronted, and what specifically should be done to interrupt prevailing economic patterns in order to navigate towards a fairer and more equal society? For example, is it necessary to contain the enrichment of affluent groups in order to ensure that incomes grow faster at the bottom of society? What other sacrifices and bargains are needed to find ways of generating value and wealth that extend the benefits more widely? Given the widespread loss of conviction in the democratic project, with many of the key national institutions now lacking popular legitimacy, it is extremely difficult to negotiate a new social contract built on strategic alliances across the main social partners. In a contested political environment, established theories and ideologies often seem to

[1] Most of these themes feature in the new spirit of austerity that characterises the 2018 Budget.

complicate rather than assist pragmatic efforts to find common ground and develop constructive solutions.

One way forward from the impasse may be to encourage a flood of initiatives to emerge at different levels, within communities, cities and regions, to build on the country's rich diversity and support the strivings of poor citizens to get a stake in the economy. The energy and talents of different groups and sectors could be mobilised by bringing them together to engage in democratic renewal and to support joint efforts to create assets, enhance skills, generate jobs and improve livelihoods. Starting with readily accepted core values, such as equity, wellbeing and active citizenship, may be better than adhering to conventional formulas and dogmas. By empowering people to reach their potential and encouraging a collective sense of responsibility it may be possible both to hold government to account and to experiment with new ways of overcoming racial cleavages, strengthening social trust and raising living standards. Tracking progress through carefully chosen indicators should provide timely feedback and assist learning to ensure that radical measures actually work and can be scaled up to achieve greater inclusion without jeopardising the system.

In this line of thinking, inclusive development means combining different kinds of enterprising activities with sharing resources and expertise – finding synergies between a growth agenda and shepherding it in a fairer direction. There are innumerable ways in which private firms could partner with community organisations and advocacy groups to support local initiatives, by melding their know-how and undertaking collaborative projects. For example, established property developers, urban designers and architects could form joint ventures with smaller, less-experienced builders in the townships to enhance their collective capabilities and open up new markets for homes to suit diverse household needs and spending power. Working together on mixed-income, inclusionary housing schemes could also play a valuable role in challenging exclusionary mind-sets and adapting outdated practices.

This Working Paper draws on a wide-ranging framework for thinking about and measuring inclusive economies devised by the Rockefeller Foundation. The framework identifies concrete values and principles, and offers a useful provocation and entry point for analysing South Africa's challenges of uneven spatial development: where do different parts of the country currently stand; what insights can be gleaned about the dynamics of poverty and exclusion; and what clues emerge about changing tack? The Working Paper begins by discussing the concept of inclusion, before outlining the Rockefeller framework. It then fleshes out the framework with original data drawn from the most reliable sources available. This is followed by closer analysis of key themes relevant to the spatial aspects of inclusive economic development.

1 Conceptualising inclusive growth and development

The narrative around inclusion has gained widespread currency over the last decade, arising from international recognition that many groups and communities are failing to share in the benefits of economic growth, technological change and globalisation. Belief in trickle-down economics – that a rising tide will lift all boats and that prosperity will filter throughout society if competitive markets, macroeconomic stability and fiscal discipline are sustained – has been replaced by mounting evidence of rising inequalities and social dislocation (Milanovic 2010; Piketty 2014; Stiglitz 2015). In a more open, globalised economy with immense flows of goods, capital, technology, talent and information, it often appears as if governments have lost control over the main levers of social progress. Inequality seems to grow in the absence of a concerted political attempt to counter the structural dynamics that facilitate it. The phrases ‘inclusive growth’ and ‘inclusive development’ have become very fashionable, although they are often used rather loosely, without much substance or precision. For example, the UN General Assembly resolution on New Urban Agenda mentions the words inclusion or inclusive 45 times!

The concept of inclusion (and its converse, social exclusion) is, of course, not new (Sen 2000; Hills *et al.* 2002). The literature on human capabilities and deprivation advanced by Amartya Sen recognises that poverty is not simply about income (in the sense of falling below a basic level of subsistence). It extends to the ability to live a decent, fulfilling life, which includes things like access to health care, education and freedom to exercise a range of choices (see Sen 1983; 1999; Nussbaum and Sen 1993). Locating the concept of inclusion within the context of human capabilities brings into focus the *relational* constructs that underpin deprivations such as hunger, ill health or lack of basic human rights. For example, the problem of hunger is not just that certain people have insufficient food, but that there is a process of exclusion underway in terms of who has access to employment, or whether social food security is provided (Sen 2000).

Inclusion is therefore about social processes and dynamics of change, and not simply distributional outcomes. It recognises the importance of human agency in that people are not just spectators but are essential shapers of change and their ‘bottom-up’ practices can contribute to socioeconomic development. It is inherently political and implies the exercise of power. This means asking questions about who is included and who is not, why this is the case, and what are the consequences? It requires deconstructing active forms of discrimination, such as inequality before the law, while also recognising passive forms of discrimination, such as unequal access to schools and health care, or even unrealistic norms and standards set by governments, which serve to perpetuate poverty and exclusion. Hence, inclusion incorporates the concept of justice or fairness, not only through rights as they appear on paper, but also as they operate in the real world and whether or not people have recourse for being excluded. The essential issue is whether people are enabled and empowered to improve various aspects of their circumstances, such as better housing and personal mobility. Do they have the range of assets required to engage actively and effectively with society? There may be systematic differences between groups, based on gender, ethnicity, age, place of residence and other variables besides socioeconomic status.

Acemoglu and Robinson’s (2012) book on the institutional determinants of prosperity and poverty is helpful in going beyond purely economic processes to contrast the influence of ‘inclusive’ and ‘extractive’ institutions. Whereas extractive political economies take ‘incomes and wealth from one subset of society to benefit a different subset’, inclusive institutions ‘allow and encourage participation by the great mass of people in economic activities that make the best use of their talents and skills and that enable individuals to make the choices they wish’. Within their framework, it is the processes and relationships of political power that are central in shaping outcomes of economic inclusion or exclusion. The ability of societies to draw in hitherto marginalised groups, harness their energies and support their acquisition of vital skills and competencies to engage in productive activities can have far-reaching effects. Can a more all-encompassing definition of society be envisioned that builds on its established strengths and capabilities, while incorporating and integrating other diverse groups and communities into its structures and institutions to create something new and different from the past? This is clearly a big part of the challenge for countries in transition from bitter and divided histories, such as South Africa.

Growth remains important to generate the resources for reinvestment and redistribution, particularly in societies with expanding populations and burgeoning material needs – for shelter, safety, comfort, health, happiness and general wellbeing. Growth is necessary to increase the demand for labour, to generate more jobs, to tighten the labour market and thereby to drive higher earnings, especially in a country like South Africa where unemployment levels are extraordinary. It is also important to finance basic necessities and feed enlarged populations. Yet growth may be difficult to achieve in a competitive environment requiring ongoing increases in efficiency and ingenuity, which may imply less labour, lower taxes and fewer regulations. Growth *per se* is also not sufficient because it can increase inequality and injustice – for example, by pricing people out of urban housing markets.

The distinction between ‘pro-poor growth’ and ‘inclusive growth’ is useful. The former is primarily focused on measuring the benefits of economic growth for the poor. In its narrowest form, pro-poor growth occurs when the mean incomes of the poor rise, irrespective of what happens to the rich (Ravallion and Chen 2003). Relative pro-poor growth is an alternative concept, requiring that the poor benefit by a greater degree than the rich, so growth reduces inequality and not just absolute poverty. Pro-poor growth may be extended beyond income to other dimensions of poverty such as health, education or nutrition (Grosse *et al.* 2008). Thus, relative pro-poor growth is inclusive of the poor. However, the fundamental conceptual distinction is that ‘inclusion’ is concerned with root causes and active processes, and not simply with describing outcomes. Pro-poor growth is less concerned with the dynamics of ‘how’ the poor benefit, i.e. whether it is through participation in the labour market or through some form of welfare redistribution (Fourie 2014).

In summary, there are four important features of inclusion as an emerging concept: (i) it is multidimensional and involves a holistic consideration of human deprivation and development beyond income alone (cross-cutting issues of race and gender are particularly important in many societies); (ii) it is socio-political in the sense of interrogating who is included or excluded and the active or passive relationships of power involved in maintaining this; (iii) it is process-oriented and aims to identify the underlying causes and drivers of poverty and prosperity; and (iv) inclusion is more durable and meaningful if it is intrinsic to the economic process so that people have a direct stake, rather than something that follows after growth has occurred.

These features help to illuminate potential solutions and pathways out of poverty – such as enterprise, jobs and livelihoods – beyond relieving the symptoms through social welfare and safety nets. The solutions are not simply technical because processes of dialogue, negotiation and compromise may be required to address trade-offs, find common ground and develop agreeable responses. The focus is on people, institutions and arrangements for effective governance, although it could usefully be extended to incorporate matters of space, place and geography. For example, urban land and infrastructure, public spaces and state regulations exert a major influence on the creation of inclusive human settlements and productive local economies. Urban land is an extremely valuable resource for households and firms, but rising land and property values can also be a serious barrier to inclusion. As cities grow and prosper, the demand for land and property increases, so prices rise and access for new households and migrants from elsewhere diminishes. This makes the planning, management and all-round governance of land by city authorities critical to inclusive development. The spatial aspects of exclusion are particularly important in South Africa because of the legacy of racial separation under apartheid, and the fact that blacks were dispossessed of significant economic assets, especially land. Consequently, the issues of land restitution, redistribution, reform and expropriation are particularly sensitive and difficult to manage. The challenges are arguably greater in cities than in rural areas because of the demand and pressure for land.

2 The Rockefeller Inclusive Economies Framework explained

The Rockefeller Foundation's Inclusive Economies Framework offers a useful provocation and entry point for initiating a conversation about inclusive development in South Africa – where does the country currently stand, what insights can be gleaned about the dynamics of poverty and exclusion, and what clues are generated about improving the trajectory, particularly at the local level? Indicators of this kind can enable useful comparisons to be made between different places and across different points in time. They force analysts to be specific and go beyond broad generalities, which is vital for a loose concept like inclusion. However, they should not be treated as incontrovertible and unambiguous because it is always possible to identify gaps, limitations and implicit assumptions that are open to question. Indicators may also be misleading and convey a false sense of objective reality that elevates the position of technocrats and detracts from efforts to engage civil society and capture subjective measures. Rockefeller defines an inclusive economy as one in which:

> There is expanded opportunity for more broadly shared prosperity, especially for those facing the greatest barriers to advancing their well-being… inclusive economies have five broad characteristics: they are equitable, participatory, growing, sustainable and stable.
> (Brenner *et al.* 2016)

The five broad dimensions of equity, participation, growth, sustainability and stability, are divided into 15 sub-categories with 57 associated indicators (see Figure 1 and Table 1). This is clearly a very expansive framework with no obvious major omissions. Although presented in separate categories, the dimensions are not independent, and may reinforce either vicious or virtuous cycles of development. As with any similar framework, each indicator is necessarily partial and an imperfect marker of complex, intertwined phenomenon. They often raise more questions than they answer, and care is needed to interpret their meaning. Direct comparisons between different categories of places (cities, regions or countries) can be misleading if the context and underlying processes are quite dissimilar. There are also inherent trade-offs in the choice of indicator in terms of measurability, availability, and quality of data sources. In addition, there is an underlying tension between simplicity (focusing on a few fundamental indicators to reveal the essential situation) and complexity (many indicators to capture a more comprehensive picture).

The Rockefeller indicators fit within a variety of broader efforts to track metrics of socioeconomic development. Agreed practices for how and what to measure are important for consolidating scattered information into databanks of accessible and comparable information. At the city-level, other notable efforts include work by the World Council of City Data in the creation of an ISO-standard for sustainable cities, which includes 100 indicators and more than 50 cities under certification. The United Nation's Sustainable Development Goals (SDGs) arguably provide the most important platform of collective advocacy and action by governments, NGOs and communities towards the pursuit of global development goals. The SDGs provide a critical point of departure in framing metrics of development. Their comprehensive character is both a strength in terms of covering many dimensions of human progress, but also a weakness in terms of focus and prioritisation.

Figure 1 Rockefeller Inclusive Economies Indicator Framework

INCLUSIVE ECONOMY *Expand opportunities for more broadly shared prosperity, especially for those facing the greatest barriers to advancing their wellbeing*	**EQUITABLE**	A. Upward mobility for all.
		B. Reduction of inequality
		C. Equal access to public goods and ecosystem services
	PARTICIPATORY	D. People are able to access and participate in markets as workers, consumers, and business owners.
		E. Market transparency and information symmetry.
		F. Widespread technology infrastructure for the betterment of all.
	GROWING	G. Increasing good job and work opportunities.
		H. Improving material wellbeing.
		I. Economic transformation for the betterment of all.
	SUSTAINABLE	J. Social and economic wellbeing is increasingly sustained over time.
		K. Greater investments in environmental health and reduced natural resource usage.
		L. Decision-making processes incorporate long-term costs.
	STABLE	M. Public and private confidence in the future and ability to predict outcome economic decisions.
		N. Members of society are able to invest in their future.
		O. Economic resilience to shocks and stresses.

Source: Brenner *et al.* (2016)

Notwithstanding the difficulties faced by any indicator framework, an important feature of the Rockefeller approach is that they 'try to emphasize in our selection of indicators what might be considered outcome measures, rather than process indicators' and further caution that 'the main purpose of this report is to measure outcomes of an inclusive economy as opposed to the various processes that enable building inclusive economies' (Brenner *et al.* 2016: 13). This reflects the complexities involved in trying to measure the underlying dynamics of inclusion and exclusion, which are inevitably multidimensional and difficult to disentangle. Nevertheless, we recognise the value of probing cause–effect mechanisms and therefore attempt to identify at least some of the main proximate causes. This offers an extension to the Rockefeller indicator analysis. However, the price paid for extending the work in this way is to limit the scope of the indicators that are analysed more deeply, which is partly why the report generally uses the phrase 'inclusive development' rather than 'inclusive economies'. It should be noted that the boundaries of inclusive development are not defined precisely, and it could be argued that the concept includes social protection, economic resilience and environmental sustainability. Nevertheless, the emphasis is different from the SDGs.

A novel contribution of the analysis presented here is the original sourcing and generation of spatial and city-level data from Stats SA surveys. South Africa has a rich repository of readily accessible secondary data that enable indicators in the Rockefeller framework to be populated in most of the sub-categories. There are some limitations at the city-level because the data is simply unavailable or the degree of accuracy is diminished by the sample sizes. We have deliberately chosen not to use readily available commercial sources of information, which are based on models that forecast and extrapolate data down to local and regional levels, because they do not disclose their original sources, methods and assumptions. A big gap at the city-level is reliable data related to economic output, value added, trade and investment, including sectoral breakdowns. This is a serious weakness in the current statistical landscape in SA, albeit one that the National Treasury and other stakeholders are trying to address. The Government Technical Advisory Centre has created an Economy of Regions Learning Network to take forward this agenda.[2]

3 Spatial dynamics of inclusive development in South Africa

South Africa has the highest recorded levels of income and wealth inequality in the world, and low levels of inter-generational social mobility (Piketty 2014; Schotte *et al.* 2017; Alvaredo *et al.* 2017). Despite over two decades of constitutional democracy and many redistributive policies, there is widespread recognition that inequalities have probably been rising (Ardington *et al.* 2005; van der Berg 2014; Bhorat *et al.* 2014). The outlook is unpromising, with a stagnant economy and a very slack labour market (Stats SA 2017). Indicators such as household income, assets and education continue to reflect historic race-based patterns of exclusion. The labour market has been an acute problem because of mass unemployment, the relatively small informal economy and large wage premiums of highly skilled occupations. Unemployment among young people (aged 15–24) is a staggering 55 per cent (Stats SA 2016a). Yet there has been progress in extending household access to electricity, water, sanitation, education, health care, housing and social security through state-funded pensions, disability allowances and child support grants. A slight reservation is that these expenditures do not appear to have had wider developmental spin-offs in terms of building human capabilities and raising living standards (Schotte *et al.* 2017).

What does this mean for the life chances and prospects of social mobility for different groups of SA citizens? Have some cities and communities experienced higher levels of economic and social inclusion than others, and why? What are the underlying factors and forces that may help to facilitate or frustrate outcomes that are more inclusive? The analysis of inequality has traditionally been framed as a national issue, and best tackled through national monetary and fiscal policies that increase the demand for labour, reduce the cost of living of poor households and redistribute resources from well-off groups to those on low-incomes.

Table 1 sets out indicators across four different geographical categories within SA. It draws comparisons between the largest cities (metros), other non-metro urban areas (secondary cities and towns), rural areas (largely traditional/tribal areas but including some commercial farmlands) and the national total. There are strong reasons for expecting sizeable spatial disparities in economic development and social outcomes in SA. The former Bantustans were, historically, deprived of investment in infrastructure – both physical in terms of road and rail, and human in terms of childhood nutrition, schooling and health care. These areas remain relatively unproductive in terms of agriculture and other functions, and most of them continue to experience net out-migration (David *et al.* 2018). In contrast, the metros and secondary cities have grown quite strongly since 1994. The Gauteng regional economy has performed better than the rest of the country over this period, and is the main destination for rural-urban migration. Originally based on the extraction of mineral resources, Gauteng's economy is now skewed towards financial and business services (Turok, Scheba and Visagie 2017).

The spatial hierarchy in Table 1 is striking. The combined force of multiple indicators of inclusion illustrates stark socio-spatial divisions, including employment prospects, access to household services, educational attainment and access to financial services. Poverty levels are extreme in rural areas, with four-fifths of the population below a poverty line of R1300 per

2 https://erln.gtac.gov.za/.

person per month (2015 prices). This is almost double the rate of poverty in the metros, although no allowance is made for cost of living differences between rural and urban areas (housing and transport costs are likely to be higher for many urban households). The spatial gap is confirmed by the fact that twice as many people report having run out of money to buy food in rural areas compared with in the cities. Interestingly, inequality is much lower in the former homelands and farming areas (as shown by the proportion of the population below 50 per cent of the median income). This corresponds with a general lack of wealth, as average per capita income is less than R1,000 in rural areas, compared to more than R4,000 in the metros – another conspicuous spatial disparity.

The state has been progressive in redistributing resources towards poor households, through a mildly progressive taxation regime and a strongly progressive system of cash transfers and state spending on public goods and services (Tseng 2013; Woolard *et al.* 2015). Inchauste *et al.* (2015) estimate that the income received by the richest 10 per cent of households (before tax and state transfers) is more than 1,000 times that received by the bottom 10 per cent. However, if state transfers and taxation are included in the calculation, this number reduces to about 66 times. This is still highly unequal. State redistribution is particularly important for rural households because they are less independent economically and more reliant on state welfare. Indeed, no less than two-thirds of rural households are dependent upon social grants, compared with one third in the metros (Indicator O1).

Tax data illustrates how fiscal allocations are strongly skewed towards rural populations through the services provided by provincial and municipal authorities. The eight metros generate 70 per cent of personal income tax (PIT) and receive 31 per cent of local government transfers, while the 61 rural municipalities also receive 31 per cent of transfers, but account for only 5 per cent of PIT (National Treasury 2017). This level of redistribution is partly designed to redress historic neglect and it supports the objectives of national unity and social justice. It can also be seen as an expression of solidarity between better-off and poorer communities. This pattern of spending has enabled considerable progress to be made to extend access to basic services since 1994, although rural areas still tend to lag behind, specifically in relation to piped water and sanitation facilities (see indicators C1–C3). The low density and dispersed character of rural settlements adds substantially to the cost of infrastructure delivery. The challenge is compounded by weak technical and administrative capacity in rural municipalities to plan and deliver infrastructure and to spend their budgets efficiently.

While significant progress has been made in using public resources to make service provision more inclusive, progress in the labour market has lagged far behind. This is clearly where more energy and effort needs to be expended, both to provide sustainable routes of out poverty for more people and to generate enhanced tax revenues to pay for the services required by those outside the labour market (Inchauste *et al.* 2015; National Treasury 2017). In 2016, the total number of people in SA receiving social grants exceeded the number of people with jobs by 10 per cent, whereas the former was only one third of the latter in 2001 (South Africa Institute of Race Relations 2017). Accelerated growth in output and employment are vital to raise business and household incomes, living standards and tax revenues. Labour market indicators show how the majority remain excluded from meaningful economic participation. Only 23 per cent of working age people in rural areas are in paid work, and only another 17 per cent are seeking work. Meanwhile, 50 per cent of working age people in the major cities are in paid work and another 20 per cent are seeking work. Levels of education are very low in the countryside, with less than a quarter of adults having completed secondary or tertiary education compared with half of adults in the metros (see also David *et al.* 2018). The comparative quality of investment in human capital is also apparent in the age-for-grade completion rates and the level of enrolment in early childhood development. Standardised cross-country maths and science assessments rank SA at the bottom of middle-income countries (Spaull 2013).

Table 1 Rockefeller Inclusive Economies Framework: Spatial Typology

			Metros	Other Urban	Rural	SA
EQUITABLE	A. Upward Mobility for all	A4. % enrolment in early childhood development[i]	82.1	71.0	66.3	72.8
	B. Reduction of inequality	B2. % below 50 percent of median per capita household income[i]	29.1	26.2	14.1	19.0
	C. Equal access to public goods and ecosystem services	C1. % access to flushing toilet[ii]	84.9	82.9	10.5	63.4
		C2. % access to piped water on premises[ii]	88.6	88.6	38.3	74.4
		C3a. % electricity for lighting[ii]	92.3	91.9	85.3	90.2
		C3b. % electricity for cooking[ii]	92.7	91.5	69.2	85.8
		C4a. % completion of primary school year-on-year (2002 cohort)[iii]	78.8	68.2	60.1	67.7
		C4b. % completion of secondary school year-on-year (1997 cohort)[iii]	48.6	34.2	21.0	33.8
		C6. % travel time 60+ min to work[i]	43.6	24.5	29.4	35.1
PARTICIPATORY	D. People are able to access and participate in markets as workers, consumers, and business owners.	D1. Labour force participation rate (%)[iv]	69.0	61.6	40.3	58.3
		D2. % workforce informal[iv]	24.5	31.2	43.9	30.4
		D4. Household income per capita per month[i] (indicative of the median)	3 130	2 547	1 042	2 264
	E. Market transparency and information symmetry.	E1. World Bank ease of doing business score				
		F1. % cell phone ownership[ii]	92.9	91.6	91.4	92.1
		F2. % usage of internet[ii]	14.9	10.9	4.9	11.0

(cont'd.)

Table 1 (cont'd.)

			Metros	Other Urban	Rural	SA
GROWING	G. Increasing good job and work opportunity	G1a. employment to population ratio[iv]	51.4	46.6	29.8	43.6
		G2b. unemployment rate** (expanded)[iv]	28.0	31.8	43.4	32.9
		G3. % below poverty line[i]	46.6	54.1	81.8	60.5
	H. Improving material wellbeing.	H2. % ran out of money to buy food for 5+ days during the month[ii]	8.6	11.2	17.1	11.7
		H3. % living in informal dwellings[ii]	16.4	18.7	18.0	16.6
	I. Economic transformation for the betterment of all	I1. % completed secondary or tertiary education[iv]	49.8	38.9	22.1	38.5
SUSTAINABLE	J. Social and economic wellbeing is increasingly sustained over time.	J2. % change in households living in informal dwellings[i&v]				
	K. Greater investments in environmental health and reduced natural resource usage*	K1. Energy usage per capita per annum				
		K2. Blue drop drinking water score				
		K3. Green drop wastewater score				
		K4. Volume of C02 emissions per capita				
STABLE	M. Public /private confidence & predict decisions	M2. % perceive their metro to be dealing with their problems[ii]	21.8	23.4	20.4	21.9
	N. Members of society are able to invest in their future	N1. % with bank account[vi]	65.0	62.8	39.5	55.8
		N2. % access to formal credit[vi]	17.2	13.8	4.4	11.9
		N5. % victim of crime over last year[ii]	8.8	8.0	5.1	7.5
	O. Economic resilience to shocks and stresses.	O1. % receiving government grant cash transfer[i]	34.1	42.4	65.4	45.5
		O3a. % share employment in manufacturing[iv]***	14.7	12.2	7.4	12.5
		03b. % share employment in financial/business services[iv]	21.3	11.7	6.1	15.4

Sources: [i]Stats SA (2016d) General Household Survey 2015; [ii]Stats SA (2016c) Community Survey 2016; [iii]Stats SA (2012) Census 2011; [iv]Stats SA (2016e) Labour Market Dynamics in South Africa 2015; [v]Stats SA (2003a) Census 2001; [vi]SALDRU (2016) National Income Dynamics Study 2008 – 2014/15
Notes:
*Indices under 'sustainability' could not be populated due to the spatial categorisation used
** Unemployment was not included in the Rockefeller Framework but has been included as an extension of the employment to population ratio in light of chronic unemployment in South Africa.
*** O3a&b are an adaptation as a substitute for indicating economic maturity through the Herfindahl-Hirschman Product Concentration Index

Summing up, the state's general approach can be characterised as more 'pro-poor' than 'inclusive'. Redistribution via national fiscal transfers has featured strongly in the absence of transformative and accelerated economic growth. In the context of an anaemic economy, chronic unemployment and profound social inequalities, state redistribution has done much to alleviate human suffering and material deprivation. It has served as a palliative to compensate for the lack of fundamental economic progress and broad-based prosperity. However, investment in public goods and household services does not appear to have generated a developmental dividend. In other words, it has not laid the basis for, or created the momentum to sustain, heightened economic progress and social mobility, at least not yet. According to the National Treasury, the state's fiscal capacity has now reached its limit for further redistribution. New ideas about growth and development seem necessary to address the economic malaise. Without tackling the structural problems, it is difficult to see fiscal policy making headway in the face of deep economic exclusion and inequalities.

The notion of 'radical economic transformation' referred to earlier conveys the urgency of change in the structures, institutions and patterns of ownership and control of the economy, although the policy priorities and mechanisms for driving change are far from clear or consistent. The new Minister of Finance, appointed in 2017, signalled his support for the concept, with 21 references to it in his first budget policy statement; for example: 'To ensure growth benefits all, radical economic transformation is required to change the structures and patterns of ownership, management and control of the economy, so that they include all South Africans' (National Treasury 2017: iii).

Some versions require expropriating or nationalising material assets – particularly capital and land – in order to transfer them from whites to the black majority. The call to transform land ownership has featured particularly strongly in rural areas, reflecting the history of land dispossession and perceptions of a profound 'land hunger' (Parliament 2017). However, the track record of land redistribution to date suggests that this often results in a fall in productive activity rather than an increase (Aliber *et al.* 2016). This is partly because the need to transfer all the know-how and other support required to engage in successful farming has been neglected. Agriculture also represents only a small part of the livelihood strategies for most households in the former homelands (Bank and Meyer 2006; Nel and Binns 2000). A range of interventions are needed to strengthen small-scale farming, diversify rural economies, develop small towns as service centres and provide better logistics to connect rural and urban areas, as recognised by the National Development Plan. Inclusive and broad-based development requires getting to grips with the economic fundamentals.

These fundamentals include the capacity of government and state entities to provide the infrastructure and other public goods for the economy to function. This includes reliable and cost-effective energy and water supplies, adequate road, rail and seaport links, and access to patient finance. It also includes support for skills training and in the gradual accumulation and transfer of know-how across the whole spectrum of occupations, from professionals, managers and engineers to artisans, plumbers, cooks and other workers. Interestingly, less than one in four households agree with the statement that their local municipality is dealing with their problems (indicator M2). This reflects widespread concerns across civil society and the private sector with the state of public services in general and the responsiveness of local government in particular. Mistrust in municipalities appears highest in rural areas. Lack of institutional capacity is compounded by growing revelations of maladministration and misuse of state resources. Genuine economic transformation is a complex undertaking that requires a capable state to negotiate and implement.

4 Migration and opportunities in the city

> *Urbanization is increasingly recognized as a promising vehicle for the achievement of major aspects of the 2030 Agenda, especially given urban resource and service delivery efficiency as well as links to economic growth.*
> McGranahan, Schensul and Singh (2016)

Migration to cities in search of work appears to be a sensible strategy for many adults living in rural areas, bearing in mind the superior labour market prospects in urban areas. Gauteng experienced a net in-migration of 1.4 million people between 2001 and 2016 (Stats SA 2016b). However, migrants face vulnerabilities through the loss of traditional kinship and subsistence systems, poor transport connectivity and barriers to work through soft and hard skills. People moving into informal settlements are particularly vulnerable to inadequate shelter, deficient basic services, exposure to environmental hazards and violent crime (Turok and Borel-Saladin 2016). Among the rural poor, does migration to cities offer a means of upward mobility and inclusion, or a dead-end of ongoing suffering and vulnerability?

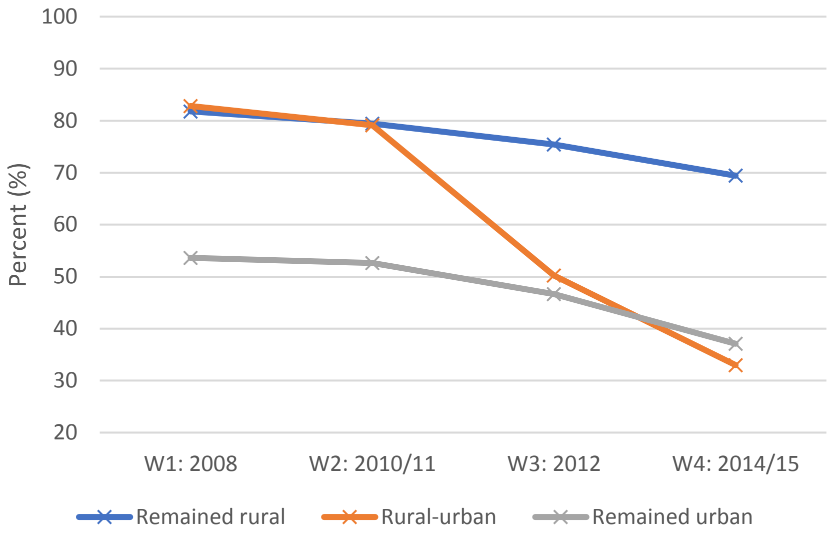
To get closer to understanding the relationship between migration and livelihoods, we use novel longitudinal/panel data – the National Income Dynamics Study (NIDS) – which interviews the same individuals every two years, starting in 2008. This allows us to directly identify migrants and measure the changes in living standards, rather than make inferences between urban and rural communities that are dissimilar in terms of their demographic and socioeconomic characteristics. This evidence suggests that there may be a large, positive impact on life circumstances for individuals who migrate to cities.

Figure 2 shows changes in the level of income poverty between 2008 and 2014 amongst three comparison groups: individuals who remained in rural areas; those who decided to migrate; and those who had remained in urban areas.[3] At the start of the period, poverty levels among rural communities was above 80 per cent, compared to just over 50 per cent among the urban population.[4] By the end of the six-year period, poverty had fallen for both rural and urban communities, but there remained a large gap in the level of income deprivation between rural and urban communities. In comparison, rural-urban migrants started out just as poor as rural communities, but managed to cut their poverty levels in half. In other words, the migrant cohort all started out as rural and mostly poor but ended up as urban and largely non-poor. We estimate that 385,000 migrants managed to escape from poverty over the period, with two-thirds of those who were poor in wave one making a successful exit.

[3] Migrants are defined as adults (aged 19–56 years in wave one) who were rural in the first wave and moved to an urban area in any of the subsequent waves (and did not move back to a rural area).

[4] We employ an upper-bound poverty line of R1,140 per capita in December 2012 prices based upon a basic-cost-of-needs approach, as developed by Budlender *et al.* (2015).

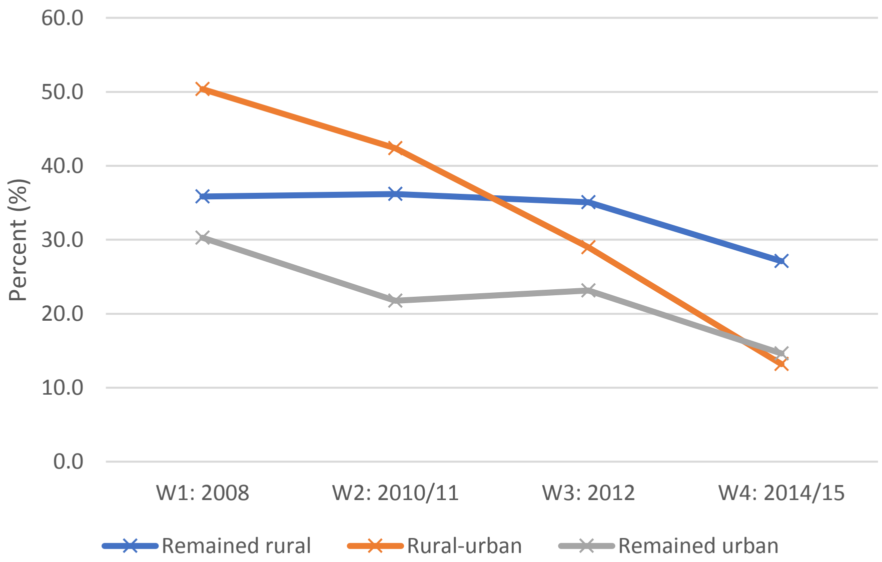
Figure 2 Percentage below the income poverty line, wave 1 – wave 4



Source: Authors' own based on SALDRU (2016) National Income Dynamics Study 2008 – 2014/15.

The NIDS data also suggests that escaping from poverty among migrants is more than just surface changes to household size, the number of dependents or attachment to better-off residents, which can all lower income poverty. Figure 3 shows that migrants experienced much more positive labour market prospects than individuals who chose to remain rural – a sign of genuine economic inclusion. The unemployment rate amongst migrants was as high as 50 per cent in wave one, but fell to below 15 per cent in wave four as migrants moved to the cities. Unemployment rates also declined among rural communities, but the impact was far less dramatic and unemployment ended up roughly 30 per cent. Nearly 80 per cent of rural-urban migrants who were unemployed in wave one had a job by wave four. This amounts to 175,000 jobs for the 225,000 migrants who wanted to work in wave one.

Figure 3 Percentage unemployed, wave 1 – wave 4



Source: Authors' own based on SALDRU (2016) National Income Dynamics Study 2008 – 2014/15

While it is difficult to disentangle the mixture of factors and forces that determine the success or failure of an individual's decision to resettle in an urban area, this evidence suggests that migration may play a decisive role in lifting some people out of income poverty, despite the other vulnerabilities that may arise. This is corroborated by other international studies (Kundu and Sarangi 2007; Su *et al.* 2015). Within the context of South Africa's stark uneven spatial development, an inclusive growth strategy should take the role of urbanisation in narrowing inequality seriously. Growth is most readily achieved in cities and most growth continues to take place in cities. Moreover, rural dwellers who move to cities are in a better position to take advantage of that growth. A policy of inclusive urbanisation would mean doing more to strengthen the capacity of cities to accommodate the inflow of rural migrants, by creating more affordable and liveable environments. It would also involve supporting the forms of training and work experience that allow rural migrants to compete for the opportunities available.

This would not only promote economic efficiency and growth (through the concentration of people and production), but also uphold basic human rights by supporting people's freedom of movement to access economic opportunities and services within cities. National government remains ambivalent about urbanisation, despite policies such as the Integrated Urban Development Framework. Politicians, officials and urban elites are wary of the pressures induced by in-migration and see informality as a deterrent to attracting corporate investment and tourism. Municipal by-laws, land-use zoning systems and public infrastructure can all be used as instruments of inclusion or exclusion for outsiders. Where city authorities fail to provide serviced land for incoming populations, the result is overcrowded informal settlements and backyard shacks. An inclusive economy requires energetic efforts to accommodate rural migrants physically, and also to integrate and assimilate them into the existing social, economic and political fabric of the city.

5 Inclusive development in the metros

> *Urban spaces and the flows between these spaces can be exclusive, where economic activities are preserved for the few and the poor are trapped at the periphery, or inclusive, where people are able to access economic opportunities across the city.*
> SACN (2016)

Cities have the capacity to generate immense value and wealth, if planned, developed and managed effectively. More than half of the global population live in cities, which generate some 80 per cent of world GDP (World Bank 2017). The forces of urban proximity, density and diversity enhance productivity, spur investment and stimulate growth through agglomeration economies – the intense sharing, matching and learning among firms and workers (Glaeser 2011; Glaeser and Joshi-Ghani 2013; Storper 2013). Large, well-connected cities foster business transactions and entrepreneurship, competitive markets, strong and diverse social networks, cultural integration, creativity and innovation. Yet urban prosperity and the consequential pressure of demand for land can also exacerbate inequalities by driving up property prices and the general cost of living, which impedes access to the city for low-income groups.

South Africa's history of race-based exclusion means that its cities lack some of the advantages of metropolitan areas elsewhere, including a compact form, efficient public transport systems, well-performing state schools and hospitals, a stock of affordable rental housing, and safe and attractive public spaces where people from diverse backgrounds can readily mix and mingle. Apartheid restricted black people from owning businesses and property, barred them from white-collar occupations, excluded them from higher education and confined them to poorly-serviced settlements on the periphery. Putting these interlinked dynamics into reverse is proving to be difficult, especially in a context of economic slowdown with weakened state institutions and tepid private investment. Different groups tend to lead separate lives, with a proliferation of gated communities, security estates and fortified business precincts for privileged groups reinforcing the physical and psychological divisions. The cost of well-located land is prohibitive for low-income housing, and political commitment to use surplus state-owned land for housing has been lacking (Turok 2016). New ideas are needed about how cities can pursue a more inclusive trajectory, where people from different backgrounds share in the prosperity created by the concentration of activity.

6 Poverty and income

Table 2 applies the inclusive economies framework to South Africa's eight metropolitan municipalities: Johannesburg, Cape Town, Tshwane, Ekurhuleni, eThekwini, Nelson Mandela Bay, Buffalo City and Mangaung. Each city's score on an indicator is hued light green or red if performance is comparatively strong or weak.[5] The overall impression is that the three largest city economies – Johannesburg, Cape Town and Tshwane – tend to have better scores. Cape Town's performance is distinctive on critical indicators such as average incomes, poverty, reported hunger, access to services, unemployment and education.

These aggregations hide important differences in who has access to the resources and privileges of each city. The easiest to identify is by race. Demographic profiles retain their poignancy and are necessary to understand how the benefits of cities are distributed. Figure 4 shows the distinctiveness of Cape Town's racial composition. Coloureds and Indians comprise nearly 60 per cent of the total population, compared with less than 20 per cent for the other metros (except for Durban with its large Indian population and Nelson Mandela Bay with its sizeable Coloured population). Table 3 shows the per capita income and poverty levels broken down by metro and race. The differentials are quite striking. White household incomes are typically three to four times higher than African incomes, and this is probably an underestimate of the true values.[6]

Differences in the racial mix within cities can have a large knock-on effect for how aggregate measures of performance are scored. For example, indicator D4 shows that average incomes in Cape Town are higher than in Johannesburg, suggesting greater *inclusion*. However, it is the relatively large share of white households that raises the average. If income levels between metros are compared across race groups directly, then African and Coloured households in Cape Town seem to have lower incomes than African and Coloured households in any of the Gauteng metros (see Table 3). This suggests greater *exclusion*, or marginalisation. Likewise, levels of poverty are similar between Cape Town and Johannesburg if comparisons are broken down by race.

Overall, race-based patterns of exclusion are clear across all the metros. The 1994 political transition has evidently not been matched by an equivalent shift in economic fortunes. A recent opinion piece by the Dean of Law at the University of Cape Town reiterated the conundrum:

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5 The estimate is coloured according to variation across the metros – hued red or green if the number is above or below one standard deviation of the average.

6 The General Household Survey collects information on incomes from various sources, but it is not designed to measure the incomes of richer households. For example, it does not collect data on income from property rentals or interest from savings that are common among higher-income groups. There is one question that asks about total household expenditure (if individual income source information is missing) but the upper income category is only R10,000 or more. This means that the average income figures reported here are indicative of the median rather than the mean. This is not necessarily a disadvantage because the mean is susceptible to the influence of outliers.

> South Africa's constitution is admired globally. It incorporates hard fought for political and civil rights, and a generous range of social and economic rights that can be enforced by courts. Why then do so many South Africans, mostly black, still live amid widespread poverty? Why do they continue to live in segregated spaces that reinforce apartheid geography?
> (Andrews 2017)

Part of the answer is that democracy and political freedom have not translated into substantially higher incomes for most of the black population. There is evidence that the income gap between African and white households has narrowed, although these gains have been undermined by higher income gaps within race groups (van der Berg 2010; Orthofer 2016). Domestic policy debates continue around how policies such as Black Economic Empowerment could be broadened and scaled-up. The biggest economic shift has occurred among Africans who have secured employment in the public sector, the racial composition of which has been transformed since 1994. The number of full-time equivalent jobs in the public service grew by approximately 200,000 (almost 20 per cent) between 2007 and 2013, since when it has contracted by 22,000 (National Treasury 2017). The public service wage bill is more than a third (35 per cent) of the budget allocation at R510 billion per year (National Treasury 2017). Further growth in public sector jobs is unsustainable as a strategy for inclusion because of the fiscal crisis (National Treasury 2018). The obvious priority is to create more jobs in the private sector, where the recent track record has been poor. The performance of small and medium enterprises has been particularly weak, with concerns about the exclusionary and predatory practices of large companies and the complex regulatory hurdles imposed by government.

Table 2 Rockefeller Inclusive Economies Framework: Metro Comparisons

			Cape Town	Jo'burg	Tshwane	Ekur-huleni	eThekwini	Nelson Mandela	Buffalo City	Man-gaung
EQUITABLE	A. Upward Mobility for all	A4. % enrolment in early childhood development[i]	86.3	90.7	72.1	68.2	85.6	96.1	73.5	66.7
	B. Reduction of inequality	B2. % below 50 percent of median per capita household income[i]	27.0	28.1	29.5	26.0	31.6	25.2	22.4	30.6
	C. Equal access to public goods and ecosystem services	C1. % access to flushing toilet[ii]	92.8	90.2	79.2	86.3	73.9	93.2	77.1	67.9
		C2. % access to piped water on premises[ii]	88.0	92.1	89.6	87.9	85.4	93.4	71.1	90.1
		C3a. % electricity for lighting[ii]	97.3	91.0	92.0	85.5	96.0	95.6	86.4	95.6
		C3b. % electricity for cooking[ii]	98.3	92.0	92.1	86.1	95.7	95.4	85.5	95.9
		C4a. % completion of primary school year-on-year (2002 cohort)[iii]	76.6	84.7	80.3	81.9	77.0	72.7	71.9	71.2
		C4b. % completion of secondary school year-on-year (1997 cohort)[iii]	45.3	53.6	53.6	47.5	51.9	37.9	33.2	42.3
		C6. % travel time 60+ min to work[i]	11.1	13.0	13.6	6.5	9.0	1.4	2.3	7.4
PARTICIPATORY	D. People are able to access and participate in markets as workers, consumers, and business owners	D1. Labour force participation rate (%)[iv]	68.4	76.6	69.7	72.6	57.0	65.9	66.3	63.6
		D2. % workforce informal[iv]	17.7	27.3	22.5	22.5	30.6	24.9	31.5	29.1
		D4. Household income per capita per month[i] (indicative of the median)	3 624	3 440	3 669	3 523	1 972	1 772	2 285	2 809
	E. Market transparency and information symmetry	E1. World Bank ease of doing business score[vii]	73.1	67.5	70.5	72.5	72.4	67.9	71.4	72.0
		F1. % cell phone ownership[ii]	92.1	93.4	94.2	93.4	92.0	91.0	91.1	91.6
		F2. % usage of internet[ii]	20.0	15.8	16.6	11.6	12.1	12.3	9.5	15.1

(cont'd.)

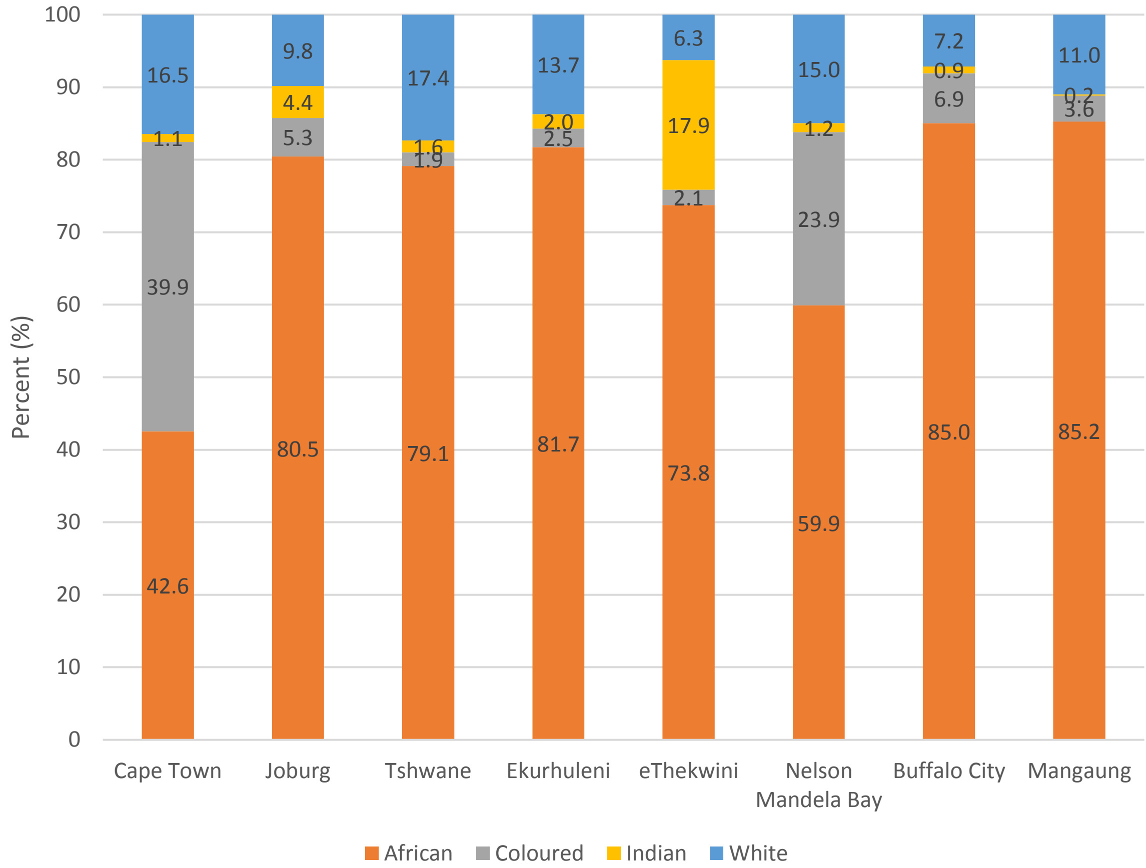
Table 2 (cont'd.)

			Cape Town	Jo'burg	Tshwane	Ekur-huleni	eThekwini	Nelson Mandela	Buffalo City	Man-gaung
GROWING	G. Increasing good job and work opportunity	G1a. employment to population ratio[iv]	53.3	55.5	52.2	50.6	47.3	44.2	48.7	46.6
		G2b. unemployment rate** (expanded)[iv]	22.6	29.0	28.7	32.6	23.8	32.8	28.2	32.2
		G3. % below poverty line[i]	37.3	42.6	40.6	42.3	63.7	61.8	56.4	51.4
	H. Improving material wellbeing.	H2. % ran out of money to buy food for 5+ days during the month[ii]	7.0	9.1	8.0	8.0	7.3	13.1	17.7	10.3
		H3. % living in informal dwellings[ii]	17.7	18.1	16.5	18.8	13.5	6.9	25.3	11.8
	I. Economic transformation for the betterment of all	I1. % completed secondary or tertiary education[iv]	49.4	49.7	56.5	48.3	46.5	41.9	41.7	46.2
SUSTAINABLE	J. Social and economic wellbeing is increasingly sustained over time	J2. % change in households living in informal dwellings[i&v]	-1.3	-3.0	-6.7	-10.5	-5.6	-15.2	-2.4	-10.1
	K. Greater investments in environmental health and reduced natural resource usage	K1. Energy usage per capita per annum[viii]	38.2	32.9	25.3	36.0	56.0	24.9	26.5	19.3
		K2. Blue drop drinking water score[ix]	98.1	98.9	95.8	99.0	98.8	90.0	92.6	84.5
		K3. Green drop wastewater score[ix]	86.8	90.5	63.8	78.8	90.6	70.0	53.0	38.0
		K4. Volume of C02 emissions per capita[viii]	5.3	5.2	5.3	5.1	6.7	4.3	3.7	2.8
STABLE	M. Public /private confidence & predict decisions	M2. % perceive their metro to be dealing with their problems[ii]	22.8	20.7	24.5	22.4	19.3	20.6	16.6	28.2
	N. Members of society are able to invest in their future	N1. % with bank account[vi]	65.6	66.5	79.7	75.3	53.8	55.0	63.6	60.6
		N2. % access to formal credit[vi]	16.8	15.4	28.3	18.0	12.3	15.4	20.4	16.8
		N5. % victim of crime over last year[ii]	10.8	10.2	9.0	7.8	6.3	7.5	8.1	6.4
	O. Economic resilience to shocks and stresses.	O1. % receiving government grant cash transfer[i]	13.8	11.5	11.5	21.4	17.2	21.9	13.7	7.9
		O3a. % share employment in manufacturing[iv]***	21.5	26.2	22.5	19.7	17.2	18.3	9.8	16.3

Sources: [i]Stats SA (2016d) General Household Survey 2015; [ii]Stats SA (2016c) Community Survey 2016; [iii]Stats SA (2012) Census 2011; [iv]Stats SA (2016e) Labour Market Dynamics in South Africa 2015; [v]Stats SA (2003a) Census 2001; [vi]Chinhema *et al.* (2016) National Income Dynamics Study 2008 – 2014/15; [vii]World Bank (2015); [viii]Sustainable Energy Africa (2015); [ix]South African Water Research Commission (2012)

Notes: * Unemployment was not included in the Rockefeller Framework but has been included as an extension of the employment to population ratio in light of chronic unemployment in South Africa.
** O3a&b are an adaptation as a substitute for indicating economic maturity through the Herfindahl-Hirschman Product Concentration Index

Figure 4 Percentage between population groups by metro, 2016



Source: Authors' own, based on Stats SA (2016c) Community Survey 2016.

Table 3 Income and poverty by metro and race, 2015

	Cape Town	Jo'burg	Tshwane	Ekurhuleni	eThekwini	Nelson Mandela	Buffalo City	Mangaung
Income per capita	**3624**	**3440**	**3669**	**3523**	**1972**	**1772**	**2285**	**2809**
African	2152	2601	2774	2514	1228	1247	2040	2078
Coloured	2713	3326	4710	4209	3719	2062	2184	1713
White	8639	8211	7278	7389	7808	4732	5541	7412
Female-headed	4637	3785	3794	3327	2128	1717	2768	2435
Male-headed	5631	4573	5234	4389	3599	3215	3477	3894
Poverty	**37.3**	**42.6**	**40.6**	**42.3**	**63.7**	**61.8**	**56.4**	**51.4**
African	47.9	48.3	48.6	51.9	76.1	77.5	60.3	58.8
Coloured	41.9	46.1	37.6	40.2	18.9	45.4	59.2	78.1
White	6.0	10.4	9.6	7.0	8.9	5.2	4.9	3.2
Female-headed	40.4	46.6	49.3	53.2	63.6	68.3	54.2	58.2
Male-headed	24.2	31.1	29.0	31.8	36.8	41.2	38.6	35.2

Source: Authors' own based on Stats SA (2016d) General Household Survey 2015.

7 Access to basic services and housing

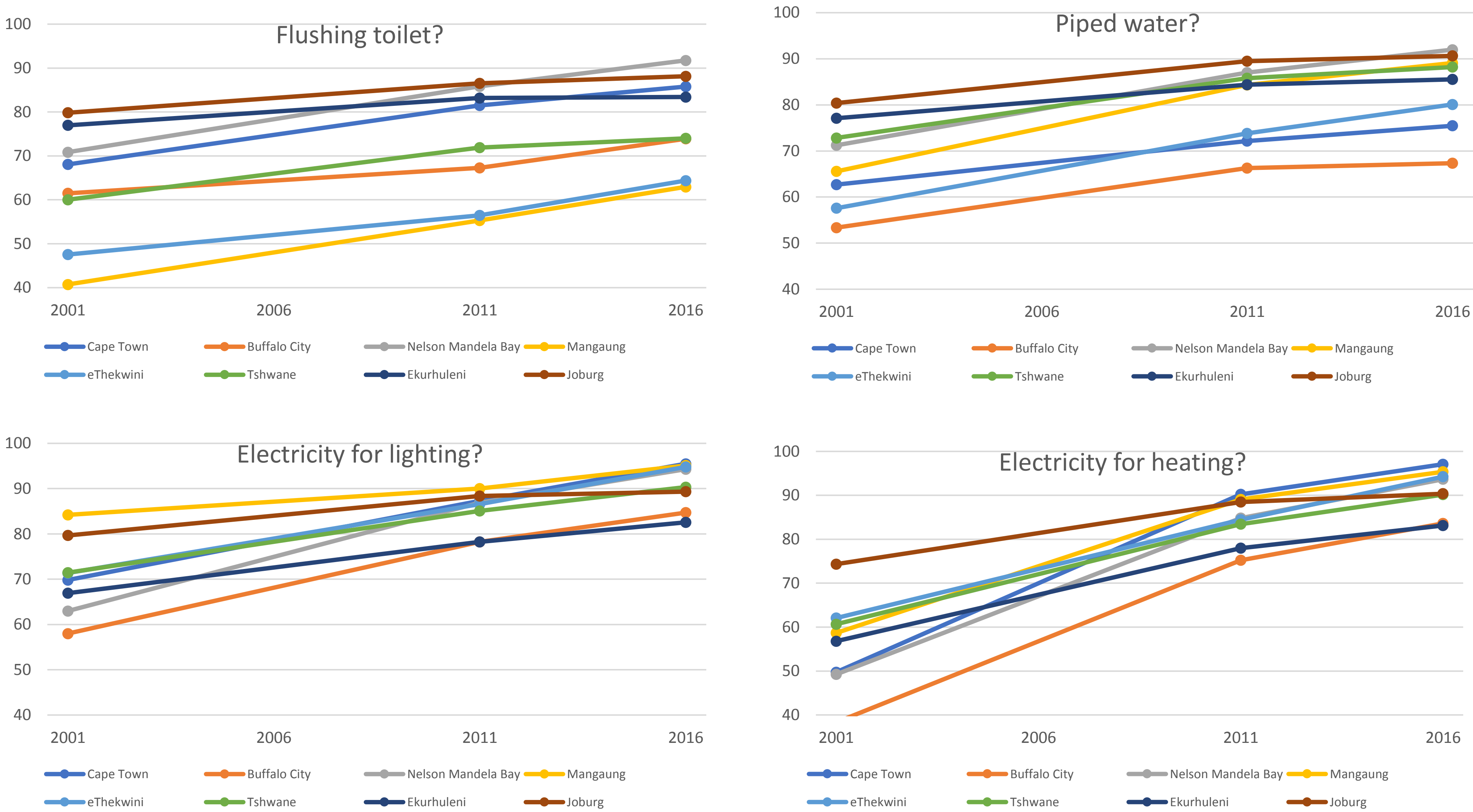
In terms of access to basic services – electricity, piped water and sanitation – white and Coloured communities already have near universal coverage. Therefore, the question of equal access is broadly about including poorer African households on the periphery and extending services into informal settlements. Figure 5 shows that great strides have been made in extending access for African households since 1994. Nelson Mandela Bay now provides access to basic services for more than 90 per cent of its population. Access to electricity is generally higher than to water and sanitation because electricity is simpler to install and does not require underground engineering works, which are costly and disruptive.

Fulfilling the Constitutional right to adequate housing has been more challenging. The Reconstruction and Development Programme (RDP), which provides free dwellings to those with low or no incomes, has made considerable strides in constructing approximately three million housing units to date. The proportion of households in urban areas who reported living in a state-subsidised/RDP house increased from 7.6 per cent in 2002, to 28.5 per cent in 2016.[7] However, the rate of growth in housing need still outstrips supply, and it is estimated the backlog has grown to over 2.3 million, notwithstanding the sizeable national budget allocation (Turok 2015). What is very problematic is that the urgency to deliver RDP housing has resulted in sterile dormitory settlements on the urban periphery, where land is cheap and readily available, rather than strategically located investments in relation to the existing infrastructure and economic opportunities. The probability of finding work is diminished by a spatial mismatch between where people live and where jobs are located (Budlender and Royston 2016). Furthermore, the state's preoccupation with home ownership has resulted in the neglect of rental housing (GTAC 2016). Rental accommodation is widely regarded internationally as more suitable for well-located urban neighbourhoods, where density is important and land prices are relatively high. This type of housing is particularly suitable for young upwardly-mobile groups who want to access the labour market without making long-term commitments to specific properties and places.

Fragmented cities tax the poor through higher commuting costs. Kerr (2015) found that whites spend approximately 60 minutes commuting to and from work per day while Africans take approximately 100 minutes. Poor households spend between 20 to 40 per cent of their earnings on transport alone. Indicator C6 suggests that lengthy commutes are particularly problematic in Cape Town, Johannesburg and Ekurhuleni. Low residential densities and sparse economic development along transport corridors in SA cities undermine the viability of new bus rapid transit systems being installed – very large subsidies are likely to be required for the foreseeable future. They also raise the costs of bulk infrastructure, which has to be stretched across a large urban footprint. The old apartheid city still dominates the urban form, as low incomes groups are confined to the outskirts, far from jobs in the business precincts and economic centres. Affluent households can afford to buy into well-developed former white suburbs, which have reliable services, quality schools, health care, libraries, dedicated security, public parks and other recreational amenities.

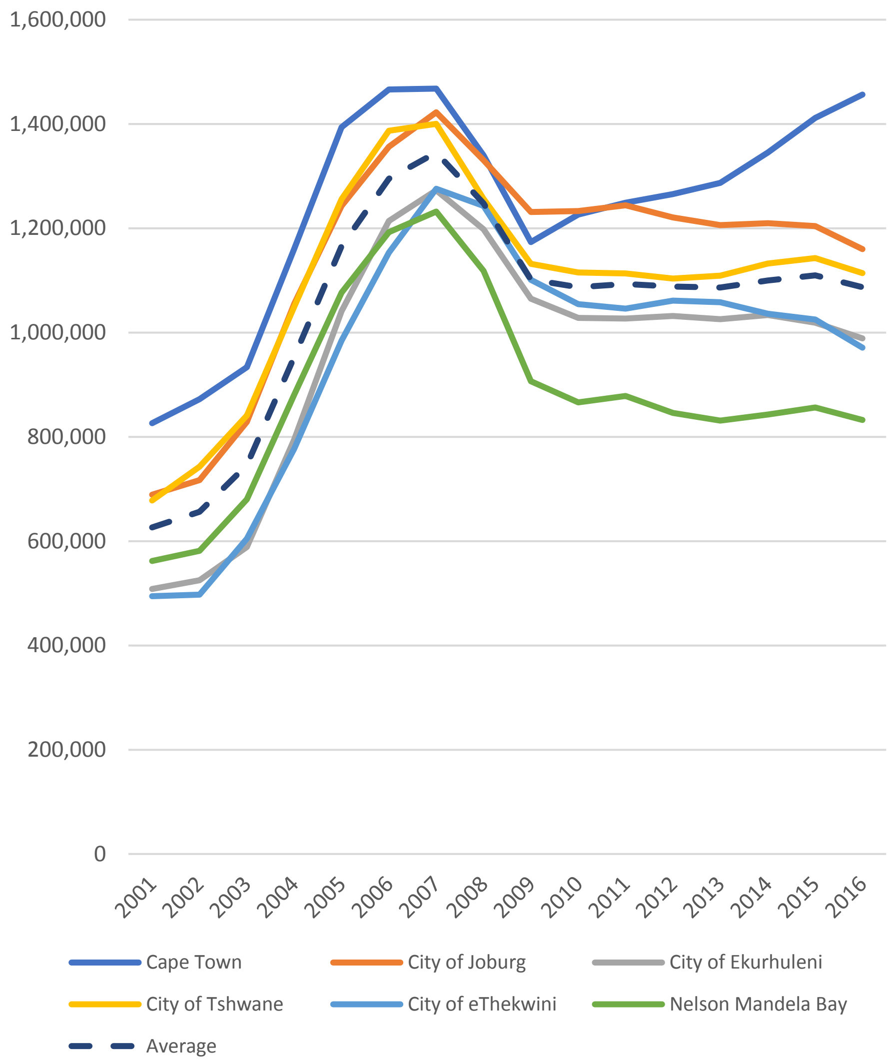
[7] Authors' own based on Stats SA (2003b) General Household Survey 2002; Stats SA (2016d) General Household Survey 2015.

Figure 5 Percentage with access to basic services by metro amongst African households – 2001, 2011 and 2016



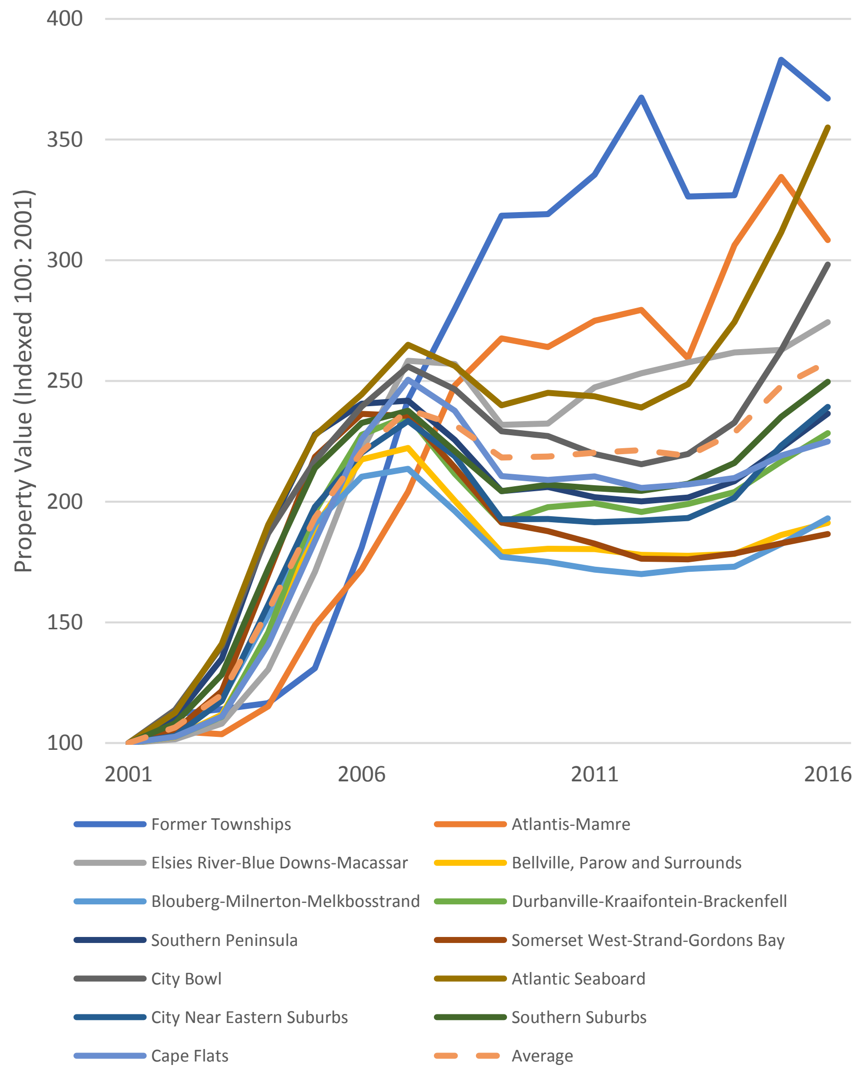
Sources: Authors' own based on Stats SA (2003a) Census 2001; Stats SA (2012) Census 2011; Stats SA (2016c) Community Survey 2016.

Figure 6 Average property price by metro (Real 2017 Q1 prices)



Source: Authors own based on First National Bank (2017) FNB House Price Index 2001–2016.

Figure 7 Cape Town property growth, 2001–2016



Source: Authors' own based on First National Bank (2017) FNB House Price Index 2001–2016.

Persistent spatial segregation largely reflects the differential earnings and buying power of different groups in the labour market, and the way they get 'sorted' across neighbourhoods of varying quality. Certain policies and practices also favour affluent groups implicitly. Suburban freeways and mortgage tax relief for homeowners had this effect in the past. A contemporary example is the government's failure to introduce a consistent system of development charges to recover the full costs of installing bulk water supplies, sewers, storm-water drainage and other public infrastructure to service new private housing projects. This amounts to an implicit subsidy to the developers and purchasers of these properties. To bring people with lower incomes closer to the urban core would require a stronger commitment to support mixed-income, higher-density developments. The government has been slow to develop an inclusionary housing policy that requires developers to ensure that a share of new housing projects is affordable to people on low incomes.

Many low- and middle-income households struggle to find affordable housing near to their places of work and amenities. Figure 6 shows how property prices increased exponentially between 2001 and 2007 across all the metros. They slumped during and after the recession, and subsequently stabilised. Average house prices increased by about 70 per cent over the past 15 years, from roughly R600,000 to R1,100,00 (in real terms). Property prices in Cape Town have risen more strongly than elsewhere. Prices have increased in all suburbs, especially in the townships, albeit from a low base (Figure 7). Housing affordability is a growing concern, especially for poor and working class households. This reflects the shortage of housing stock, stagnant incomes and difficulties many households face in obtaining home loans because of their high levels of debt. Poor access to decent housing deprives many people of privacy, security and protection from the elements. It means they do not have an asset against which to borrow money, to operate a small business from, to protect them from income shocks, or to transfer wealth to the next generation, leading to upward mobility.

Rough calculations illustrate how owning a property is beyond the reach of many households (Table 4). Assuming that a family of four dedicates 30 per cent of their household income to mortgage repayments, this will take more than 20 years to pay off interest-free (for people on average incomes, given the average house price). For African households in Cape Town and eThekwini, this will take close to 50 years. Only white households have realistic timeframes for buying homes based upon these assumptions. Affordability problems help to explain the rising proportion of households living in rental accommodation, which are often backyard shacks. The government has done surprisingly little to support the rental sector, despite the case for subsidising rental property in and around the urban cores for workers who cannot afford the rents that would make the construction of new rental stock commercially viable, and who are not poor enough to qualify for free housing (GTAC 2016).

Table 4 Property affordability by metro

	Cape Town	City of Jo'burg	City of Ekurhuleni	City of Tshwane	City of eThekwini	Nelson Mandela Bay
Average house price	R1,456,354	R1,160,226	R988,872	R1,113,919	R970,824	R832,453
Total household income*	R14,496	R13,760	R14,676	R14,092	R7,888	R7,088
African	R8,608	R10,404	R11,096	R10,056	R4,912	R4,988
Coloured	R10,852	R13,304	R18,840	R16,836	R14,876	R8,248
White	R34,556	R32,844	R29,112	R29,556	R31,232	R18,928
Total Years Pay-off**	28	23	19	22	34	33
African	47	31	25	31	55	46
Coloured	37	24	15	18	18	28
White	12	10	9	10	9	12

Source: Authors own based on First National Bank (2017) FNB House Price Index 2001 - 2016; Stats SA (2016d) General Household Survey 2015.
Notes: * assuming a family of four based upon indicator D4 "per capita monthly income"
** interest-free and dedicating 30 per cent of total income

International experience suggests that delivering housing in a way that supports inclusion (as well as efficiency and sustainability) requires support for non-profit organisations that can build and manage subsidised rental housing. It also requires partnerships with the private sector to create mixed-income, mixed-use developments along transport routes and around central cities. Better coordination between housing, transport, land-use policies and public infrastructure is essential. Policy integration and partnership working is a departure from conventional land-use zoning, environmental regulation and planning procedures. Shifting from the traditional reactive mind-set towards 'making things happen' should spur greater creativity and innovation in urban design and execution among developers. A smarter approach to using vacant and under-utilised state-owned land could be a valuable component of this. Abandoned buildings and derelict precincts within many Central Business Districts offer scope to pursue more inclusive and interesting models of urban renewal, such as Braamfontein and Maboneng in Johannesburg, compared to the usual commercial projects.

8 Informal settlements

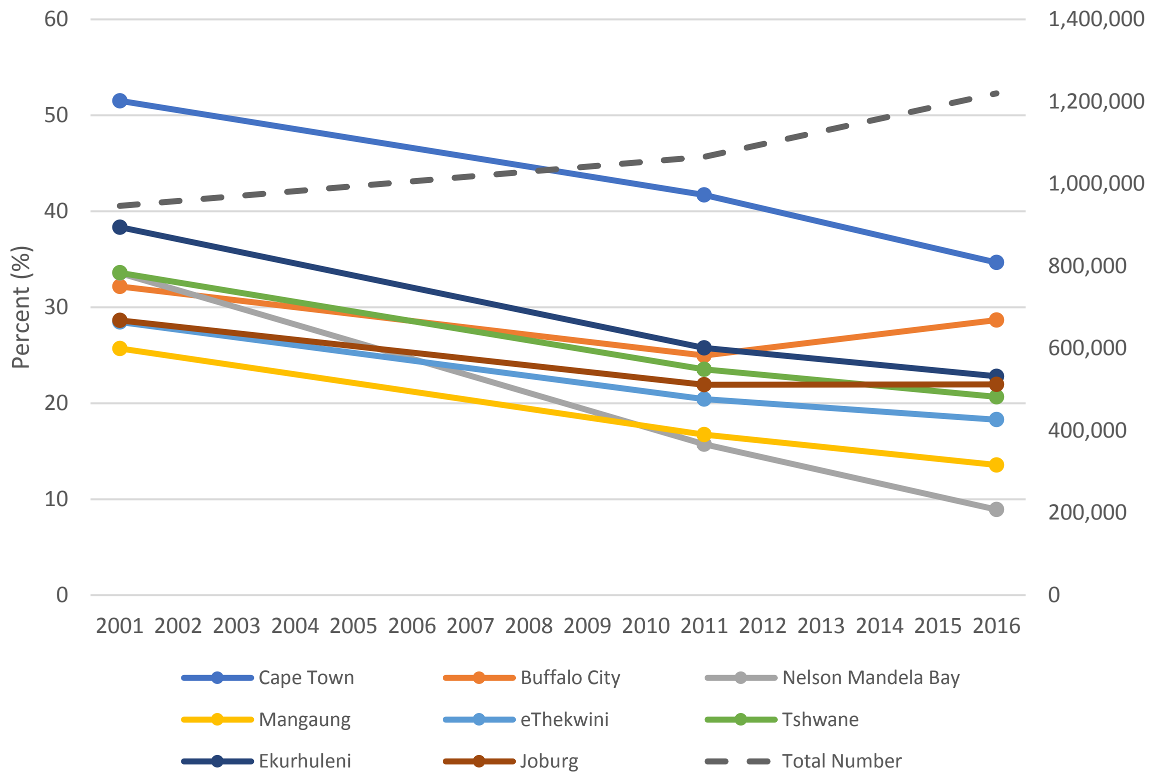
Moving into shack settlements is the only way for many outsiders to access cities. Living conditions are typically harsh with little protection from environmental and social hazards (Cirolia *et al.* 2016). Yet there are opportunities to earn a livelihood and perhaps a job through enterprise and effort. Such communities reflect both the sacrifice and resilience of people struggling in precarious conditions. In other words, they concentrate hope and aspiration, as well as poverty. Yet they are often stigmatised by elites for anti-social behaviour, for criminality and for harbouring foreigners. If the alternative is rural poverty, then shack areas have a role to play in facilitating upward mobility. There is some evidence that moving to an informal settlement can provide a path out of poverty, but more could certainly be done to smooth the transition (Turok, Budlender and Visagie 2017). If inclusive cities embody the United Nations commitment to 'leave no-one behind' (as well as the African

National Congress' slogan 'a better life for all'), then reaching out to vulnerable groups by supporting shack communities and aspiring migrants should be a much higher priority than it is at present. Responsibility should be shared with national government because of the financial burden on stretched metro municipalities.

Shack populations in SA cities are still relatively small by international standards, and the situation is more manageable because the rate of growth is slower. Elsewhere in Africa, some 62 per cent of the urban population live in informal settlements. In Johannesburg and Cape Town, less than one in five of the population (18 per cent) live in informal settlements or in backyard shacks (indicator H3). Disaggregating into racial groups yields some striking patterns because almost all households in informal settlements are African (+95 per cent). In Cape Town, more than one in three Africans lived in shacks (see Figure 8) in 2016. This figure is obscured without looking at the racial patterns of segregation. Whilst the share of shack dwellers declined in all the metros between 2001 and 2016 – a tangible impact of the rollout of RDP housing – the absolute numbers continued to rise. This heightens the urgency to find more effective ways of upgrading informal settlements without displacing the existing residents.

Government has an important role to play in establishing the foundations for all-round development in these areas. Without any reassurances about the future of informal settlements, communities behave as temporary migrants and remit any spare money to their relatives in the countryside (Posel and Marx 2013; Philip *et al.* 2014). Rival groups, gatekeepers and other undemocratic actors exerting control over the allocation of land and other scarce resource in the absence of formal legal safeguards and proper policing to limit crime and violence easily undermine community cohesion and safety. Rather than discriminating against them and periodically instigating evictions, there should be incremental programmes to work hand-in-hand with communities located in places that are suitable for long-term residence to provide the foundational elements required to invest in their future. This involves tangible items like essential services, social safety nets and connecting infrastructure. Building trust and providing some security of tenure are also important for people to start investing in their properties and consolidating their position in the city (Seeliger and Turok 2014). Alternative sites will need to be provided for communities that are in risky or unsuitable locations, and to de-densify overcrowded informal settlements.

Figure 8 Percentage of African households living in shack dwellings by metro; 2001–2016*

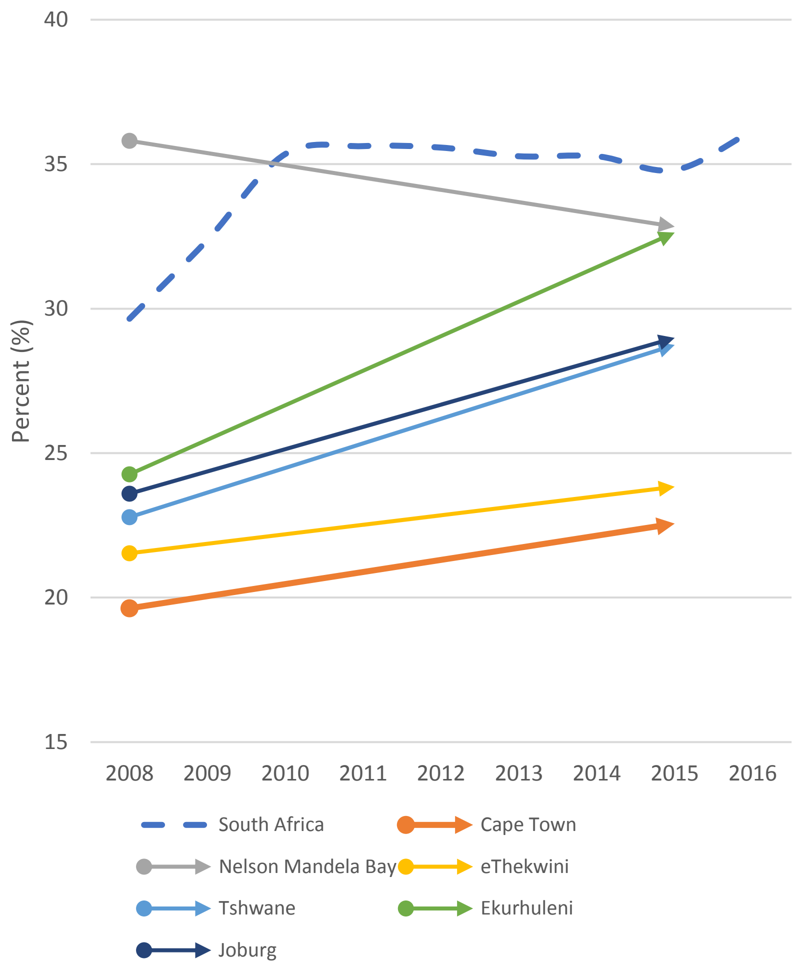


Source: Authors' own based on Stats SA (2003a) Census 2001; Stats SA (2012) Census 2011; Stats SA (2016c) Community Survey 2016
Note: * The total number refers to the total number living in shacks in all metros.

9 Exclusion from the productive economy

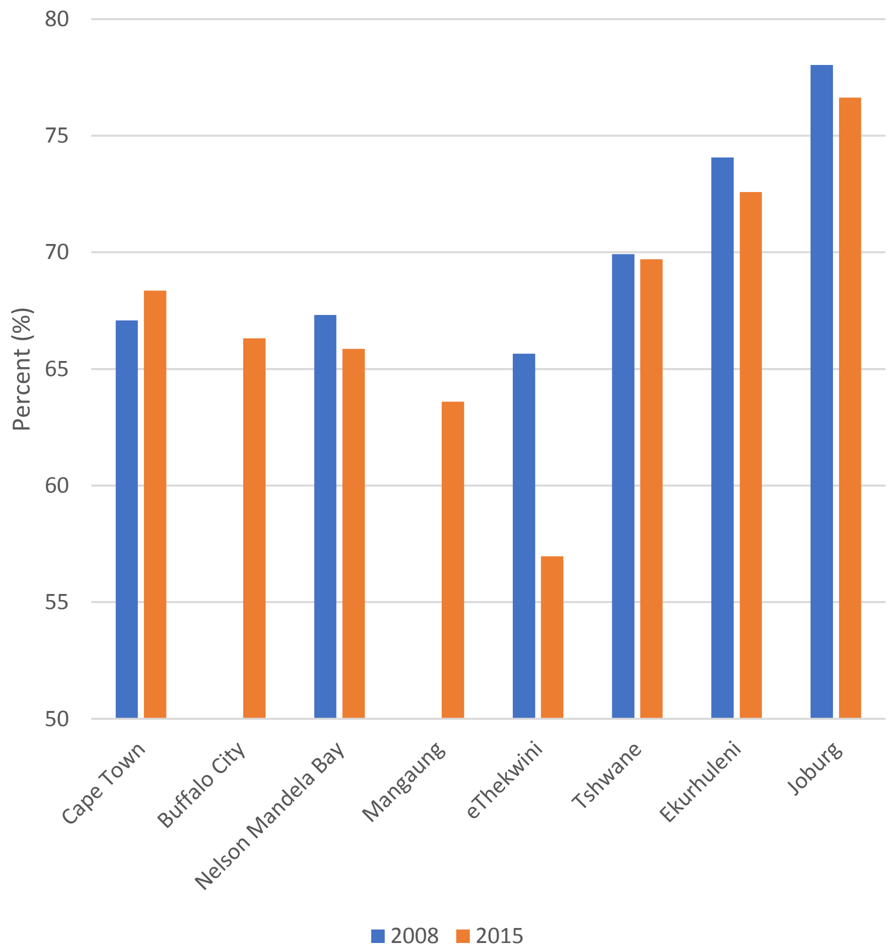
Creating inclusive cities depends, above all, on economic participation because of the wide-ranging benefits that flow from having a job – for human dignity, wellbeing, living standards and social stability. Even a precarious job in the informal economy may offer hope and a step on the road to greater security. The main achievements of the past two decades, in terms of social grants and free basic services, have reduced absolute poverty and improved people's living conditions. However, they have not supported them in developing the skills, capabilities and confidence to generate their own incomes through work or enterprise. The economic situation is dire in many townships and rural settlements, with particularly bleak prospects for young people. Many households go hungry and battle to survive on social grants, charitable handouts and informal borrowing from unauthorised moneylenders. There are frequent cases of domestic violence and xenophobic attacks reported in the media, reflecting a perception that foreigners are displacing locals from jobs and enterprise. How do these stylised facts bear out in relevant indicators for the metros, and are there any signs of improvement?

Figure 9 Rate of unemployment by metro (expanded definition)



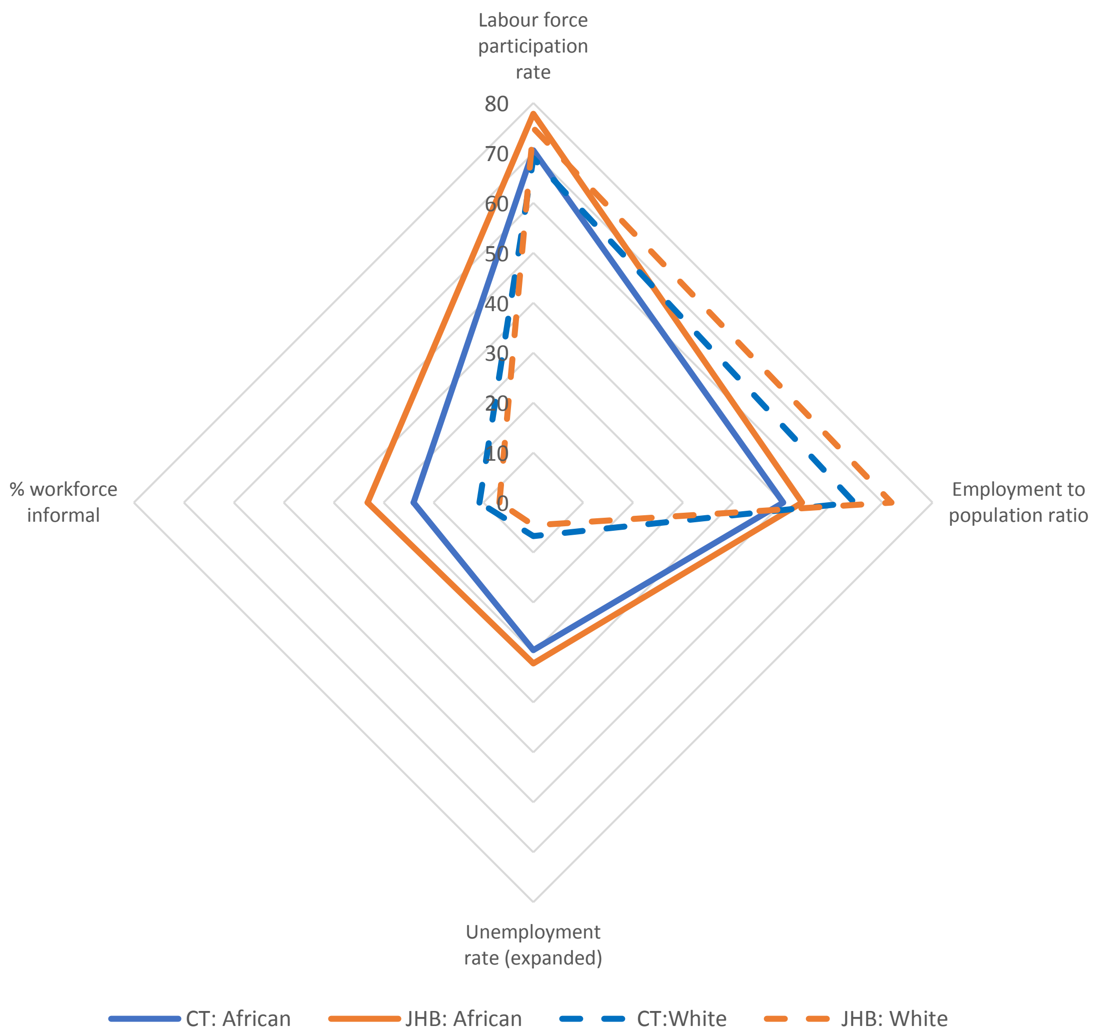
Source: Authors' own based on Stats SA (2016e) Labour Market Dynamics in South Africa 2015.

Figure 10 Labour Force Participation Rate by metro, 2008 and 2015



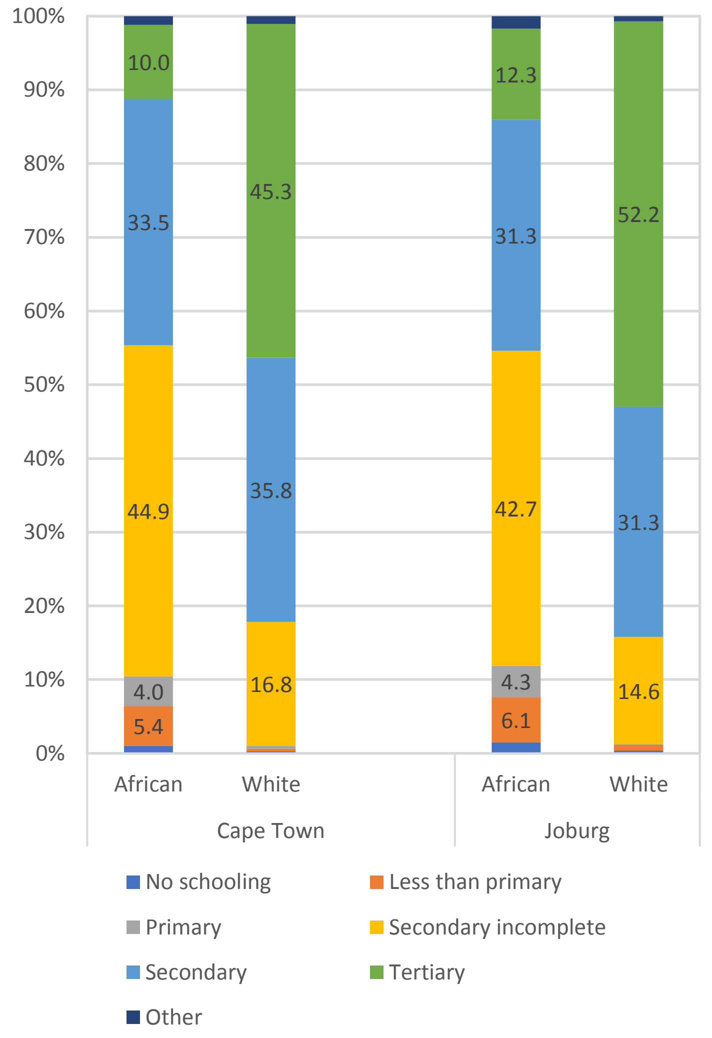
Source: Authors' own based on Stats SA (2016e) Labour Market Dynamics in South Africa 2015.

Figure 11 Labour market indicators by race in Cape Town and Johannesburg



Source: Authors' own based on Stats SA (2016e) Labour Market Dynamics in South Africa 2015.

Figure 12 Education by race in Cape Town and Jo'burg



Source: Authors' own Stats SA (2016e) Labour Market Dynamics in SA 2015.

Figure 9 shows that unemployment is lower in the metros than elsewhere, although it is still extremely high. There is some variation between the metros, ranging from 23 per cent in Cape Town to 33 per cent in Ekurhuleni and Nelson Mandela Bay. This may be partly explained by random fluctuations in sampling (due to the small sample size[8]) and differences in demographic profiles – Cape Town's unemployment rate is 30 per cent amongst Africans. However, the trends are all the same, with unemployment rising significantly since the Great Recession in 2008. Labour force participation rates are generally falling, suggesting that many people have been discouraged from looking for work by the shortage of jobs. These are clear symptoms of a very slack labour market (Figure 10). Stimulating labour demand is clearly the priority for an inclusive growth policy.

Yet the labour market is not slack across-the-board. Whites appear surprisingly resilient to the chronic unemployment that affects other groups. The average unemployment rate amongst whites across the metros is 7.2 per cent, which is not far above the average for OECD countries of 6.2 per cent and better than the European Union average of 8.2 per cent (OECD 2018). Figure 11 shows how whites face quite different labour market prospects compared to Africans. This offers some additional clues for labour market policy, i.e. the importance of a sound education. However, there are many other factors involved, which can be difficult to pinpoint from the permanence of racial prejudice to 'soft' skills passed on between generations by affluent parents.

Education is clearly important (Figure 12). In Johannesburg and Cape Town, approximately half of the white working-age population have a tertiary level education and most have completed secondary school. Amongst Africans, around 10 per cent have a tertiary education and only 45 per cent have completed secondary school – reflecting a very serious problem of youngsters dropping out early with no qualifications. Continuing differences in the quality of education between former-white and black schools are partly responsible (Spaull 2013). Following several years of highly disruptive student protests, the government recently agreed to provide free university education to low and middle-income groups, at considerable public cost (National Treasury 2018). This highly controversial decision was justified on the grounds of promoting upward mobility for Africans. Critics argued that this is the wrong priority, and that policy should focus on preparing young people more thoroughly by sorting out the school system and investing in early childhood development (indicator A4). Serious failures in the vocational training system also need urgent attention to better prepare young people for the world of work. The graduation rates of students attending technical and vocational education and training colleges are extremely low and there are serious concerns that many of the skills produced are not relevant to the demands of employers (GTAC 2015). The job prospects of a larger cohort of university graduates are far from clear without an invigorated economy.

10 Support for small and informal enterprises

Improvements in education and training take time and many people are desperate for livelihoods. There is enormous pressure to accelerate job creation, especially low-skilled jobs accessible to workers with poor qualifications. This is a formidable challenge in an open economy subject to stiff competitive pressures, relatively strong trade unions and labour regulations that employers criticise for inhibiting recruitment. In many other developing countries, the informal economy plays a much bigger role in absorbing low-skilled workers. Essentially, people create their own jobs below the radar of regulations by servicing the needs of poor communities and finding market niches in the formal economy. In South Africa,

[8] The Labour Market Dynamics Survey pools four consecutive quarters of the Quarterly Labour Force Survey and results in a large national sample of 285,000 people. Nevertheless, small cities such as Nelson Mandela Bay or Buffalo City are each represented by a relatively small sample of less than 7,000 people (or less than 7 per cent of the total sample).

only two to three informal jobs are created for every ten jobs in the formal sector, which is low by international standards (indicator D2). The reasons for this are subject to debate – it could be because of punitive state actions, crowding out by the formal private sector, or limited skills and experience because of the history of prohibition of black enterprise in the cities. Interestingly, there has been a recent surge in foreign-owned informal enterprises run by migrants from other African and Asian countries. They now dominate the retail trade in the townships and seem better equipped than locals, because of their entrepreneurial skills and extensive business and social networks, which they use to raise capital and buy goods at a discount.

Stronger support for small and informal enterprises should clearly be a key pillar of inclusive growth. On the one hand, self-reliance and informality provide livelihoods to people on the margins and may offer various options for those who are industrious and determined to get ahead. Cassim *et al.* (2016) argue that certain types of informal employment are conducive to inclusive development in SA because they offer economic opportunities to excluded groups, and potential income resilience through absorbing systemic shocks. On the other hand, workers in the informal sector are often vulnerable to exploitation and health and safety risks because of the lack of government protection through various labour market and workplace regulations. The start-up and growth of these enterprises could be encouraged by strengthening the skills and capabilities of entrepreneurs, providing loans and other small-scale financial support, and enabling incremental upgrading of their activities to meet higher norms and standards over time.

The government's response to informality has always been ambivalent, inconsistent and essentially reactive. Many municipalities enforce stringent by-laws and licencing regulations indiscriminately and insensitively. Onerous procedures can induce marginal businesses to operate informally or close them down completely, rather than allow them to get stronger and more viable over time. A pro-active, developmental approach would differentiate between those with real potential to grow (and which justify targeted assistance) and those whose economic contribution will always be modest and may simply be tolerated under the guise of 'doing no harm'. Critical issues include allowing informal retailers to operate in spaces with high consumer footfall and affluent markets; providing suitable physical infrastructure and storage space to facilitate trade under hygienic conditions; streamlining planning laws and building permits to reduce the burden of compliance; and simplifying licensing procedures in order to reduce the costs. More consistent government practices are also important, so that one department does not try to shut a business down while another is assisting its growth. The idea of stimulating township economies is a relatively new policy thrust that requires serious analysis and strategic reflection on what should be done.

11 Conclusion

Inclusive growth and development are all-embracing 'umbrella' concepts, which can be useful in identifying common ground on which to build high-level agreement and consensus in situations of discord and mistrust. Their fluid meaning can be stretched to encompass diverse circumstances and interests. The drawback of this imprecision is that they could end up being defined so loosely that they become meaningless. Therefore, it is important to explicate these terms, at least in the sense of identifying core principles that are relevant in different contexts. These principles then need to be operationalised and applied in particular national or regional situations. This requires specific indicators by which different elements and criteria are measured. The unique historical and spatial circumstances of different territories inevitably mean that the meaning of these terms and the balance between different elements will vary greatly. The level and character of economic development are bound to be among the underlying conditions that exert a big influence on local priorities, including the relative importance attached to inclusion rather than growth.

South Africa is an upper middle-income country, but marked by such large social divisions, such a tortured history and so many complex problems that giving concrete meaning to inclusive development is particularly difficult. The current imperative to expand economic opportunities is clear, and a formidable challenge in itself. Yet a growth-first approach is simply not credible in the context of persistent racialised inequalities. Economic growth needs to be inherently more equitable, so that people have a direct stake in it and do not doubt the need for it. Improved economic literacy is also important so that citizens have a greater awareness of what lies behind the expansion of economic opportunities, and recognise the role of investment, enterprise and risk-taking as necessary ingredients of a dynamic economy. Generalised dismissal of capitalism and the market economy that does not look ‘under the bonnet’ to seek out specific processes of exclusion and how to ‘fix’ them, is not very helpful in the context of mass unemployment and a social crisis. Greater public understanding should help to develop a more coherent economic policy and ensure recognition of the limits of redistribution and transformation without development. Efforts to activate the capabilities and talents of marginalised groups will also help to make that growth and development more equitable and inclusive.

This report is a preliminary attempt to identify certain principles and priorities of inclusive development that are particularly relevant to SA. The concept encourages a deliberate focus on objectives and actions where fairness and prosperity go together and are mutually reinforcing. It means identifying ways of promoting equity and justice that create value and expand productive activity, rather than detract from investment, enterprise and jobs. This does not mean that the process and outcomes are benign and harmonious, with no-one losing out and no social disruption. Making a country’s development path more inclusive necessitates questioning the status quo and challenging vested interests. Depending on the pace of change, this bound to be uncomfortable for some groups and communities, and it may provoke resistance from those who benefit from the exclusion of others. Furthermore, measures taken in the name of inclusion (or ‘transformation’) may be hijacked in the interests of new forms of exclusion.

The principle of active citizenship (or ‘participation’) seems particularly important in the SA context, given the legacy of the black majority’s exclusion from the right to vote, to own economic assets and even to live freely in cities. Poor communities continue to suffer from multiple forms of exclusion. Mass unemployment and the absence of social security for working age adults reinforces the need to increase economic participation and for people to contribute to development through their labour power and through self-employment. When people take spontaneous initiatives to improve their wellbeing, through resettling in a different location or starting an enterprise, it should be applauded and supported by the state. In an emerging economy, productive activity is healthier and more sustainable than social welfare. Political participation is also vital to hold the government to account, to press for more responsive policies, and to counter centralising and authoritarian tendencies. Consultation and persuasion are necessary to negotiate social transformation without dissolving confidence among economic interests and provoking political instability.

Recognising the economic significance of city-regions, and therefore the transformative power of urbanisation, is the second important message of this report, bearing in mind the continuing political ambivalence about rural-urban migration and expanding urban populations. Cities concentrate opportunities for economic inclusion because they offer more promising environments for investment and enterprise than other places. They are also more conducive settings in which to accommodate and integrate diverse social groups and communities. Therefore, they are important arenas in which the creation of wealth and prosperity are more likely to be accompanied by upward income mobility and equity.

The evidence presented on the impact of in-migration on lifting people out of poverty was very striking. The powers and resources of local authorities need to reflect this precious and hitherto neglected feature of cities. Two particular imperatives are to create conducive frameworks to foster enterprising activity and more affordable housing. The decision-making procedures across government silos need to reflect the holistic nature of inclusive growth as an overarching goal. This requires considerable improvement in the systems and practices of inter-governmental coordination.

A third principle that resonates in the SA context is to strengthen collaboration by institutions across different sectors of society and the economy. It is particularly important to overcome the deep suspicion and mistrust between government and the private sector. Improving relationships and building confidence is necessary to negotiate changes in both sectors that will prove durable and produce meaningful results. Practical collaboration on a wide range of development projects could share the risks and rewards and achieve better outcomes than each sector going it alone. For example, developers and employers have useful roles to play in the provision of inclusionary housing, ideally in joint ventures with emerging builders to share know-how and technical expertise. The partnership principle also applies to the government's relationships with civil society. There would be substantial benefits from greater empowerment of communities and involvement of local organisations in policy innovation and implementation. There are limits to what can be achieved through policies of redistribution and centralised decision-making.

Looking in more detail at specific policy priorities for inclusive growth, four themes stand out as particularly important. First, there is a need for more emphasis to be placed on the physical foundations of inclusive cities, especially land, infrastructure and public spaces. Urban integration and spatial transformation require more determined efforts on the part of government to densify well-located areas in the core of cities and along transport corridors. Vacant and under-used land and buildings in public and private ownership, which are often held for speculative reasons, need to be prioritised for development and expropriated if necessary. Additional land may need to be acquired and serviced in advance of settlement to accommodate fast-growing populations without worsening overcrowding, congestion and affordability problems. Safe and liveable public spaces are often neglected in SA cities, but are vital for the circulation of people and for social interaction and mixing.

Second, housing and human settlements policy needs serious attention because it currently tends to undermine both inclusion and growth objectives. The narrow focus on home ownership should be replaced, or at least complemented by, more vigorous efforts to support different forms of rental housing. This applies to backyard dwellings, informal settlements and the occupation of derelict buildings, which all need efforts to improve basic living conditions and service provision. It also applies to new build social rented housing and the conversion and rehabilitation of older buildings for affordable rental accommodation. Partnerships with social housing institutions and with private developers need to be scaled up substantially to increase the supply of affordable housing for low and middle-income workers. The mandate and resources available to municipalities to engage in housing issues are currently limited because this is a provincial function, so this also requires attention.

Third, greater emphasis is needed to support the start-up and growth of small enterprises. This could help to provide routes out of poverty for people who cannot find jobs. It could also help to improve SA's dismal record of new business formation and survival, and in due course increase dynamism within the SA economy. Large firms have a major role to play in enabling and increasing the capabilities of emerging suppliers and service providers to access their value chains. Higher-quality, larger-scale and better-coordinated business support programmes are also necessary, including advice, training, financial assistance, premises and other infrastructure for enterprises that warrant these forms of aid. Different spheres of government also need to simplify some of the red tape and streamline the excessive regulations that currently impede business growth. Targeting the townships may be warranted, along with more affluent consumer markets in the central cities and suburban malls.

Fourth, the theme of human development is of course fundamental to inclusive growth in SA, to unleash the talents, capabilities and potential of marginalised groups. It needs to be pursued with renewed vigour, commitment and imagination, including challenging the implicit biases and prejudices that hold people back. Concerted efforts are required to extend and improve the provision of education and training throughout the life course, starting with early childhood programmes and extending through school, tertiary education and vocational training provision for people seeking to expand their skills and competencies. An intensified focus on young people is essential to harness their potential and to avoid writing off a generation, with devastating consequences. Workplace-based initiatives, internships and other forms work experience are also important to support the accumulation and transfer of know-how and expertise on-the-job, to people with different aptitudes and from different backgrounds.

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