Cape Town’s Economic-Led Growth Secures US$1.4 Billion of Investment, Navigating Histories and Historic Declines

Context
Cape Town is a metropolis of deep biodiversity and diverse demographics. Of its residents, 48 percent are mixed race or “colored,” 32 percent are black, and 20 percent are white or Asian. The Cape Floristic Region nurtures more than half the world’s flora, fauna, birds, and beasts. But South Africa’s second-largest city, by 2006, had lost nearly three-quarters of its natural habitat and about 95 percent of its revenue stream. For every house built, 50 families were left waiting. The city averaged six murders per day (City of Cape Town 2006).

Years of fast-changing coalitions had fostered revolving-door governments. Gradually, seven local authorities absorbed the 35 apartheid-era municipalities and instituted cross-subsidizing (“Unicity”). The buildout of infrastructure and services to historically underserved communities dwarfed the servicing of and budgeting for existing infrastructure. Hosting some of the 2010 World Cup would help catalyze the turnaround of Cape Town.

Development Challenge
The challenge for Cape Town was to generate revenue while building and diversifying administrative capacities to bolster infrastructure, attract investment, create jobs, and redress racial discrimination.

Intervention
An unusual candidate from a national minority party, with 41 percent of the vote, won Cape Town’s municipal election in 2006 and governed with a one-seat, multiparty majority in the first year. Helen Zille represented a majority white party, the Democratic Alliance, and spoke the majority black language, Xhosa. As a journalist during apartheid, she had uncovered the government’s murder of a prominent dissident, Steve Biko. In the 1980s, she belonged to pro-democracy organizations.

Infrastructure-led economic growth to attract investment, create jobs, and bring prosperity to former black townships became the Democratic Alliance’s agenda. Reappraising property values, collecting outstanding debts, borrowing, and gradually rebuilding and diversifying administrative capacities were primary target activities on that agenda.

A city manager, a core mayoral committee of proven civil servants, key City Council counterparts, and an articulate five-year plan formed a nexus, with open lines of communication to opposition parties and interests. The five-year plan focused on eight areas. Each area had key objectives to form strategies and cascade resources downward and to develop key indicators for performance, implementation, monitoring, and reporting. Service Delivery and Budget Implementation Plans pushed detailed directives to city, directorate, and departmental levels and ensured operational implementation of the city’s key objectives. Publicly accessible scorecards were created and kept for projects. By fiscal
year 2009/10, the city’s newly established call center answered nearly 1 million calls—in the language of the customer’s choice.¹

**Delivery Challenges**

This delivery note analyzes key implementation challenges and examines how they were overcome.

- **Project finance.** Revenues to fund the project were low because undervalued properties generated lower revenues, debts were not consistently collected, and new forms of financing had not been explored. Apartheid-era policies highly skewed the city’s distribution of income and wealth. Although national legislation mandated the application of market-value rates for property, uptake was scant, and Cape Town used original valuations. Collecting debts raised other issues. For example, nonpayment of service bills under apartheid constituted resistance, and the issue remained fraught under majority administrations. Cape Town had US$645 million in unpaid taxes and service bills. Lastly, the city’s financing leverage was untapped.

- **Corruption and patronage.** The process for tendering contracts was opaque. The Bid Adjudication Tender Award Committee operated in secret and, in an effort to limit bids, created confusion. It also exacted what it claimed were “consulting fees.”

- **Basic infrastructure.** Utility and water policies under majority rule reflected recourse for apartheid-era policies. For example, water had been a fraught issue under apartheid, so majority rule set a flat rate. No penalties were imposed for waste or overconsumption.

- **Skilled human resources.** The city administration had weak capacity. The African National Congress (ANC) addressed diversity, in part, by purging and freezing city jobs, thereby shrinking the workforce from 23,000 to 19,000 (and paying US$7.3 million in buyout packages). This administrative move triggered an exodus of engineers and middle managers. More diversified staff members remained but worked in temporary, ill-defined, and ill-managed jobs.

- **Information and communications technology.** The administration had neither a system for residents to file a request or complaint nor a system to track the delivery of services.

**Addressing Delivery Challenges²**

The following steps were undertaken to mitigate the delivery challenges related to project finance:

- To raise revenues to fund the project, the city adjusted property values, collected debts, and floated municipal bonds. The resolute administration carried out incremental property revaluations and rate increases, moving from highest adjustments (19 percent) to lowest, neighborhood by neighborhood. The system was flexible. For instance, it provided rebates of US$800 to US$1,300 per month and relief of less than US$800 per month.

- The city adopted a practical approach to debt collection, differentiating between those who could and could not pay, and targeted major corporations and provincial governments first for momentum. It signaled flexibility to poor black communities by writing off US$242 million in debt. The city also sent about 300,000 overdue payment notices warning of impending service cuts, promoted awareness of the problem through community meetings with city councilors, and had debt collectors visit households door to door. Debt collectors were allowed to offer reduced tax bills for quick payment and to threaten service cuts (except for minimal water) for when residents failed to work out repayment terms.

- To leverage its financing capacity, the city issued municipal bonds on the Bond Exchange of South Africa, thereby raising US$355 million.

As a result of this effort, US$1 billion in taxes were collected in the first year, and 96 percent of annual payments were made within five years.

The following steps were undertaken to mitigate the delivery challenges related to corruption:

- The Democratic Alliance ordered the Committee for Procurement and Bidding to open deliberations to the public and to provide public access to reports. Any contract for city business was posted to the city’s website.

- All competitors had to register in the city’s supplier database.

- The Standing Committee on Public Accounts was created to monitor the tender process and was depoliticized by making an opposition party its chair.
Because of these changes, 6,777 suppliers were added to the supplier database by 2010, signaling fair and competitive tendering. Moreover, 57.96 percent of city purchases were made from small, medium, and micro enterprises and black economically empowered businesses.

The following steps were undertaken to mitigate the delivery challenges related to **basic infrastructure**:
- The administration made a clean break from past utility and water policies, instituting a use-based system.
- For water, the administration introduced water meters across the city.
- To meet the poor’s basic needs, it provided 6,000 kiloliters of water monthly to each household.
  These changes saved millions of dollars, in part because of increased reporting by residents of leaking pipes and of mismatches between their metered usage and their bill. Moreover, 73 percent of households in informal settlements can now access basic levels of electricity, and 77 percent of such households can access basic levels of sanitation, with 6,565 toilets installed.

The following steps were undertaken to mitigate the delivery challenges related to **skilled human resources**:
- A gradual stabilization of city’s senior management allowed the “Unicity” administrative chaos to be addressed. A core mayoral committee member with more than three decades of civil service orchestrated and lobbied his own party not to restructure but to realign the city’s workforce. Making the employees full-time staff members with well-defined roles and responsibilities and triggering automatic job retention among employees performing half of the job functions stemmed losses and provided employees peace of mind.
- With only a six-month timeline, the administration turned to managers to identify which staff members performed which functions. To eliminate clear redundancies, the realignment effort allowed employees to compete for positions. Those displaced—because many good jobs had been vacated—moved to an open position.
- The mayor’s Corporate Services Team created and managed a robust appeals process, including a website for complaints against superiors.
- In addition, the Democratic Alliance put in place national salary and evaluation mandates, with Mayor Zille holding 39 citywide rallies, to enact the groundbreaking Tuned Assessment of Skills and Knowledge Program. People in the same position could no longer be paid radically different salaries or work radically different hours. The city website detailed the criteria and project expectations of senior managers.
- The program created teams comprising city human resources and labor union representatives. These teams developed performance appraisal criteria for each type of position and reviewed and updated systems. The two major labor unions, historically aligned with the ANC, participated in the process. They put up a few roadblocks but did not want to be responsible for failure.
- The changes created 8,246 direct permanent job opportunities and led to US$1.4 billion direct investment. Furthermore, they introduced a degree of impartiality and transparency by helping to safeguard the rights of individual workers. They also instilled accountability by providing clear reporting lines for permanent employees, by defining clear payment and benefit scales, and by permitting employees to experience a type of self-actualization.

The following steps were undertaken to mitigate the delivery challenges related to **information and communications technology**.
- To complement the rebuilding of the city’s administration and to track the delivery of services, the city’s Information Technology Department developed a complaints and requests mechanism that opened a clear line to the public. It comprised a central fax line, a new website, and a streamlined email system. Receptionists’ behaviors improved. When a resident called, the “C3” system created a record of the call (in a central database) for supervisors to cascade downward and track progress. Managers were instructed to monitor resolution rates each month to ensure that issues were resolved. The C3 is linked for mapping purposes to the city’s geographic information system.
- A second innovation, the Performance Management Dashboard, gathers and distributes big data, with the aim of ensuring delivery of government services to the whole city by providing an easy-to-use accountability system.
  These two crucial innovations accomplished in several months what had not been accomplished—or attempted—in five years.
Endnotes

1. This section and this note draw from Woldemariam (2011).

2. The data in this section are drawn from City of Cape Town (2010) and Democratic Alliance (2011).

References


