

THE NATIONAL SPATIAL DEVELOPMENT PERSPECTIVE (NSDP) AND ASSUMPTIONS ON SMALL TOWN ECONOMIC INVESTMENT BY GOVERNMENT

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Background

As part of its commitment to supporting government's drive to alleviate poverty, the Academy of Science of South Africa organised a workshop with the following title: "*Local economic development in small towns merged with housing delivery and (its) impact on the environment*"¹.

The authors of this position paper were invited to make a presentation at the workshop setting out their view of the position of the National Spatial Development Perspective (NSDP) on investment in small towns to grow their economies, create jobs and alleviate poverty.

The core argument

In their presentation the authors suggested that the NSDP does not in any way rule out investment in small towns *per se*. According to them, what matters from the perspective of the NSDP is whether an area has the potential to grow economically in a sustainable way, create jobs and alleviate poverty. If a small town has such potential there is nothing that precludes such investment. However, as the NSDP was not developed to determine where to invest what, when and for whom, but rather to assist politicians in making hard investment choices within a world of growing resource-scarcity, *it could very well be that small towns would not be on the top of the prioritisation list when choices have to be made as there are larger towns and cities with more development potential and greater numbers of people living in poverty*. In conclusion then, it would be wrong to argue that there is, or could be something like the position of the NSDP on small towns. What could be said is that, given that the NSDP seeks to ensure the "greatest bang for government's limited public buck", it would be contra the Perspective if government were to neglect large places with their large populations and large economies, and instead make large investments in small towns, with their small numbers of people, and small economies. *Small investments in small places would clearly be more in sync with the NSDP-logic, unless of course a particular small town were to have huge development potential that was of national significance, and that would warrant a large investment*.

The more detailed argument

One: Notwithstanding the many advances made by government in the last 15 years of democracy, poverty remains a major challenge in South Africa. Poverty-alleviation and eradication is not a theoretical exercise in target-setting, but is crucial for improving the quality of life of all South Africans, and securing the long-term future of the country. It is generally accepted that shared, inclusive and sustainable economic and human growth and development will contribute towards alleviating poverty. As government has limited

¹ Hosted on 27 November 2008 at the Department of Science and Technology, Pretoria

resources, it needs to invest these wisely and with maximum impact to alleviate poverty as objective.

Two: The NSDP was prepared by The Presidency and adopted by Cabinet in January 2003. An updated version (the 2006-version) was released in May 2007. The NSDP assists government in *confronting three fundamental planning questions*, given its stated objective of addressing poverty, growing the economy, creating jobs and promoting social cohesion:

- Where should government direct its investment and development initiatives to ensure sustainable and maximum impact?
- What kinds of spatial forms and arrangements are more conducive to the achievement of our objectives of democratic nation building and social and economic inclusion?
- How can government as a whole:
 - Capitalise on complementarities and facilitate consistent decision-making?; and
 - Move beyond a mere focus on integration and coordination procedures to establishing processes and mechanisms that would bring about strategic coordination, interaction and alignment to engaging and moving onto real, substantive aspects?

Three: The NSDP argues that spatial inequality is not a uniquely South African phenomenon. According to the Perspective, the international literature shows that spatial inequality is a product of growth, and the dynamic qualities of areas are developed historically and culturally over a long period of time. Most countries have extreme spatial inequalities. So for example, 50% of the Gross Domestic Product (GDP) of the USA is produced on 2% of its space and 82% of the GDP of the EU is produced on 36% of its land area. The desire to obtain convergence between developed and undeveloped, or so-called “lagging regions”, is therefore also not a uniquely South African phenomenon. International practice illustrates that convergence between developed and undeveloped regions takes a long time – it took the Southern States of the USA 100 years to reach a similar level of economic development as those in the North, with the average rate of conversion between regions and countries with unequal spatial economies stated to be at about 2% a year (if at all). The major difference in the case of South Africa is that draconian apartheid measures were used to keep the majority of the population away from the areas with the bulk of the economic opportunities, primarily urban South Africa.

Four: In order to eradicate the apartheid inequalities between people, South Africa needs to ensure shared, inclusive and sustainable economic development and growth. However, as the NSDP argues, to pursue this goal without a plan would not have the desired outcome. As indicated in the Perspective, international case studies and regional development theory clearly demonstrate that unfocused infrastructure spending and human resource development does not improve GDP growth². *Regions which already have some economic success are more likely to grow than other regions*. This is not merely because of agglomeration advantages, but also as individuals, firms, industries and regions generate mutual beneficial learning and learning opportunities and

² In line with international practice the NSDP uses GDP as an indicator for economic development and physical access to areas where GDP is generated as an indicator of at least an increased accessibility to income generating and livelihood creating opportunities.

conditions. Success in terms of significantly impacting on increased, sustainable and shared growth is thus achieved through focused and plan-led investment.

Five: The NSDP makes five assumptions regarding shared and sustainable economic growth:

- Location is critical for the poor to exploit opportunities for growth, i.e. poor people located in economic centres have a greater opportunity to gain from economic growth than those located further away;
- Areas with demonstrated economic potential provide greater protection to the poor than those without, due to greater diversity of income sources;
- Areas with demonstrated economic potential are most favourable for overcoming poverty than areas without;
- Poor people make rational choices about relocating to areas of opportunity; and
- Government needs to ensure that poor people are able to benefit fully from growth and employment in these areas.

Six: The NSDP puts forward a set of five normative principles to be considered when making infrastructure investment and development spending decisions in and between all three spheres of government:

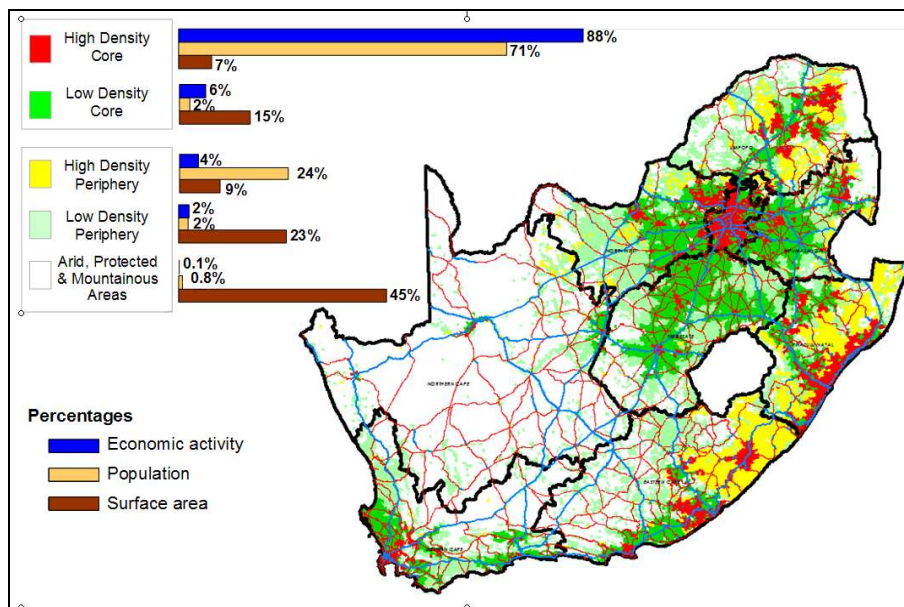
- *Principle 1:* Rapid economic growth that is sustained and inclusive is a pre-requisite for the achievement of other policy objectives, amongst which poverty alleviation is key.
- *Principle 2:* Government has a constitutional obligation to provide basic services to all citizens (e.g. water, energy, health and educational facilities) wherever they reside.
- *Principle 3:* Beyond the constitutional obligation identified in Principle 2 above, government spending on fixed investment should be focused on localities of economic growth and/or economic potential in order to gear up private sector investment, stimulate sustainable economic activities and create long-term employment opportunities.
- *Principle 4:* Efforts to address past and current social inequalities should focus on people, not places. In localities where there are both high levels of poverty and demonstrated economic potential, this could include fixed capital investment to exploit the potential of those localities. In localities with low demonstrated economic potential, Government should, beyond the provision of essential services, concentrate primarily on human capital development by providing social transfers such as grants, education and training and poverty relief programmes and reducing migration costs by providing labour market intelligence so as to give people better information, opportunities and capabilities to enable people to gravitate, if they chose to, to localities that are more likely to provide sustainable employment and economic opportunities. In addition sound rural development planning, aggressive land & agrarian reform & expansion of agricultural extension services are crucial.
- *Principle 5:* In order to overcome the spatial distortions of Apartheid, future settlement and economic development opportunities should be channeled into activity corridors and nodes that are adjacent to or link the main growth

centres. Infrastructure investment should primarily support localities that will become major growth nodes in South Africa and the SADC region to create regional gateways to the global economy

Seven: The NSDP provides a reading of the national space economy (given current and available data) at a national level. In doing so, *nationally significant* areas of economic development potential and need are identified. Since the publication of the NSDP this national reading has been supplemented with further spatial economic analyses for other policy initiatives, albeit with the NSDP-principles as frame of reference.

What follows is a set of these readings from the NSDP and from further analyses.

Map 1: The South African Space Economy Analysed in terms of Population Concentration and Accessibility (Source: CSIR, GAP2 2006)



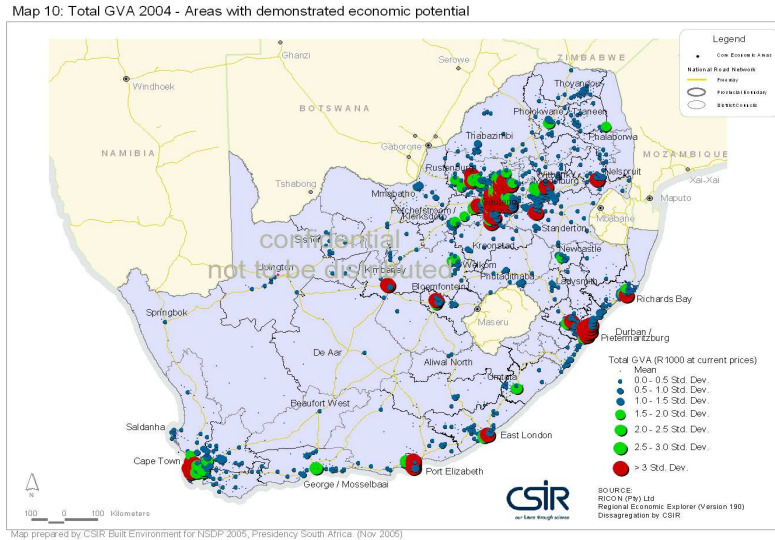
Source: CSIR 2006a Geospatial Analysis Platform, Department of Science and Technology, 2008

Map 1 indicates the distribution and location of people living in poverty (as calculated by using the number of people living under the so-called Minimum Living Level (MLL) as an indicator) and economic activity (using Gross Value Added (GVA) as an indicator). The red indicates the densely populated and developed areas, with the green indicating areas less, but still relatively densely developed. Both the red and the green indicate areas that are highly accessible to large numbers of the population. The yellow on the other hand indicates areas that are also relatively densely populated but much less accessible. The difference in population numbers and especially economic activity within these respective areas clearly illustrate where proven economic potential, as well as large numbers of people living in poverty and need are located, as well as which areas have better accessibility to both economic and service opportunities. Essentially, it clearly illustrates the concentrated nature of the South African space economy.

Illustrating very much similar patterns, **Map 2A** provides an indication of the relative distribution of economic activity and potential (using standard deviation of GVA as an

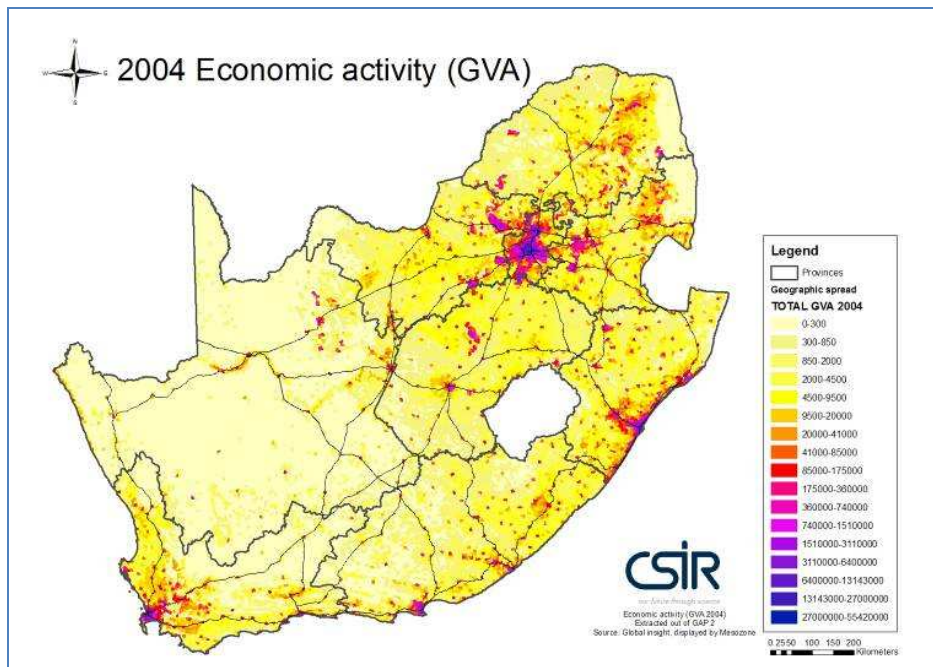
indicator of relative distribution of economic activity and potential) and **Map 2B** illustrates the geographical distribution of economic activity.

Map 2A: Areas with demonstrated economic potential: Relative concentrations



Source: CSIR, Built Environment 2006b (map prepared as part of the update of the NSDP, 2006)

Map 2B: Areas with demonstrated economic potential: Geographical distribution

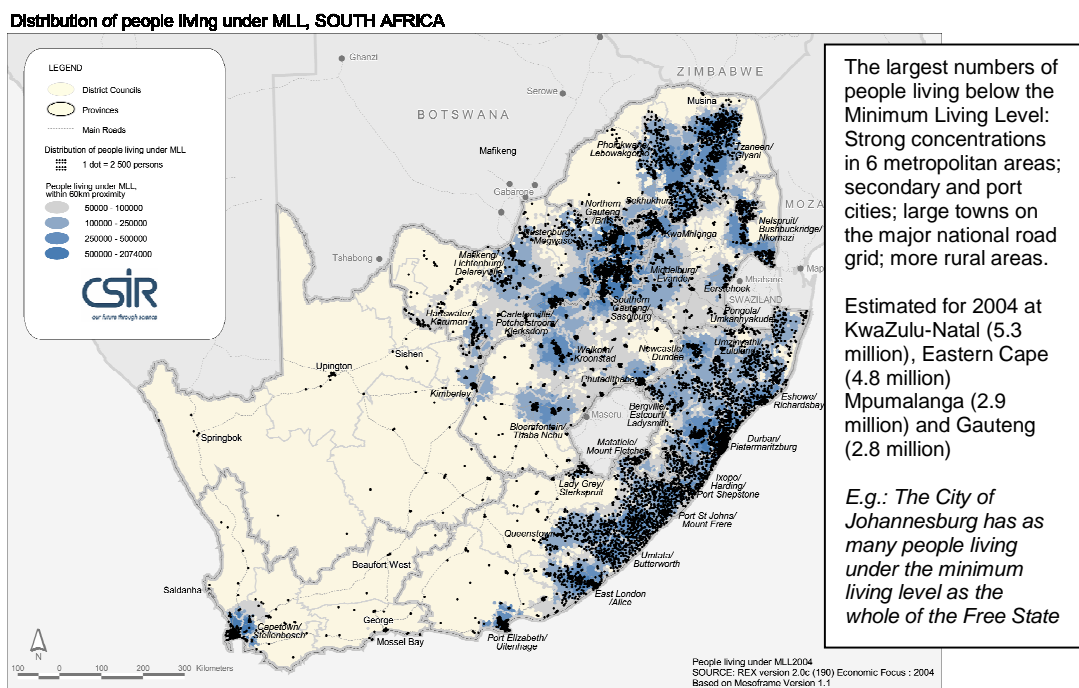


Clearly highlighting the impact and potential held by the areas with concentrations of nationally significant development opportunities, are the fact that they are also the same places that:

- House the largest number of people and especially large concentrations of the poor - people living under the MLL (**see Map 3**);
- Have significantly high levels of both formal and informal employment (see **Map 4**);
- Provides access to economic and livelihood creating opportunities (see **Map 5** for an indication of access to economic activity and income as a key indicator of livelihood opportunities); and
- Largely correspond to the location of functional city-regions, cities, major towns (see **Map 6**) and also resource rich areas in the country.

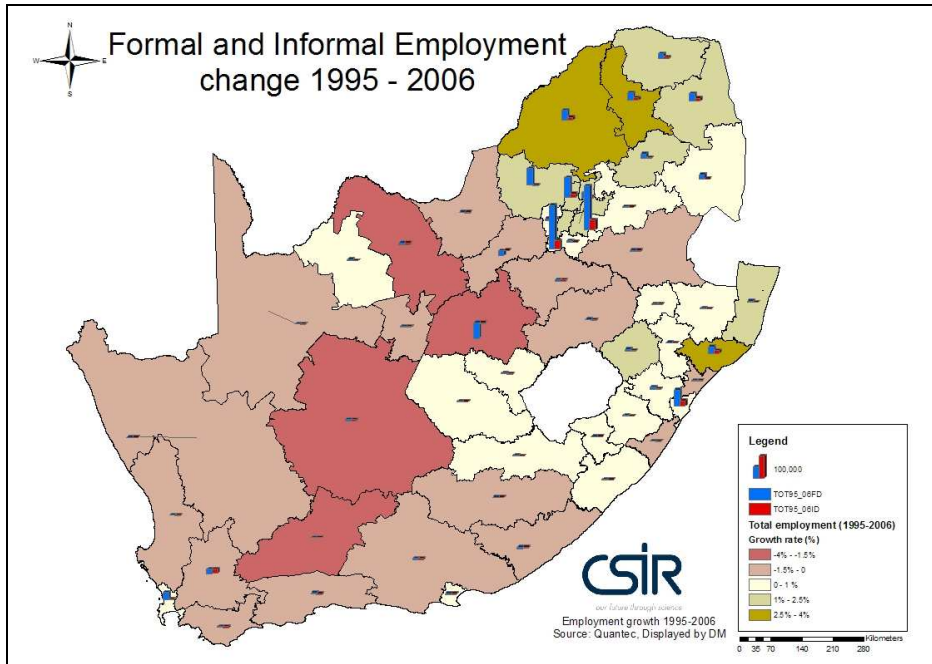
The magnitude of differences between these areas of concentration and the vast areas of the country with only locally significant economic opportunities, are starkly evident.

Map 3: Geographical distribution of poverty



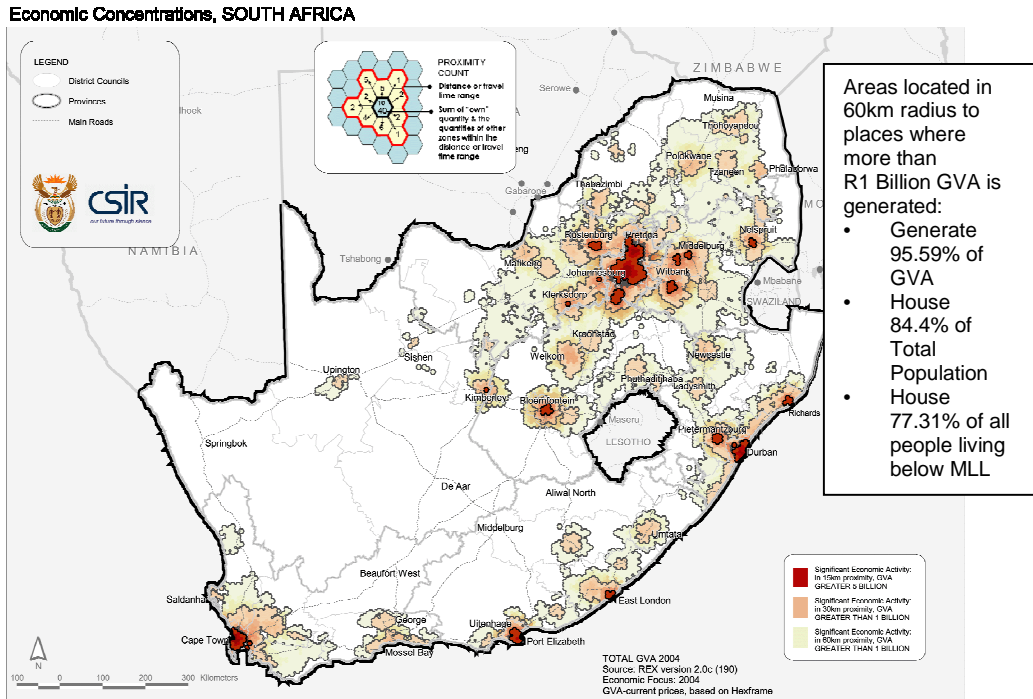
Source: CSIR, Built Environment 2006b (map prepared as part of the update of the NSDP, 2006)

Map 4: Formal and informal employment trends (1995-2006)



Source: Department of Science and Technology, 2008

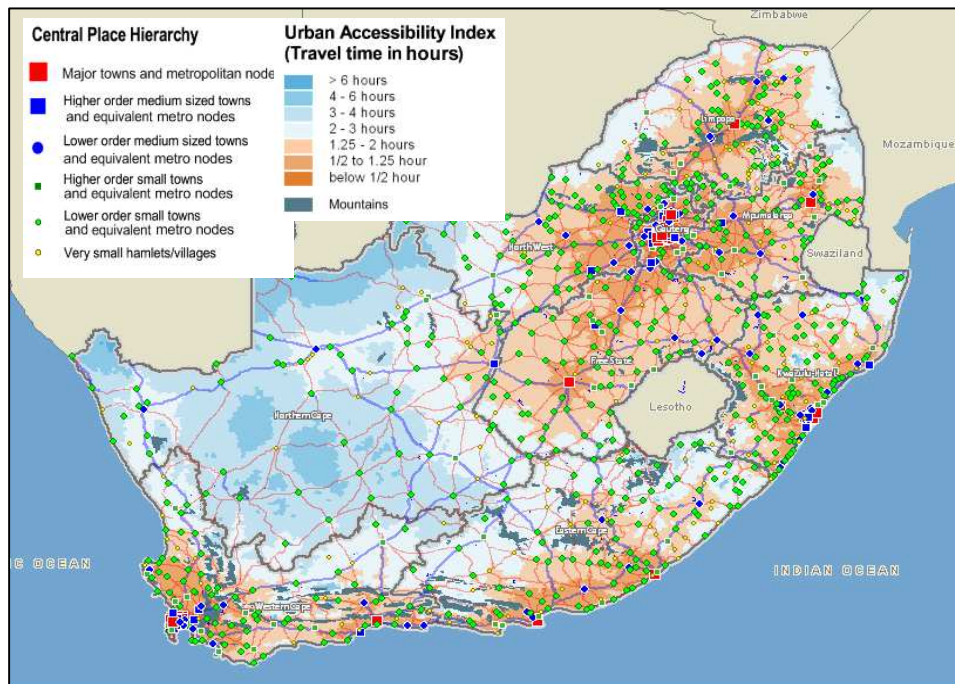
Map 5: Access to economic opportunities and concentrations



Map prepared by CSIR Built Environment for NSRF 2006, Presidency South Africa. (May 2006)

Source: The Presidency, 2006

Map 6: Accessibility in relation to the hierarchy of towns



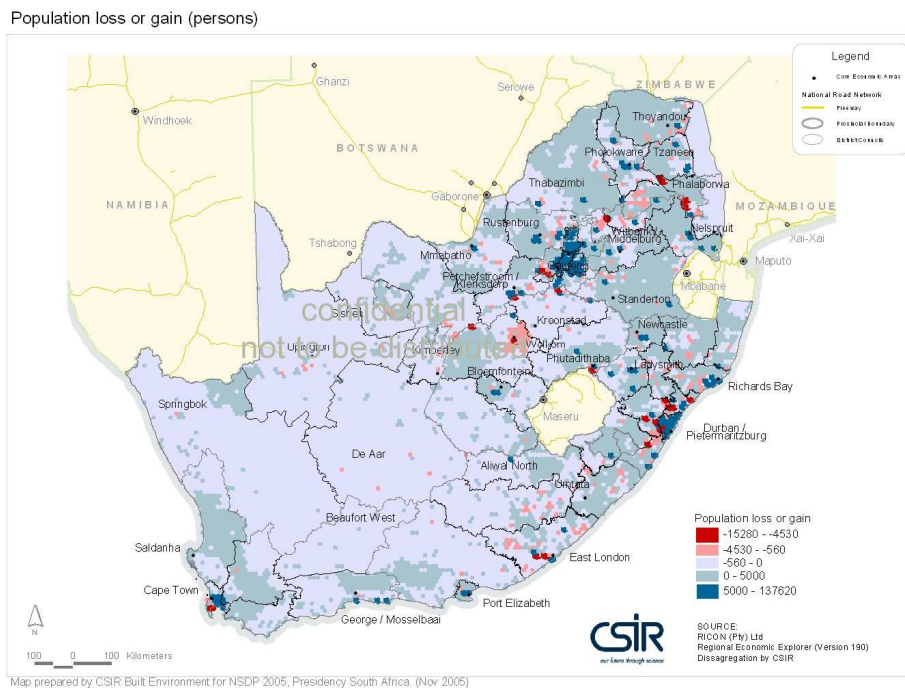
Source: CSIR 2006a Geospatial Analysis Platform

Eight: Of key importance is, however, not merely the current state of development, but also key trends and temporal changes within the space economy. The NSDP indicates that it is estimated that more than 3 million South Africans (almost 1 in 15) moved between districts between 2001 and 2006 (34 district municipality areas experienced a net out-migration in this period). Larger towns and cities are generally witnessing a net gain of people, while rural areas are experiencing a loss (see **Maps 7a** and **7b**). The key migration trends can be described as:

- A “*hollowing out*” of the interior, including the drier parts of the Eastern and Western Cape, nearly the whole of the Northern Cape, the south-western part of the Northwest and large sections of the Free State;
- A “*migration from traditionally densely populated ‘rural’ areas*”. This trend is especially marked in the provinces of the Eastern Cape and parts of KwaZulu Natal. A significant change seems to be taking place in the profile of districts/regions with traditionally high numbers of people, poverty and dependency ratios in terms of youth, economically inactive population and grants. These areas (mostly former Bantustan areas with limited economic activity) are characterised by outward migration and a decline in young population, where in many districts huge sections of the 19 to 39-highly productive age group are found absent from these areas and a visible decline is found in the 0-14 years age group. It is also evident that the economies of some of these towns and areas are largely dependent on government services. In such towns and areas, often located in former Bantustan areas and with high population numbers, as well as in city-region areas, the relative importance of household income in creating economic and livelihood opportunities is evident; and
- A “*coastal drift and city and town-ward shift*”, with large numbers of especially young people, from rural areas, either in search of job opportunities, basic/housing services,

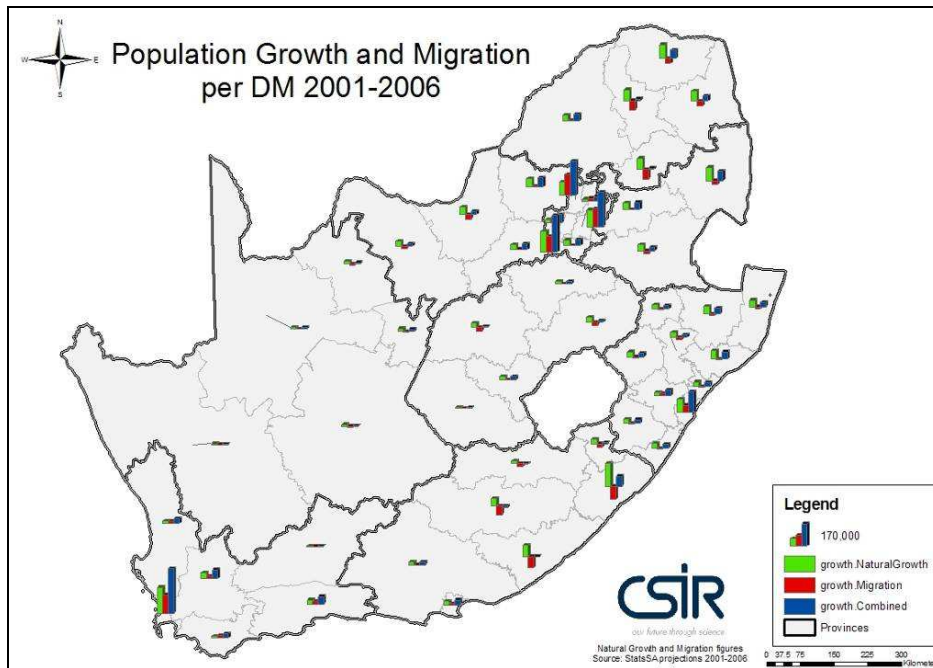
a vibe, education, or displaced from farms, making their way to towns and cities and to land alongside roads leading to such settlements (even if only for a while). Functional city-region areas experience continued net growth (including the city-region areas of Gauteng and the port cities of Cape Town, eThekweni and Nelson Mandela), cities (such as Pietermaritzburg, Nelspruit, Bloemfontein and East London), major regional centres (such as Rustenburg, Middelburg and Mthata) and especially towns on major access routes and movement corridors. The analysis suggests that city-region areas are attracting and housing (1) increasing numbers of the youth, (2) the biggest and most highly skilled portion of the formal and informal labour market, but also (3) the biggest number of those that are unskilled, economically inactive and in search of the most basic of livelihood opportunities. Also evident is an increased concentration of poverty and increasing dependency ratios in the city-region areas and cities. Even though the cities, city-region areas and those towns that fulfil typical regional services roles are the areas where the biggest inroads into service delivery has been made over the last decade, it also becomes clear that backlogs and pressures for service delivery are increasing in exactly these areas.

Map 7a: Net population loss or gain



Source: CSIR, 2005 (Map prepared by the CSIR in the process of updating the NSDP 2006)

Map 7b: Migration, natural growth and total population growth or decline



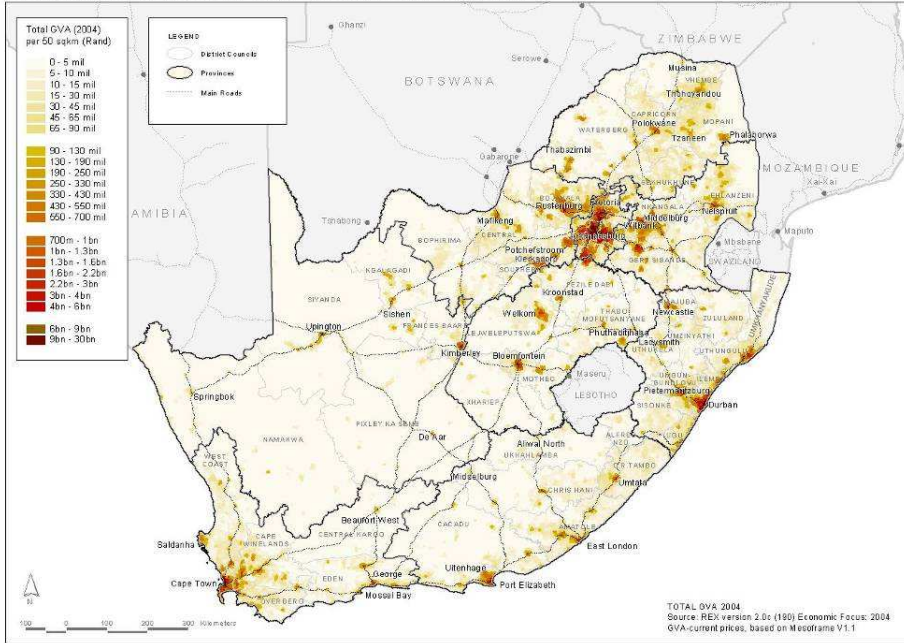
Source: Department of Science and Technology, 2008

Nine: The NSDP clearly recognise the realities and challenges faced by attractor-areas, i.e. areas with high potential for economic development and job creation, and areas that house the highest concentrations of those living in poverty and facing increasing challenges in dealing with that poverty. It identifies these areas as the places where poverty alleviation and shared sustainable development can converge and have the best changes of success, and therefore priority areas for economic investment. Within the NSDP these are identified as 26 areas of nationally significant economic, population and poverty concentration (see **Map 8**).

Together with this, the NSDP also highlights the importance of investment in people and a development focus on those places with high concentrations of people living in poverty and without significant access to economic and livelihood opportunities (see **Map 9**).

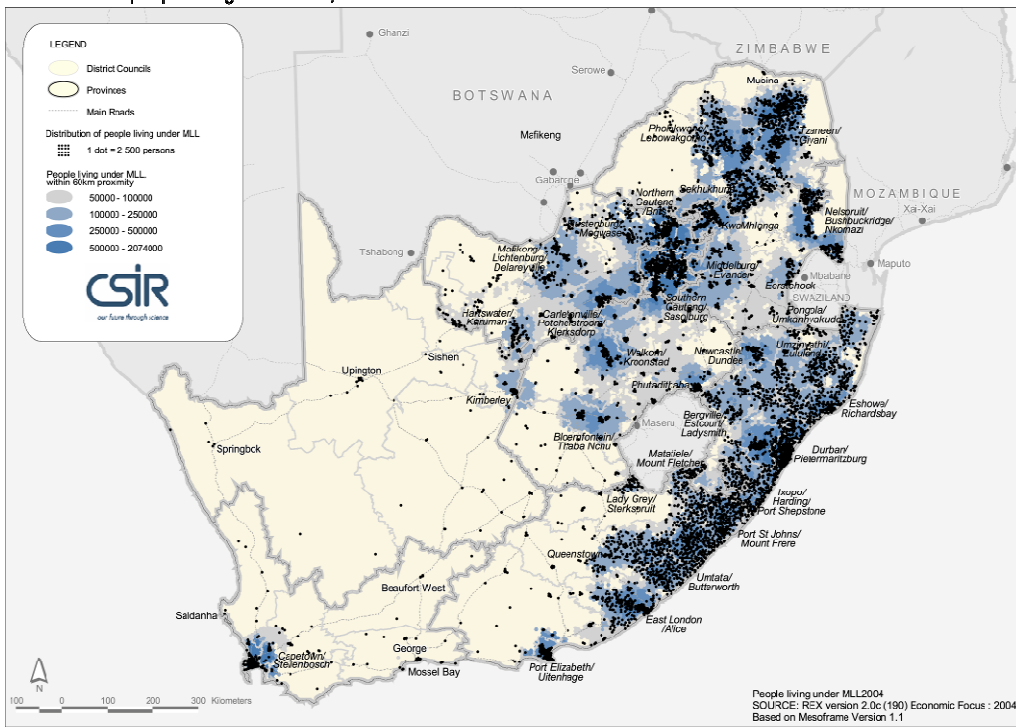
Map 8: National concentrations of areas of national economic significance

Distribution of economic activity based on GVA (2004), SOUTH AFRICA



Map 9: National concentrations of areas of need/poverty

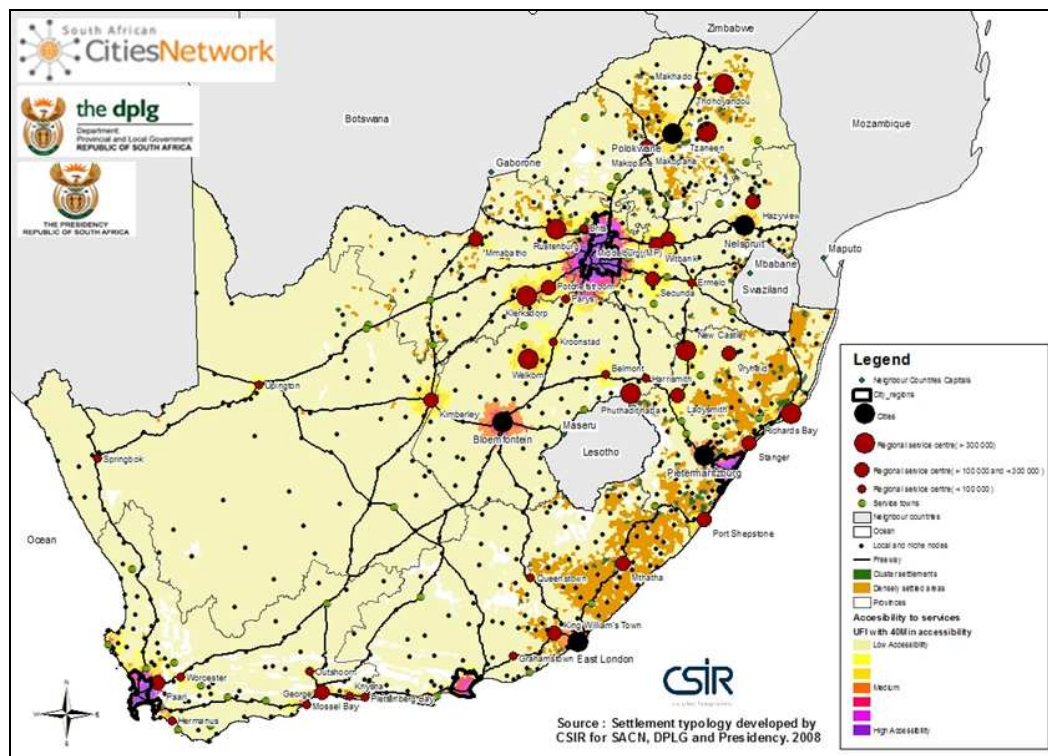
Distribution of people living under MLL, SOUTH AFRICA



Map prepared by CSIR's Built Environment for NSLH 2008, Presidency South Africa. (May 2008)

Ten: A recent study (2008) conducted by the CSIR for the South African Cities Network, Department of Provincial and Local Government (DPLG) and The Presidency once again reiterated these findings. Clearly emerging from this more detailed spatial analysis than that which was done for the NSDP, was that the places that hold the biggest potential for significantly impacting poverty alleviation, job creation and shared and sustained growth, are (1) the metropolitan city-region areas, (2) the large cities and (3) a number of medium and large order towns that fulfil a particular regional service role within their respective hinterlands (See **Map 10**).

Map 10: South African settlement characteristics



Source: (SACN, DPLG and The Presidency, 2008)

In slightly more detail it was found that metropolitan city-region areas and cities (9 areas in total) are (1) home to more than 58% of South Africans and 30% of people living under the minimum living level; (2) the engines of the South African economy and fiscus, generating 69% of all economic activity (2004); and (3) in many respects the generators of growth, jobs and livelihood opportunities and the gateways to the rest of the world. The study furthermore identified 41 large towns as places that fulfil a particular regional services role (See **Map 10**), and which house an estimated 14% of South Africans, 14% of people living under the MLL, and generate 15% of all economic activity.

In addition to this, the study also highlighted the urgent plight of the densely settled clusters and dispersed settlements in the former Bantustans, which are home to 21% of the South African population and 32% of people living under MLL and generate 2% of national economic activity. Significant characteristics of these clustered and dispersed settlements (see **Map 10**) are the limited accessibility and limited number of towns that provide a regional services role in these areas.

Finally the study also identified a wide range of smaller towns, termed (1) service centres (44 in total), and (2) local and niche towns (600 in total) that serve particular and important local and regional functions (see **Map 10**). These 644 towns house 13% of the national population, 17% of the population living under the MLL and generate 8% of the economy. While some of these towns have shown relatively high growth rates (e.g. the Karoo town of Prince Albert), this growth has been from a very small base and is of local and sub-regional significance, meaning it cannot significantly impact on job creation and poverty alleviation. Many of these towns are, however, located in regions characterised by serious economic decline and out-migration, especially of the youth.

Conclusion

The NSDP provides a particular reading of the South African space economy based on the attributes of economic development potential and need/poverty. As such the perspective is neither urban, nor rural-biased. It also does not include any specific statements on investing in either set of spaces.

In assessing the question of investing in small towns, the question is hence at which level the question is being asked: If it is asked in a national forum, the question would be what the national gain would be in doing so, vis-à-vis investing in another place in the country as a whole? Should the question be asked in a provincial forum the other places competing for scarce investment are other places in the provincial boundary. Locally of course the question is where to invest in a municipality to ensure maximum local gain?

Far more important than getting involved in debates about the benefits (perceived or otherwise) of small towns that do not provide any useful developmental outcomes, is the question of (1) where and (2) in what the best investment would be, if we are chasing shared, inclusive and sustainable national economic growth. And, once we have decided on this, to implement our decision in a focused and targeted way.