URBAN FUTURES: AFRICA'S WAY FORWARD

Africa Insight

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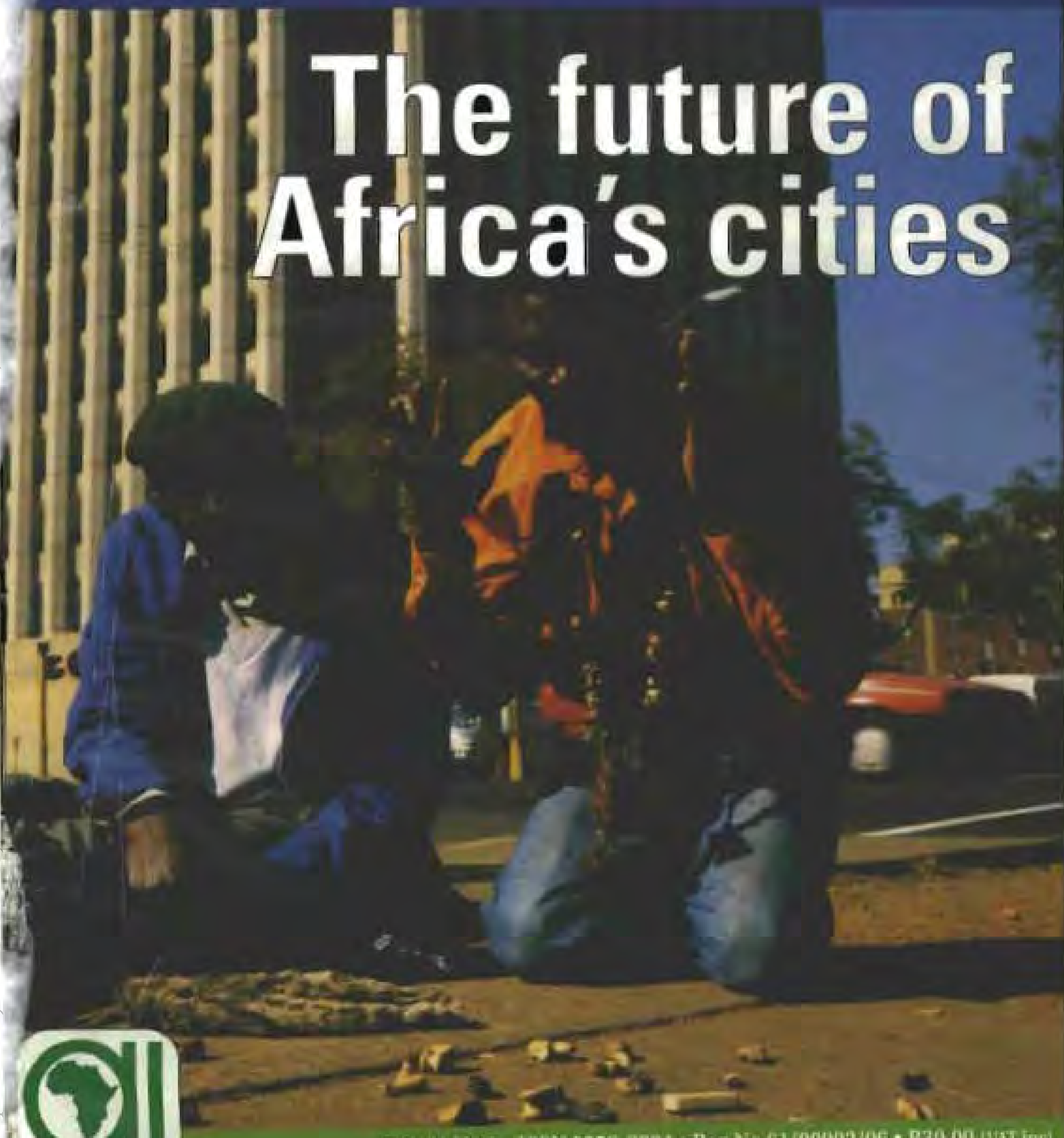
The future of Africa's cities



VOL 31 NO 1 • ISSN 0256-2804 • Reg No 61/00002/06 • R30,00 (VAT inc)

CONTACTING THE AFRICA INSTITUTE

POST THINGS TO US:	PO Box 630 Pretoria 0001 South Africa
VISIT US:	Nipilar House Corner of Vermeulen & Hamilton Streets Arcadia, Pretoria
TELEPHONE US:	+27 (0)12 328 6970
FAX US:	+27 (0)12 323 8153
E-MAIL US:	ai@ai.org.za
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Africa Insight is published quarterly by the Africa Institute of South Africa, an independent think-tank focusing on African affairs. AISA is dedicated to knowledge production, education, training and the promotion of awareness on Africa, for Africans and the international community. AISA's core strengths are topical and in-depth research, a unique and comprehensive reference library, and the production of quality publications. In addition to Africa Insight, AISA also produces country profiles, statistical manuals and irregular books and monographs.

Design and layout Peter van der Merwe peterydm@icon.co.za
Printed and bound by Hot Dot Print, Randburg

ISSN 0256 2804

Cover photo: Guy Stubbs

What future for Africa's cities?

BY ELIZABETH LE ROUX

Many development studies and aid programmes focus on regeneration and sustainable development for the majority of Africa's people, who live in the vast rural areas of the continent. But what of Africa's urban environment, its city dwellers?

Pressing problems are arising in the continent's cities as a result of urbanisation, over-crowding and unemployment. Policy-makers are increasingly being forced to pay attention to new measures for local economic development, alternative forms of service delivery and changing paradigms in urban planning.

In this special issue of *Africa Insight*, we take a look at some of these issues and suggest possible ways of resolving them. Through case studies and micro-research, for the most part, the contributors examine continental issues from a local perspective, drawing interesting and policy-relevant conclusions.

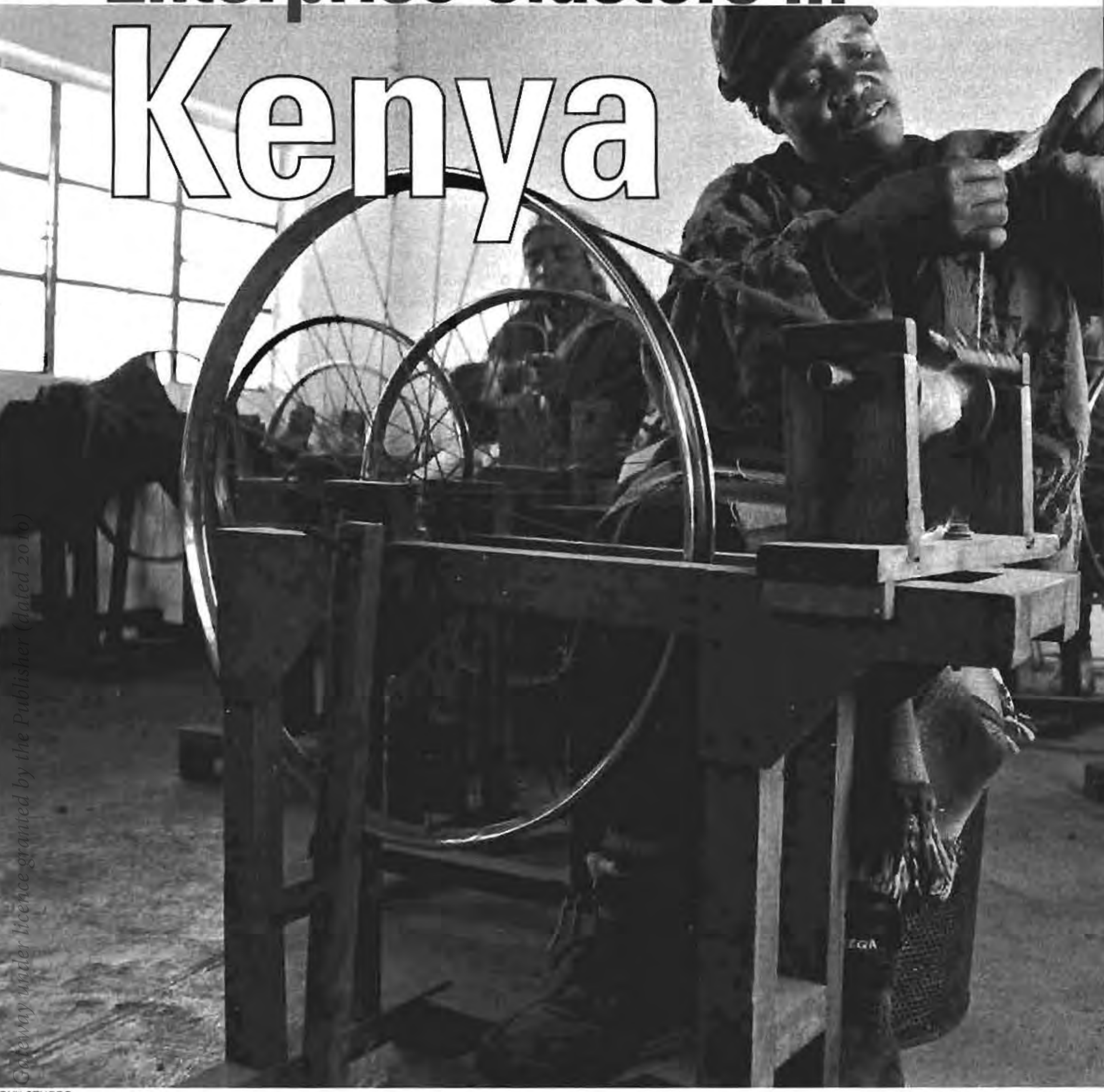
This collection of papers on African cities draws primarily from selected papers presented at the "Urban Futures" conference which was held at the University of the Witwatersrand, Johannesburg during July 2000.

The conference drew together a host of international delegates from many countries to debate aspects of the future of cities, their management and prospects for growth.

The articles presented in this special issue of *Africa Insight* illustrate several of the key debates which will impact upon the future African city. ✪

This edition of Africa Insight was produced with the assistance of Prof Christian Rogerson of the University of the Witwatersrand.

Enterprise clusters in Kenya



GUY STUBBS

Urban production, upgrading strategies and joint action

BY DOROTHY MCCORMICK

Clusters of producers are a familiar sight in Kenya's urban areas. Nearly every town has its open-air vehicle repairers, furniture cluster, or tailors in the shopping centre. One reason that clusters are common is that they offer certain benefits to the enterprises located within them. Although some benefits occur simply because of proximity, others must be actively sought by firms working together. Recent studies of small enterprise clusters stress the importance of such positive joint action.[1] Working together towards joint objectives helps clustered firms to become competitive. Yet most African clusters remain at a very low level of development. This paper uses case studies of five urban clusters in Kenya to explore the reasons for this.

Collective Efficiency in Enterprise Clusters

Recent international literature suggests that operating in clusters enables small enterprises to improve their performance.[2] The term cluster is used in two somewhat different ways in industrial development. Porter uses the term to designate a group of firms engaged in similar or related activities within a national economy. Although geographic proximity is not a defining characteristic of such clusters, Porter acknowledges that the relationships within an industry cluster benefit from firms being located near one another.[3] The second use of the term is explicitly geographic: a cluster is "a group of producers making the same or similar things in close proximity to each other".[4] This definition seems appropriate to developing countries where geographic proximity can help to overcome barriers created by poor infrastructure and weak information systems, and where people favour face-to-face communication.

TABLE 1: KEY ECONOMIC INDICATORS, 1998

GDP per capita	**US$ 378**
GDP growth	
1990-98	2.2%
1998-99	1.4%
Population	
urban	31%
rural	69%
Poverty as % of Population	
urban	49%
rural	53%

Source: World Bank 2000: Kenya 2000

Benefits of Clustering

Significant benefits are theoretically available to businesses operating in clusters. Schmitz has grouped these together under the heading "collective efficiency".[5] Collective efficiency has two dimensions: external economies, or benefits accruing to firms simply by virtue of their presence within the cluster, and benefits arising from joint action. External economies are the first component of collective efficiency, and there are four main types of these in clusters: market access, labour market pooling, intermediate input effects, and technological spill-overs.[6] Market access refers to clusters' ability to attract more buyers, thus improving access to various markets. Labour market pooling refers to the skills of workers within the cluster, which improve over time as a result of training and practice, or where skilled workers are attracted to the cluster by job opportunities. Intermediate input effects are associated with the emergence of specialised suppliers of inputs and services, while technological spill-overs involve the diffusion of technological know-how and ideas.

The second component of collective efficiency is joint action. Joint action is, in short, an active linkage. Some scholars emphasise the degree of control exercised by one party over the other.[7] Others consider the number of participants or their relative position on the value chain.[8] Still others look at the size or ownership of the linking firms.[9] In the collective efficiency model, joint action is analysed in two dimensions: the number of co-operators, and the direction of co-operation. This conceptualisation gives rise to four forms of joint action: bilateral, multilateral, vertical and horizontal co-operation.

Joint action is a necessary condition for cluster upgrading.[10] It is not enough for firms to co-exist and reap the resulting benefits. They need to join together to overcome inevitable constraints to their growth and development, and engage in "active clustering" in which innovative firms link with one another and with support organisations to improve information flow and productivity.[11]

Clustering is believed to benefit both the individual firms located in the cluster and the broader economy. The opportunities for individual firms to benefit from collective efficiency are obvious, while it also enables the economy to industrialise with less capital than would otherwise be needed. This is a direct result of collective efficiency: the external economies and joint action of clustering enable firms to produce and sell more efficiently, thus increasing the productivity of the existing capital stock. Clustering also promotes industrialisation by enabling firms to grow in what Schmitz has called "riskable steps", and enables firms to make good use of relatively small amounts of resources.[12]

African Clusters and Collective Efficiency

McCormick's survey of African enterprise clusters found that improved access to markets is the most universal external economy for clustered firms.[13] This is because clusters of similar enterprises attract buyers. Intermediate input effects, the externalities associated with specialised suppliers of inputs and services, were fairly weak in most of the clusters surveyed. The fact that these were mainly urban clusters where intermediate inputs are readily available from local shops may have influenced the finding. A recent study of small enterprise clusters that included rural as well as urban clusters noted that availability of transport, collective security provision, and pro-

Dorothy McCormick is with the Institute for Development Studies, University of Nairobi. *Funding for the research on which this paper is based was provided by the Department for International Development through its ESCOR programme, and by the International Centre for Economic Growth, Nairobi. The paper was originally presented at a conference on 'Urban Futures 2000', held at the University of the Witwatersrand, South Africa, in July 2000. It has benefited from the comments of participants in that forum and from those of two anonymous reviewers.*

FIGURE 1: FORMS OF JOINT ACTION IN CLUSTERS

Dimension	Bilateral	Multilateral
Horizontal	Two co-operators at the same level in the production chain, e.g. sharing equipment	More than two co-operators at the same level in the production chain, e.g. a sectoral association
Vertical	Two co-operators at different levels of the production chain, e.g. a producer and user improving components	More than two co-operators at different levels of the production chain, e.g. an association or alliance composed of manufacturers and distributors of a produce

Source: Adapted from Schmitz 1997

tection from official harassment were perceived by businesses as important benefits of operating in a cluster.[14]

Only higher level clusters reap strongly positive benefits from labour market pooling and technology spill-overs. For most clusters, these theoretical benefits were absent or even negative, probably because clustering in Africa takes place in the context of an overabundance of labour. Instead of drawing workers from a pool of specialised labour, cluster firms rely on unskilled labour and trainees. These poorly paid workers often go on to set up their own firms, adding to the already intense competition.

The lack of technology spill-overs may have to do with the generally low level of technology in most clusters and the fragmentation of the business system which limits contact between medium and small enterprises (MSEs) and more technologically sophisticated enterprises.[15] The second dimension of collective efficiency, joint action, also appears to be related to the overall level of cluster development. The most developed clusters have strong horizontal and vertical linkages through associations, subcontracting relationships, and informal networks.

McCormick's study gave rise to a typology of African clusters.[16] In this typology, clusters at a fairly low level of development are said to be laying the groundwork for industrialisation. Others, with clearer signs of collective efficiency, are in the process of industrialising. The third type - complex industrial clusters – includes firms of different sizes, and shows significant interfirm linkages. Such clusters have gone beyond local markets, and have established themselves as national or even international players. These clusters are rare in Africa.

The Setting: Urban Kenya

Kenya: The Economy and Institutional Framework

Kenya's urban areas are best understood in relationship to the largely rural population and the poverty of the country as a whole. The country is poor: even when differences in purchasing power are considered, Kenya ranks 187th out of 210 countries in GDP per capita.[17] The economy grew quickly in the years immediately following independence, but the 1980s and 1990s saw very little economic growth: between 1990 and 1998, GDP grew at a rate of only 2.2% per annum.[18] Growth has since slowed even more.[19]

Less than one-third of Kenya's population of 28 million persons lives in urban areas.[20] Of the approximately 8.6 million urban residents, 2.1 million live in Nairobi, 650 000 in Mombasa, and the remainder in smaller towns and urban centres. The proportion of the population living in poverty has increased significantly in the 1990s. The change has been most dramatic in urban areas. Kenya has most of the problems associated with poverty: low levels of education, poor nutrition, weak health care, poor infrastructure, and an over-reliance on agriculture. Not surprisingly, therefore, the country has failed to industrialise. Manufacturing contributed only 10% to GDP in 1998, down from 13% in 1980.[21] Recent development policy has emphasised the importance of micro and small enterprises as a means of countering the failure of large industry to provide employment.

Kenya has an estimated 1.3 million micro and small enterprises (MSEs), employing 2.3 million people.[22] Over one quarter of all Kenyan households rely on an MSE for all or part of its income. One third of the MSEs are in urban areas; of these, 52% are owned by women. As in the country as a whole, trade predominates in urban areas (see Table 2). Just over 10% of urban enterprises are in manufacturing, 3.1% are in transport, 2.8% in financial services, and 11.7% in other services, such as repair services, personal services, and business services.

Improved access to markets is the most universal external benefit for clustered firms ... clusters of similar enterprises attract buyers

Typically, the institutional environment for business activity in African countries is fragmented and weak, with the result that national business systems consist of several distinct segments that interact in very limited ways.[23] Kenya is no exception. Markets, legal systems, financial institutions, technology systems, and social structures are weak and, to some extent, divided along racial and ethnic lines.[24]

Three Urban Centres

The clusters in this study are located in three urban centres of differing size and character. Three of the clusters are located in Nairobi, one in the port town of Mombasa, and one in Kakamega, in Western Province. Nairobi is Kenya's capital and only city. The city dominates the national economy, accounting for one quarter of the country's formal sector employment and a high proportion of its industrial output.[25] Nairobi also has over 85 000 micro and small enterprises employing 137 000 workers.[26] Many of these small enterprises operate in clusters

Mombasa, which is located on the coastline, is the second largest urban area in Kenya. Although older than Nairobi, it is much less densely populated, with an estimated population of 628 000.[27] Estimates suggest that tourism accounts for at least one quarter of Mombasa's income and a third of its employment. Another quarter of Mombasa's income comes from manufacturing. Trading activity, centred around the port, generates a significant proportion of the balance. Mombasa has considerable MSE activity: nearly 37 000 micro and small enterprises employing 55 000 workers. These are heavily concentrated in trading activities, with only 6.7% engaged in manufacturing. As in Nairobi, many of these enterprises operate in clusters.

Kakamega municipality is the administrative headquarters for both Kakamega District and Western Province. The municipality's population is estimated at 106 000 persons.[28] The area surrounding the town is largely rural and agricultural. Sugarcane, much of it grown by smallholders under contract to one of two large sugar factories, is by far the most important crop in the area. Smallholders also grow maize, both for home consumption and for sale, tea, coffee, and sunflowers. Kakamega town has no large industry. Government, public and private institutions, and small businesses are the main employers. Kakamega municipality has an estimated 6 000 businesses, nearly 90% of which are in trade and services.

Five clusters were selected for further analysis. The selection was based on a preliminary assessment of activities related to cluster upgrading. The selection was purposive and, as a result, no attempt is made to generalise from the findings. Rather, the case studies are meant to illustrate the types of strategies that clusters can use to improve their performance.

Five Urban Clusters

Ziwani is a vehicle repair cluster located in Nairobi's densely populated Eastlands.[29] The cluster dates from 1972, when vehicle repairers were relocated from other parts of Nairobi. It has grown sporadically until at the time of our research in 1996-97, 506 enterprises were crowded into a 1.2-acre site. All are small, with most engaged in vehicle repair. The cluster's main customers are minibus and truck owners. Three quarters of the repairers specialise in only one type of repair, with extensive subcontracting between firms with different specialisations.

Manufacturers are few, but their presence in the cluster is an indication of its movement from pure repair to more complex activities. Analysis of collective efficiency placed Ziwani in the 'industrialising' group of clusters. Firms in the cluster benefit from external economies in the form of market access, intermediate input effects and technological spill-overs. Joint action includes subcontracting and considerable associational activity.

Kamukunji, also located in Nairobi's Eastlands, has a special place in the history of Kenyan MSE development.[30] The cluster began in the late 1970s when metalworkers were removed from a site near the city centre to make way for a housing development. Although their new location was open land with no infrastructure, the cluster grew rapidly. In 1985, the President visited the artisans and announced that sheds would be built, and the land allocated to the artisans. This marked the beginning of a new era for small enterprise development policy in Kenya. It gave the *jua kali* artisans a legitimacy that they had previously lacked.[31] Nevertheless, Kamukunji remains at a very basic level of development. Its infrastructure is poor, with no regular electricity supply, no piped water, and inadequate sheds for the needs of the current population, about 2 000.[32] Many products are made from scrap metal which is hammered into shape with hand tools.

Firms in the cluster benefit from external economies in market access, intermediate input effects and technological spill-overs

Most Kamukunji products are of low quality with few variations. A sub-cluster of 15 firms making wheelbarrows appears to be an exception: their product competes favourably with imports and similar wheelbarrows made by large industry. The workshops also attempt to standardise parts for their own wheelbarrows. The Kamukunji cluster as a whole falls into the group of 'groundwork' clusters. The strongest external economy is market access, while joint action appears to be weak, focusing mainly on supply-side constraints such as work space and availability of inputs.

The textile cluster in Uhuru Market began in the mid 1970s.[33] The market, which consists of five buildings housing over 400 stalls, is located in the Makadara section of Nairobi's Eastlands. Shortly after its construction, the fruit and vegetable sellers for whom the market was originally designed moved to less expensive quarters, and textile businesses took over. In 1991 when the ban on imports of second-hand clothing was lifted, the businesses began to experience difficulties, but they have nevertheless continued to produce a variety of products. Some of the output is sold in Nairobi, but traders are known to take goods to up-country towns and rural centres. Some even find markets in Tanzania and Uganda. Uhuru Market's production has been termed 'mini-manufacturing' because it uses a scaled down version of mass production to manufacture in quantity.[34]

In the mid-1990s the market was plagued by power cuts, because the Nairobi City Council frequently failed to pay its electricity charges. To ensure a steady supply of power, many producers arranged for the installation of individual meters. By

TABLE 2: URBAN AND RURAL MSES BY SECTOR

Category	Urban			Rural			Total
	No.	Col.%	Row%	No.	Col.%	Row%	
Manufacturing	44,455	10.5	26.9	120,84	15.1	73.1	165,295
Water works, supply	1,158	0.3	100.0	-	-	-	1,158
Construction	6,551	1.5	29.7	15,537	1.9	70.3	22,087
Trade	298,345	70.1	33.7	586,937	73.4	66.3	885,282
Transport	13,257	3.1	65.8	6,905	0.9	34.2	20,162
Financial agents	11,976	2.8	69.8	5,179	0.6	30.2	17,155
Other services	49,649	11.7	43.7	63,873	8.0	56.3	113,522

Source: Central Bureau of Statistics 1999

TABLE 3: CLUSTER UPGRADING STRATEGIES

Cluster	Strategy	Action Plans
Ziwani Vehicle Repair	Tap the market opportunity presented by the large number of imported second-hand vehicles	• improve cluster's appearance and security • reduce/eliminate theft of parts • upgrade training using UNDP facility • develop and implement mechanisms for resolving disputes among members • purchase diagnostic equipment and large vehicle parts
Kamukunji Wheel Barrow Makers	Maintain diverse marketing channels for standard products	• make good quality standard products • display products to attract individual customers and traders • sell to supermarkets
Uhuru Market	Avoid competition from second-hand clothes	• make items not plentiful in second hand market • avoid price-sensitive, readily available items • diversify production
Akamba Carvers	Market a wide range of wood carvings using different channels	• maintain a traders' section • maintain a showroom for tourists • offer tour drivers a commission on sales to their clients • tap the export market
Kakamega Jua Kali	Carry out repairs using whatever resources can be mobilised	• subcontract work within the cluster • link with more technologically advanced firms outside the cluster • expand and improve cluster premises

Source: McCormick 1997 and 2000

mid-2000, however, this action was overtaken by a power rationing regime that deprives the market of electricity for half of every work day. Analysis of the collective efficiency of Uhuru Market placed it in the 'groundwork' group. Its strongest external economy is improved market access. The cluster shows modest labour market pooling and intermediate input effects, but no real technology spill-overs and little joint action. The lack of joint action has been most noticeable in the current power crisis. Despite a significant drop in their productive capacity, cluster firms have neither mounted an organised call for an exemption to the rationing nor attempted to find alternative sources of power.

In 1969 the Akamba Carvers co-operative purchased 9.5 acres of land in Changamwe, an industrial and low-income residential area within Mombasa.[35] At that time, the co-operative had only 300 members, but it has since grown to 3 000 members. The main cluster facilities consist of production areas, a showroom and a wholesale section. The cluster also includes a bar, restaurant, and guest house, which generate additional income.

In addition to the carvers, another 2 000 people work in the cluster providing various support services. No formal analysis of collective efficiency has been carried out in the carvers' cluster. It appears, however, that carvers obtain considerable benefits from operating in this cluster. External economies, especially market access and technological spill-overs, appear strong. Joint action is significant. Only in the area of exports did the co-operative management seem to fall short of the members' expectations.

The Kakamega Jua Kali Cluster includes businesses on three plots of land. The oldest site is on the western side of the town; the second is an undeveloped plot nearby, while the third, at the edge of town, is currently being developed with assistance from the World Bank. Phase One includes approximately 50 businesses. Most are directly engaged in vehicle repair, doing welding, mechanics, spray painting, panel beating, and/or battery charging. The cluster also includes food vendors and traders selling spare parts. The site contains a number of workshops made of iron sheets, but most of the work is done in the open. The main markets for the cluster are town residents and people from the surrounding rural areas. The Kakamega Jua Kali appears to be very similar to other 'groundwork' clusters engaged in vehicle repair. Its main external economy is market access. Joint action includes subcontracting and associational activity, mainly focused on obtaining infrastructure. Unlike many clusters at this level, the Kakamega Jua Kali has forged some bilateral linkages with technologically more advanced firms.

Upgrading Strategies

Research on clusters in Africa suggests that most are simple agglomerations with few external economies and very little evidence of positive joint action.[36] Recognising that the active aspects of collective efficiency are critical for cluster growth and development, we have chosen to investigate one specific type of joint action: the adoption of an upgrading strategy.

When we ascribe a strategy to a cluster, we are saying that the cluster has a consciously chosen direction for its actions. In some cases, this direction is highly formalised. For example, the owners of businesses in a cluster may meet together to discuss the competitive challenges facing the group and develop a formal strategic plan, which they then use as the basis of further decisions. This is unusual among small enterprise clusters. More common is the situation in which either a representative group such as an association develops a strategy for the cluster, or what can be called a cluster strategy is actually the sum of similar strategies adopted by a significant number of the cluster's firms. In looking for strategic behaviour in Kenya's small enterprise clusters, we considered the formal cluster strategy, the associational strategy, and the implicit strategy.

Strategies Adopted by the Five Clusters

Table 3 summarises the upgrading strategies and accompanying action plans evident in each of the five clusters. No cluster has a formal cluster strategy. In the cases of Ziwani and the Akamba Carvers clusters, the strategy has been articulated at

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the associational level; in the other three clusters, the strategy has emerged from the actions of a number of producers.

The Ziwani cluster is attempting to capitalise on the presence in the Kenyan market of large numbers of imported second-hand vehicles. Kenya reopened its market to second-hand vehicles in the mid-1980s. The first entrants were fully reconditioned vehicles from Japan that required little initial maintenance. Then, with the general liberalisation of markets, the range of imported vehicles was extended to include what have come to be known as Dubai cars – second-hand vehicles that enter Kenya through Dubai. Since they are not reconditioned and are typically around five years old when they arrive in Kenya, many quickly develop problems requiring the attention of mechanics. It is this market that Ziwani has attempted to target.

Successful implementation of the strategy requires the cluster to overcome the poor reputation of *jua kali* vehicle repair among Kenyans. According to popular opinion, *jua kali* mechanics are good at improvising, but lack the skills to deal with the complexities of 1990s vehicles. Furthermore, if not carefully watched, they are likely to cut corners in ways that can cause long-term damage, even to the extent of removing good parts from a vehicle and replacing them with old ones. The insecurity in many of the low-income areas where urban *jua kalis* work and the risks associated with dealing with more than one independent repairer are additional problems that deter Kenyans from taking their vehicles to the *jua kali* for repair.

Jua kali handicraft producers often blame the co-operative management for failing to market their goods abroad. While their complaint may be justified, it is also true that the handicraft market is notoriously fickle.

Officials of the Ziwani Jua Kali Association developed an action plan that seeks to counter these fears of potential customers. The first steps involve improving the appearance and security of the cluster. The association has also taken measures to strengthen general discipline within and around the site, and expected that cluster mechanics' skills would be upgraded as a result of a UNDP training facility located within the cluster. Unfortunately, this project, which was originally scheduled for completion in mid-1997, remains unfinished, although it may be back on track under new management.[37]

The Association has also established procedures for mediating in disputes between members. Since many repairs involve the work of two or more independent enterprises, the existence of mechanisms for dispute resolution reduces cus-

TABLE 4: SUMMARY OF STRATEGY SHORTFALLS

Cluster	Strategy Shortfall	Main Reasons	Short-term Responses	Policy or Institutional Needs
Ziwani	Upgraded training	Contractors' failure to perform	Cluster: Alternative training sources	Stronger contract enforcement institutions
	Purchase of diagnostic equipment and large parts	Association's lack of legal standing	Donor or government: Funding or loan guarantee	Review of legal status of *jua kali* associations
Kamukunji	Collaboration for greater efficiency	Fear/lack of trust	Cluster: Compare efficiency of craft and production line methods	Stronger contract enforcement institutions
Uhuru Market	Power rationing	Poor planning in power sector	Cluster: Joint action to secure exemption or alternative power source	Better energy planning; Particular attention to MSE energy needs
Akamba Carvers	Weak tourist sales	Drop in tourism	Cluster: Improve profit margins	Concerted effort to make Kenya more attractive to tourists
	Low export sales	Poor marketing by cluster management	Cluster: Strengthen management in export section	Greater support for MSE exports
Kakamega	Linkages provide little opportunity for technological upgrading	Work is being done on purely commercial basis	Cluster: Seek more beneficial linkages	Incentives for inter-firm technology linkages

tomers' risks of costly delays. Finally, recognising that the diagnostic equipment and large replacement parts needed to service Dubai cars are beyond the means of individual repairers, the Association attempted to secure funding to enable them to be purchased jointly. They have thus far failed because the Association lacks the legal standing necessary to obtain either a bank loan or a grant on its own.

The wheelbarrow makers have adopted a different strategy. They make a standard product, with very few variations. The expansion of the cluster has come as a result of an implicit strategy to market that product widely. The strategy has not been articulated by the group as a whole, but seems to have emerged from individual actions and informal conversations.

The elements of the strategy are fairly straightforward. The first step is to make a good quality wheelbarrow, and then to identify a variety of marketing channels to take that product to customers. The 'traditional' market for *jua kali* metal products is individual consumers. Yet among the wheelbarrow makers, individuals account for only about one-quarter of their sales. More important are traders who currently account for up to 60% of sales. The most recent addition to the cluster's market channels is the supermarket chains, which make long-term informal agreements with artisans.

The strategy has been successful, in that the number of producers has increased from three to 15 and sales seem to be good. One informant claimed to sell 50 wheelbarrows per week, while others estimated their weekly sales at 20-30 wheelbarrows.

What has not happened is the kind of specialisation and differentiation of production predicted by cluster theory. Instead, the workshops remain essentially craft producers. Only when they receive an unusually big order do they change their production methods, combining efforts to fill the order. A more frequent form of co-operation is the pooling of finished stock when a customer wants more wheelbarrows than any one artisan has on hand. In general, however, they prefer to operate independently.

The garment producers in Uhuru Market in Nairobi have evolved a strategy of avoiding competition with second-hand clothes. In the mid-1990s, when second-hand clothes were mainly an urban phenomenon, they claimed that by selling upcountry they avoided competition.

In more recent interviews, several business owners pointed to particular products, such as cardigans and women's petticoats, that they felt were immune from competition because few are imported second-hand.

It is difficult to judge the degree of success of the strategy on the basis of available data. We know that second-hand clothes are now virtually everywhere in Kenya, but we have not been able to track the Uhuru Market production to see the extent of competition at its final destinations. A review of data from the 2000 census of the market points to the virtual elimination of the manufacture of menswear in Uhuru Market.[38] These data also suggest a trend towards diversifying production. Since May 2000, however, power problems have taken a visible toll on production.

The Akamba carvers have a well-developed strategy for using different market channels to sell their wood carvings. The three main categories of customers are traders, individual tourists, and foreign buyers. The co-operative caters for traders by maintaining a special traders' section within the cluster where buyers can view samples, place orders, and make bulk purchases.

Direct sales to tourists are important because they are generally more profitable. To ensure a steady flow of tourists, the cluster has established linkages with tour drivers whereby the drivers are paid a 5% commission on sales of goods to the customers they bring. The atmosphere in the cluster can be described as "tourist-friendly". The co-operative also has an attractive showroom designed specifically for tourists.

Finally, the cluster attempts to tap the export market, though some of the carvers expressed dissatisfaction with this aspect of the co-operative management's work. The carvers' strategy has been generally successful, with significant sales in two of its three target markets. The export market is the most difficult and it is here that the strategy has been most lacking. Producers blame the co-operative management for failing to market their carvings abroad. While their complaint may be justified, it is also true that the handicraft market is notoriously fickle.

The Kakamega Jua Kali cluster follows an unstated strategy of undertaking a wide range of vehicle repairs using whatever resources firms can mobilise. The cluster firms realise their strategy by forming linkages both within and beyond the cluster. Like their counterparts in Ziwani, Kakamega vehicle repairers usually specialise in one or two types of repairs and subcontract any work falling outside their specialisation to other firms. This allows each firm to work with a minimum of equipment and to develop specialised skills.

Some jobs, however, require specialised equipment not available within the cluster. For these, the cluster firms go either to the small firms located in the nearby Kenya Industrial Estates cluster or to one of the town's two formal engineering firms. The cluster is also attempting to expand and improve its premises. To do this, it has tapped into World Bank resources, which are providing the funding for the sheds being constructed in Phase Three of the cluster.

The cluster has been fairly successful. Its linkages with the more technologically advanced firms in town are unusual, even among the more dynamic urban *jua kali* clusters.[39] Such

Producers must update designs, introduce new products, get products to market cheaply and efficiently and search for new market outlets

linkages improve the quality of the cluster's repair work and enable them to take on repair jobs that they would otherwise have to refuse. They do not, however, do much to improve the technological capability of the *jua kali* repairers. Since the artisans have the work done on a commercial basis, they have little or no opportunity to learn about the machinery or to use it themselves.

The Limits of Cluster Success

Each of the five clusters has adopted a strategy designed to improve its performance. As is often the case with strategic planning, results have been mixed. The clusters have experienced some benefits from their strategies, but it is also clear that the aims of the strategies have not been fully realised.

Two aspects of the Ziwani strategic plan have not been accomplished. The cluster has not been able to use the UNDP facility to upgrade its training because the facility has yet to be completed. The cluster could, in the short term, draw on alternative training sources such as the World Bank's Voucher Training Scheme.

Despite the delay, the association still hopes for the technological improvement that a training facility specialising in vehicle repair could offer. Ziwani also failed to achieve its aim of purchasing diagnostic equipment and large parts. Lack of legal standing prevented the Association from borrowing or obtaining donor funding. Officials tried various short-term measures, but none was successful. It appears that if *jua kali* associations are to function as vehicles for cluster upgrading, their legal status will need review.

In the case of Kamukunji, the artisans' preference for independent production has led to a failure to consider long-term inter-firm collaboration as a way of enhancing efficiency and increasing output. A first step towards greater collective efficiency might be the formation of either a separate sectoral association or an interest group within the larger association.

Such a group could compare the efficiency and output levels of artisan and 'factory' wheelbarrow production.[40] This would give the producers more information to enable them to weigh the potential gains of collaboration against the possible losses. Even if this analysis demonstrates the superior efficiency of factory production, producers may be reluctant to enter into partnerships that would require them to pool financial resources.

The reason for this reluctance is, no doubt, the fact that Kenya's legal framework and court system would provide little protection should the partner lose or misappropriate funds. New institutions appropriate to small producers are needed. An obvious need is for government institutions that can enforce contracts at this level, such as a small claims court. In the absence of these, the association can follow the example of Ziwani by developing its own mechanisms for resolving disputes.

Uhuru Market's businesses failed to anticipate the negative impact of power rationing. Since they have very little experience of joint action, they have not yet come up with a way to address the problem together. They could use their market association to try to secure an exemption from power rationing, or they could investigate alternative sources of power.

However, Kenya Power and Lighting is reluctant to grant exemptions, and there are legal barriers preventing investors from generating and selling power. Nevertheless, by coming together to discuss these possibilities, the cluster businesses may sow the seeds of an organisation capable of providing them with longer term benefits. Furthermore it may pave the way for more enlightened discussion of the real need, which is for government to pay greater attention to the energy needs of the micro and small enterprise sector.

The Akamba Carvers' strategy has two weak points. The first is attributable to the drop in tourism experienced in Kenya over the past years. This is something that the cluster itself can do little to remedy. The government and the tourism industry need to take steps to help Kenya to attract more tourists. However, the cluster should consider how it might get a larger proportion of the money spent by the tourists who do come. A concerted effort to improve marketing should also help overcome the second weakness in the existing strategy: export sales. Export markets can be unreliable.[41]

Experience shows that producers must compete on several fronts simultaneously, continually updating designs and introducing entirely new products, getting products to market cheaply and efficiently, and searching for new market outlets.[42] In the case of the Akamba Carvers, this means that the co-operative needs an export department to take on all aspects of export marketing. A long-run need is for the Ministry of Tourism, Trade and Industry to provide greater support for MSE exports, including handicrafts.

The strategy of the Kakamega Jua Kali has resulted in expansion. The cluster developed some linkages with technologically more advanced firms which are serving them well in their immediate aim of getting work done. These linkages are purely commercial, however, and provide little opportunity for technological upgrading.

Studies show that the most useful linkages are those that provide a mechanism for transfer of skills or for expanding the capital stock of the small firm.[43] The Kakamega cluster could improve itself by trying to build technological learning into the linkages it already has or by seeking new ones that promise some skill transfer. To support efforts such as these, government may need to consider providing incentives for inter-firm technology linkages.

Conclusions

Despite the fact that the underlying causes of many cluster problems are beyond their control, cluster firms are not powerless. They have a number of short-term actions open to them that can improve their situation. However, many of the deeper problems facing MSE clusters are caused by weak or missing institutions that can only be addressed by concerted government action.

The existence of upgrading strategies demonstrates the ability of clusters to act together, and the analysis has identified other short-term actions open to them. Implementing many of the short-term responses would require significant inter-firm co-operation. However, firms are wary of collaboration, and existing organisations often fail to live up to business owners' expectations.

There is a need to reassess the potential of such organisations as vehicles through which clustered small firms can work and plan together. The examination needs to encompass all types of associations, including the traditional *jua kali* associations, the less common sectoral association, and even the welfare and credit associations.

Secondly, government, in its efforts to support micro and small enterprises, needs to pay more attention to institutional issues. Government should, for example, address the very real need for enforceable contracts. Not only will this help with large projects like the Ziwani training facility, but it will also allow small firms to extend their market reach.

Perhaps the most important institutional issue is the broadest. Kenya is known in many circles for its favourable policy stance towards small enterprise, which is now being revised. The new document is likely to contain chapters on all of the major areas of concern: markets and marketing, infrastructure, entrepreneurship development, credit and finance, information management and dissemination, business development services, environment, and gender.

Its overall thrust will be on establishing a positive environment for business activity. The challenge for government, however, is not so much in drafting a good policy document, as in seeing that the policies, once adopted, are implemented consistently and fairly.

If it is serious about making MSEs the heart of its poverty-reduction and industrialisation strategies, then government must pay particular attention to developing institutions that will support efficient production and marketing. It must also pay more attention to the ways in which its own planning and operations impact on MSEs. ✪

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Enterprise compliance with local authority regulation in Kenya

A comparison of institutional and efficiency analysis perspectives

BY CHARLES ABUODHA AND ROGER BOWLES

Enterprise regulation is a broad domain including business registration, licensing, intellectual property rights, tax, labour regulations, training, quality and health regulation.[1] The study of enterprise regulation can be summarised as the study of whether to regulate or deregulate. Enterprise regulation has been studied and influenced by a wide array of economics-based social science biases, the most prevalent being neo-classical, public finance and public choice, industrial economics and law-and-economics perspectives. Orthodox economic (Keynesian and Monetarist) analysis of regulation is similar to the legal studies preserve, in that both view regulation as an exogenous instrument of control. Keynesian and Monetarist orthodoxy have simplified regulation to a growth-policy tool. To them, government policies are the key to understanding the economy's capacity to operate at full employment. Neo-classical (supply-side) economics, public finance analysts and industrial economists view regulation as a government activity prompted by market failure concerns, but with its own distortionary effects on society.

Enterprise regulation also has certain cost implications. The understanding and minimisation of these costs is central to the three paradigms. Supply-side economists advocate for *laissez-faire,* and see government's primary responsibility as providing free market business incentives to grow (or the deregulation agenda). Public finance literature studies the distributive effects of regulation on society and its organisations. The industrial economics study of regulation is the study of competitive equilibrium distortions, and emerging industrial structures from regulation. It is these three paradigms that have inspired the efficiency analysis of regulation. Transfer

Abuodha is at the Institute for Development Studies, University of Nairobi, and Bowles at the Centre for Development Studies, University of Bath. *We are grateful to the Department for International Development (DFID) in Nairobi for their financial support for the research that this paper draws upon. Thanks also to Dorothy McCormick, Grace Ongile, Wynnie Mitullah and Walter Odhiambo, Mike Godwin, Clive Davis, Hugh Scott and Catherine Masinde.*

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payments, efficiency savings, distortionary costs, administrative costs, and compliance costs are key themes in these paradigms. Traditional law and economics studies have sought to attach economic values to regulation, studying aspects such as non-compliant behaviour.[2] By recognising possibilities of collusion and corruption, they have expanded the horizons of legal studies to include the role of governance and effectiveness of law.[3]

In addition, institutional analysis has provided new depth in the understanding of the role of regulation. Institutionalists argue that economic growth comes from both technical change and changes in social institutions.[4] A business environment characterised by inept rules, such as unclear property rights, a disabling legal framework, or weak contract enforcement, distorts the allocation of resources and reduces investments and growth. Macro analyses have developed indices for corruption, property rights insecurities and policy instability and tested their significance for growth using long-term macro-data. Microanalysis, on the other hand, has lagged behind in the search for comprehensivity. This article builds on these micro-perspectives, as a key to the better understanding of macro effects, and definitely more important to entrepreneurs. The article uses both efficiency and institutional analysis to understand the nature of compliance (and hence non-compliance) and to review the regulatory burden of enterprises with regard to business licensing in Kenya.

Enterprises and Enterprise Regulation in Kenya

The enterprise sector in Kenya, like most African and developing countries, is characterised by the coexistence of medium and large (M&L) enterprises with micro and small enterprises (MSEs). The M&L enterprise sector employs an estimated 300 000 persons, located in key industrial and commercial sites in urban areas, and consists mainly of multinationals and foreign-owned enterprises.[5] There is a substantial but declining state presence, as the economy liberalises and privatisation is entrenched. In turn, the MSE sector employs more than 2.6 million people in 1.3 million enterprises, providing 270 000 new jobs every year.[6] Its 12% growth-rate has been described as phenomenal. Services, trade and commerce dominate the MSE sector. Women make up 46% of the sector's entrepreneurs and about 40% of the sector's employment.[7]

The problems facing business in Kenya are diverse, with over-regulation standing out as a key concern for both M&L and MSE enterprises. Several studies on the MSE sector in Kenya list regulation as a fundamental concern and single out trade licensing as the key regulatory bottleneck.[8] In response to these criticisms, a deregulatory agenda has been introduced. The initial aspects of the programme sought to abolish outdated regulatory laws, remove central government licensing fees and rationalise municipal council licences.

The shift from the Multiple Licensing (ML) system to the "one stop shop" Single Business Permit (SBP) is the first of an expected series.[9] The broad objective of the SBP is "to deregulate the business sector so as to encourage greater economic growth and employment". Specific aims include enhancing licence administration transparency, monitoring non-compliance, reducing administration and compliance costs, maintaining information on private sector activities and enhancing local government revenues to support delivery of local government services.[10]

Adoption of an SBP regime was made compulsory by 1 January 2000. Sub-components of the programme include the training of executive and licensing staff on the operations of the SBP, the formation of enterprise registers and entrepreneur-reform awareness programmes.

Studying Regulation in Kenya

This article analyses evidence from two studies, one undertaken by the Institute for Development Studies, University of Nairobi (REME) and the other by the Centre for Development Studies, Bath University (SBP). The REME study was undertaken in 1998, and covered six towns in Kenya.[11] Its aim was to assess the nature of pre-reform licensing, and document compliance and non-compliance costs to both trade licensing and registration. The overall aim of the SBP study was to assess the impact of the change from the multiple to the SBP system in municipal licensing. While the SBP studied both M&L and MSE businesses in rural and urban areas, the REME study was limited to urban areas and MSEs.[12]

Ways of doing business vary from society to society. Business interaction is embedded in the structures of social relations. Enterprises' responses to laws and regulation are dictated by this very embeddedness. The understanding of compliance and the governance of licensing must take these perspectives into account. Neither the SBP nor the REME study had an institutional component; thus, a qualitative, post-SBP case study of an enterprise cluster in the Westlands area of Nairobi was undertaken to supplement the data.

The Westlands Road-Reserve Case Study

Westlands, Nairobi is a middle and high-income area, located four kilometres west of Nairobi's city centre on the Nairobi-Kisumu highway. The area houses several micro-enterprises, both at the municipal market and in enterprise clusters along road reserves. The more evident clusters are at the Peponi road roundabout, the Peponi-Lower Kabete road junction, and the Westlands-town bus stop. Westlands is also a formal enterprise hub, planned initially as a satellite commercial zone of the city centre, although it later lost this unique position to expansion from both ends.

The cluster has an estimated 80 micro enterprises, located at the junction of the Rapta road and Uhuru highway. The cluster's spatial spread is a classic example of road-spread adherence. The enterprises form a half T shape in a single row alongside road reserve space adjacent to the main town-Westlands bus stop; they then bend into Rapta road. The majority of enterprises sell second-hand clothes. Food kiosks, fruit vending and small household retail outlets are also common, with a few businesses doing car repairs, fabrication, pottery and private social services. Council officials have demolished part of the cluster located on the opposite side of the road to pave the way for construction site safety regulations.[13]

The local chief undertakes land allocation on the road reserve at the request of entrepreneurs, and guarantees property rights. For a small 'fee', ranging between Kshs 5 000 (about US $65) and Kshs 10 000,

TABLE 1: SBP AND REME RESEARCH CHARACTERISTICS

Study Characteristics	REME	SBP
Sample size	300	336
No of towns researched	6	6
Regulation under review	Trade Licensing, Muncipal Licence and Registration	Municipal licences only
Towns	Nairobi, Kakamega, Siaya, Nyeri, Nakuru and Kajiado	Nyeri, Mavoko, Siaya, Thika, Kitale and Busia
Enterprise size	MSEs only	MSEs and M&L enterprises
Region	Urban focus	Both rural and urban
Date of research	1998	1999

TABLE 2: PERCEPTIONS OF LICENSING PURPOSES

	no of enterprise owners			as a percentage		
	Large	Medium	Small	Large	Medium	Small
Consumer protection	6	7	24	21	14	9
Source of revenue	19	39	159	68	80	61
Regulation of business	1	1	25	4	2	10
Other/don't know	2	2	51	7	4	20
Total	**28**	**49**	**259**	**100**	**100**	**100**

TABLE 3: KNOWLEDGE OF THE SBP PROGRAMME BY LOCAL AUTHORITY

Authority	Siaya	Busia	Nyeri	Thika	Mavoko	Kitale	Total
Well-informed	0	0	2	6	0	3	11
Informed	0	7	1	13	0	22	43
Know little	1	20	9	14	7	14	65
Know very little	7	26	21	23	20	12	109
Know nothing	52	0	18	4	31	3	108
Total	**60**	**53**	**51**	**60**	**58**	**54**	**336**
Know very little or nothing as % of total	98	49	76	45	88	28	65

tenants have permanent occupancy – until the next demolition. Only about 10% of current stall occupants are actual allottees, renting their spaces for between Kshs 1 200 and Kshs 2 500 (about US $32). On allocation, 'landlords' in the presence of the local chief build temporary structures, which are then refurbished by tenants on a rent-deduction pay back system.

Only 15% of enterprises in the cluster are effectively licensed. These tend to be food kiosks and household retail outlets, which can perhaps be attributed to health-specific licensing requirements. Licence officers visit every month to collect a reasonable private fee of Kshs 200 from occupants. The Chief and the Chief's men occasionally solicit another Kshs 200 on a monthly basis. Occupants are comfortable with the 'licensing arrangement' and do not see the need for formal compliance. None of the enterprise owners knew about the reformed SBP licensing system. Various institutional factors are key to the non-compliance of this cluster. These include the coexistence of formal and informal laws in licence administration, path dependency in enterprise-enforcement officer relationships, non-convergence of policy maker objectives with the desires and aspirations of enterprise owners, and the distributive effects of ethnicity and political factors.

Multiplicity of Rules

Rule multiplicity can be observed across firms of different sizes and across enterprise activity. M&L enterprises tend to rely more on formal (legal) contracts and formal redress systems than their MSE colleagues. Enterprises rely on different rule forms for intra and inter-firm activities. There are evident variations of activity-rules across firm sizes. Most large firms rely on formal legal systems for spatial-based property rights but rely on networks (informal rules) for credit sourcing and sub-contracting. The MSE sector relies extensively on informal rules for most activities, with the exception of the resolution of petty crime.

These variations in the economy affect enterprise licensing as they would any other activity. Enterprises see regulations as simply a revenue generation tool. In fact, McCormick and Kinyanjui document protection from regulation as one of the key gains that enterprises obtain from clusters.[14] The willingness of enterprises to bargain against formal regulation, and the willingness of enforcement authorities to connive, presents opportunities for entrenched non-compliance. This is particularly true for enterprises whose licensing costs form a significant proportion of sales and profits.

The Westlands-Nairobi road-side second-hand clothing trading cluster provides the perfect example of such collaboration. With the introduction of the SBP, licence costs are estimated at Kshs 2 000 annually for businesses earning between Kshs 4 000 and 10 000 profit monthly. As a response to potential local authority harassment, a joint agreement by enterprise owners to form a licensing negotiating community was set up. The agreement was that each enterprise pays an un-receipted amount of Kshs 200 monthly, irrespective of whether they have a legal licence or not. From the 80 traders in the area, this translates to Kshs 16 000 for the enforcement officers at a cost of Kshs 2 400 per enterprise annually. Though this is higher than SBP licensing arrangements, the cluster residents chose to comply with path-dependent regulation, which is perceived as both more credible and safeguarding their interests. The amount paid to council officials is a bribe, negotiated and embedded in informal rule.

Path dependency

The Westlands roadside cluster also provides a classic case of path dependency. This can be attributed to known (and in most instances lower) transaction costs in existing regimes and the high costs associated with new or altered governance regimes. The process of information search on the part of both enterprise owners and enforcement officers is in itself prohibitive, due to a lack of interactive volunteers and information inaccessibility. Knowledge of the SBP programme and its perceived benefits is low in both SBP implementing and non-implementing zones. There are no clear differences in reform awareness between rural and urban zones.

The amount paid to council officials is a bribe, negotiated and embedded in informal rule

Enterprise owners with knowledge of the SBP feel more secure on tested protection systems. Harassment from law

TABLE 3: ATTITUDES OF ENTERPRISE OWNERS TO LICENSING AS A BARRIER TO BUSINESS

	no of enterprise owners			as a percentage		
	Large	Medium	Small	Large	Medium	Small
very serious barrier	4	47	51	8.16	18.15	
serious barrier	8	21	92	28.57	42.86	35.52
not a serious barrier	14	17	77	50.00	34.69	29.73
not a barrier at all	6	7	43	21.43	14.29	16.60

enforcement officers during checking visits continues despite the SBP licence reform, which advocates for specificity in licence checks rather than the random general checks approach. Today, such visits are illegal from the formal rule perspective but represent a significant threat to enterprise owners to ensure informal rule compliance. The harassment of a non-complying cluster member is a direct threat to the security clusters offer just as they are threats to other gains attributed to co-operation in cluster networks.

Enterprise Aspirations and Reform Credibility

The single most effective determinant of compliance is acceptance and support of regulation by the target group and society as a whole. Several authors have linked regulation acceptability to affluence: richer societies demand cleaner, safer and better organised social and spatial environments. On the other hand, there is a need to balance personal rights with the intrusive effects of regulation. Neither of these two views forms the core of a developing country's support for regulation.

In the developing world, provision of social services determines support. The dominance of the revenue collection perspective instils the need for social return. While MSE enterprise owners require better working environments and business support arrangements, M&L firms advocate for reduced total regulation and more restriction of the untaxed and unregulated sector to reduce competition. Other factors determining enterprise support for regulation and/or de-regulation in developing countries include:

- the predictability and consistency of laws and policies;
- government-enterprise interphase;
- the effectiveness and credibility of law enforcement;
- political stability, bureaucratic red tape, and uncertainty.

Enterprise compliance with regulation, in the short-run, is commensurate with perceived predictability. Enterprise perceptions are built on the evaluation of government performance on these attributes as regards both laws and government policy. The Kenyan scenario does not score highly in these attributes. Policy reversals, weak implementation of policies, suspect enforcement and lack of continuity has damaged government credibility. Repeated backing down by the Kenyan government, such as in minibus public transport *(matatu)* regulation, sends signals of a lack of seriousness to business.[15]

Lack of consistency, and hence predictability, entrenches time-tested path-dependent institutions related to licensing, whereas consistency and predictability in enforcement increase compliance. The credibility of law enforcement is also linked to regulation acceptability. Weak enforcement works against regulation, while strong enforcement encourages compliance to the extent that punitive actions do not encourage evasion of the formal legal environment. The table shows Government-Business interface for enterprises as regards regulation.

From survey results, a small percentage of medium and large enterprises see licensing regulation as a very serious barrier to enterprise operations – 29% of large enterprises compared to 51% of medium and 53% of small enterprises listed business licensing as a serious concern. The acceptability of a regulation programme depends on how legal objectives correspond with the government-business interface. The acceptability of licensing regulations in Kenya correlates negatively with firm size.

Ethnicity and Licence Governance

Colonial governments in Africa used regulations to distribute natural resources, thus creating racial tensions, instability and skewed income distributions. The challenge in Africa today is increasingly shifting from racial to ethnic tensions. Ethnicity is important, in that it provides a wide base of institutions from which interaction and interest can be entrenched and enforced. The link between ethnicity and regulation compliance hinges on the co-existence of economically dominant ethnic societies alongside fragmented, weaker ethnic groupings.

Dominant groups seek to intensify their ethnic social-institutional control to provide them with a continued comparative advantage and access to enterprise support resources.

Ethnic-based enterprise relations encourage the perpetuation of entrenched ethnic divisions. The alienation of able entrepreneurs from low-participation ethnic groups and the fortification of low-performance entrepreneurs from dominant ethnic groups represent an efficiency loss to the economy. Non-dominant groups will support formal rule for the simple reason that it opens new spaces and provides alternatives to dominant social institutional control.

The institutional applications to licensing recognise that political effects and enterprise owners' perception of their distributive effects directly affect regulation acceptability and hence compliance.

Colonial governments in Africa used regulations to distribute natural resources, thus creating racial tensions, instability and skewed income distributions

Innovative research on regulation reform, inspired by new institutional economics and institutional analysis, incorporates transaction cost effects. These studies seek to measure the transaction and transformation costs of evading or accepting

TABLE 4: BRIBE INCIDENCE IN KENYAN ENTERPRISES[19]

	Bribe incidence		Mean bribe	
	1998-SBP	1998 REME	1998-SBP	1998 REME
Male	18.1%	20.6%	475 Kshs	2 606 Kshs
Female	14%	14%	386	1 093
Urban	14.7%	18.7%	454	2 309
Rural	20%	*	378	*
Complying enterprises	16.6%	23%	570	2 288
Non-complying enterprises	1.4%	1.4%	50	3 349

* costs not collected in survey

TABLE 5: COMPLIANCE COST ESTIMATES FOR KENYAN ENTERPRISES[21]

Compliance	Compliance costs		
	1999 SBP	1998 SBP	1999 REME
Male	2897	880	1144
Female	815	835	483
Urban	952	1877	1008
Rural	498	2070	*
M&L	2541	1992	*
MSEs	136	489	1008

* costs not collected in survey

these dual systems. Neither the SBP study nor the REME study attempted to collect such data, despite their importance in regulation policy planning.

Efficiency Analysis of Regulations

Efficiency analysis compares the financial gains and losses of regulation. Attention is paid to administrative costs to society with a focus on regulating agency costs, distortionary costs in society and compliance costs to enterprises. Transfer payments are important in understanding distributive effects but are not considered part of efficiency gains or losses.

Cost of Compliance

The cost of complying with regulation, including business licensing, can be categorised as:

- Time spent travelling to local authority offices to acquire licences;
- Time spent at the authority offices attending to licensing compliance;
- Time taken to attend to visits by enforcement officials;
- Expenses incurred in making visits;
- Bribes to enhance faster processing of licensing;
- Costs of obtaining compliance materials such as application forms.

Other studies add psychic costs, such as emotional and psychological resentment of the process of complying with regulations.[16] Psychic costs can be measured by contingent valuation techniques such as those used to evaluate consumer preferences for environmental purity.

Cost of time and travel

Time taken in enterprise compliance takes three forms: travelling time, time spent at the regulating agency offices and time taken to attend to enforcement officers in compliance checks. Enforcement visits by local authority officials take up the time of an enterprise in the same way as a visit to the local authority's office or time taken travelling to regulating agency. These time costs are measured by factoring in opportunity costs of exchange time (such as planning, marketing, production, and labour or management time). An in-depth study of opportunity should add up the total costs to an enterprise:

Ti = S(lit tvi) for all (v=l...k)
Where T is time costs for firm i, l is the opportunity cost per unit time of exchange variant v for firm i and t is the time spent in each exchange variant v for firm i.

Travel time is computed by multiplying the number of trips an enterprise makes by the average trip length for the authority. Enforcement attendance time and time taken at licence office are straightforward time values obtained from the survey.[17] In the SBP study, authorities made significantly fewer enforcement visits than their counterparts in Multiple Licence.[18] In general, licence costs are thus only a small proportion of licence fees.

Bribes

Bribes are offered to quicken compliance or to prevent outright denial of compliance facilities. In both studies, there was significant incidence of bribery: 16.7% and 18.7% of enterprises reported bribing licensing officers in the SBP and REME studies respectively. The incidence of bribes is lower for female-owned enterprises, urban enterprises and non-complying firms.

Compliance bribes were marginally lower than non-compliance bribes, at an average of Kshs 2 288 and Kshs 3 349 for the REME study. In SBP implementing authorities, the incidence of bribes fell by 14%, with female entrepreneurs having nil bribery incidence in SBP authorities, but the SBP researchers had reason to believe that mean bribe rates were under-estimated.

Compliance costs

Mean compliance costs for business licensing vary by gender, region and size of enterprise.[20] Compliance costs are higher for urban, male-owned enterprises, while costs are up to 20 times higher for M&L business than for MSEs. The processes of compliance in M&L enterprises are entrenched in well-developed in-house regulation compliance systems, which handle both regulation and taxation requirements.

The high urban and male-owned compliance costs can be attributed to male domination of M&L enterprises, and the concentration of M&L enterprises in urban settings. The SBP programme had a definite effect on costs, judging from compliance cost reductions between 1998 to 1999. The reform programme reduced rural enterprise compliance costs by a quarter, and urban enterprise compliance costs by half. Surprisingly, however, the SBP programme increased the compliance costs of M&L enterprises.

Non-Compliance

Efficiency analysis of non-compliance does not differ much from compliance, including time costs, psychic costs, cost of bribes, and efficiency costs for successful evaders (such as costs related to lost investments and income as enterprises take protective and pre-emptive action during compliance checks), as well as the costs of arrest and prosecution for those caught. Enumerating non-compliance is complicated by reluctance to divulge information and incentives to falsify non-compliance details.

Approximately 15% of the unlicensed businesses in the REME sample reported paying non-compliance 'public relations' fees. Extrapolating from existing data, a conservative estimate of 25 000 unlicensed businesses nation-wide was obtained. Almost half of the businesses reported being harassed at some time or another for non-compliance.

The most common punitive actions reported were eviction, demolition of premises, confiscation of goods and arrest. Like compliance, non-compliance also has a time cost, often related to closure during enforcement checks in the case of enterprises with radical approaches, to attendance at enforcement visits for co-operative non-compliers.

In the event of arrest, the non-compliance costs become higher. Formal law requires arrest and prosecution (hence the temporary confiscation of merchandise, accompanied with the issuance of value receipts, or evidence). After arrest, the offender is issued with a temporary bond certificate, again entailing costs. The total cost of an arrest depends on the value of goods confiscated, time taken from arrest to return to normal business routine, bond, business loss due to arrest, and the fine inflicted on the offender.

Surprisingly, compliance costs were higher than non-compliance costs in the REME study. This justifies sustained non-compliance attempts by entrepreneurs.

Administration of Licensing: Organisational Factors

The structure of business licensing can have a substantial effect on the costs and performance of the scheme. This section examines the administrative technology of business licensing, which can be divided into the organisational choice and administration of licensing. There are several licence-governing organisational options, including the more common central governments, decentralised pseudo-governments, regional popular-based associations and freehold systems.

The choice of organisation should be determined by the realms of transaction costs of varied organisational forms. Transaction costs are determined by the history of socio-political factors and organisational efficiency as regards implementation and performance. The study did not collect sufficient data to compile such costs, but socio-political guidelines provide guidelines for organisational choice.

The organisational housing of enterprise licensing, though limited, has more diverse options than currently exhibited in Africa. Most African nations situate licensing within central government and local authority organs. Other licensing housing systems such as democratised housing, select interest group housing, self regulation and free-holding can also be used. Democratised housing refers to regulation through elected entrepreneur associations such as professional bodies and other stakeholder groupings.

These are advantageous in that they tend to be enterprise friendly, but are limited in that leadership wrangles and competition can make them ineffective. They can also be vulnerable to ethnic manipulation in sectors with strong mono-ethnic concentrations. Select interest group housing involves the use of a well-defined interest network to run regulation. Examples of non-commercialised forms are the Institute of Chartered Accountants, the Law Society of Kenya, and others.

Self-regulation would focus on local group associations governing licensing on behalf of government. Though rarely discussed, free-holder governance or total deregulation of business licensing is also a viable option. "Free-holderism" is particularly attractive in that it allows the functioning of 'natural' systems.

The choice to regulate or not will depend on policy objectives and factors that determine the effectiveness of either deregulation or regulation

Stable and 'cosy' fragmented networks fill the regulatory space, revealing preferences and providing data on market rates for the market resource. Even more importantly, free-holderism eliminates rule multiplicity. Free-holder systems are particularly attractive in nations where the negative effects of regulations are minimal or the effects of licensing on enterprise owners infringe on basic human rights. The severity of licence enforcement officers in Kenya justifies this categorisation of licence organisation.

The current enforcement mechanism borrows both from mechanisms inherited from colonialism and traditional African societal attitudes to punishment. In Kenya, the demolition of enterprise premises and the beating up of enterprise owners during agitations for plural-politics entrenched the violent nature of enforcement.

The pre-conceived notion by policy makers and security agents that MSE enterprise workers and owners harbour political dissidents or are sympathetic to pluralism entrenched violence and dampened redress possibilities.

Cases of enforcement officers meting out physical beatings and torture without legal redress have been reported widely in the local press. Surely this is an extreme price to pay for non-compliance. Cases of human rights violations and property loss attributed to regulation go unreported countrywide.[22]

In such a situation, free-holder systems are justified. The key disadvantage of free-holder licensing, in the context of developing countries, is revenue loss. It is important to note that the revenue generation role of enterprise laws in Africa cannot be ignored.

Administration through Licensing Software

Licensing software refers to the actual regulation package, its form and presentation to enterprise owners. The general trend in business licensing software in Africa is to have enforcement officers located in a central position, with the onus of licence search and proof of compliance being left to the enterprise owner.

With adequate efficiency, obligations can be shifted from enterprise owner to the regulating agency with substantial efficiency savings to the economy. There is room for friendlier software systems, ranging from transferring the onus of proof to authorities, enforcement restriction to defaulters only, self-declaration of compliance, changes in fee scales and the use of no-contact compliance such as through information technology. The latter is particularly favourable for large enterprises in Africa. It would, however, require a broader national information technology systems plan, and the re-training of existing enforcement officers or recruitment of better trained enforcement staff.

Conclusions

Enterprise compliance with regulation is as much a socially embedded phenomenon as it is a gains-loss evaluation. Traditional neo-classical analysis of the role of law on enterprise and its subsequent intervention programmes, though useful, is weak in the understanding of the persistence of deviant outcomes in developing countries.

The co-existence of dual systems (formal and informal compliance) provides enterprises with distinct path-choices in both operations and rule compliance. Regulation planning, like all other enterprise regulation, must consider these institutional factors. As far as deregulation is concerned, moral hazard factors in post-compliance on the part of enterprises will keep them away from seemingly beneficial programmes. Similarly, lower information search and transaction costs of operating in informal structures will keep enterprises within informal systems despite their inherent weaknesses.

The SBP study in Kenya confirms that deregulation has limited efficiency savings. If implemented, it reduces non-compliance and lowers compliance costs to enterprise. It is not clear whether deregulation programmes reduce compliance costs for M&L enterprises.

Evidence of compliance cost reduction is clearer in female-owned enterprises, and in rural and urban MSEs. On the governance of regulation, policy options range from regional centralisation to decentralisation of regulation governance, the encouragement of democratised self-regulation or selected interest group regulation, and the free-holder social order in regulation management, versus planned programmes. Each has key implications that cannot be ignored by policy makers.

The arguments for or against regulation can never clearly favour one over the other. The choice to regulate or not to regulate will depend on policy objectives and factors that determine the effectiveness of either de-regulation or regulation. Target group maturity, contract regimes in the society, net socio-economic returns to regulation, the character of implementing organisations and the history of contract enforcement are important in determining the choice of enterprise legal policy.

High dependence on informal contracts and weak contract enforcement justifies the need for deregulation. On the other hand, reliance on formal contracts and effective contract enforcement gives credence to the use of regulation.

This paper should be seen as preliminary; further in-depth research needs to be done in path dependency, the micro-simulation of compliance and non-compliance incorporating institutional factors and the further use of principal-agent relations in socialised models. ✪

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Signatures of urban planning and land use strategies in Nairobi

BY CLEOPHAS LADO

Urban planning in Nairobi has not escaped the legacy of broader British planning history and colonialism. The city has been subjected to a superficial interpretation of existing urban growth and land-use planning models. Four models – zonal, sectoral, multiple nuclei and additive –provided the basic reference material for this endeavour. Discussions of the theoretical roots underlying the four models have generally focused on the zonal and sectoral models, as these two predict particular patterns of residential districts and lend themselves to empirical test.[1]

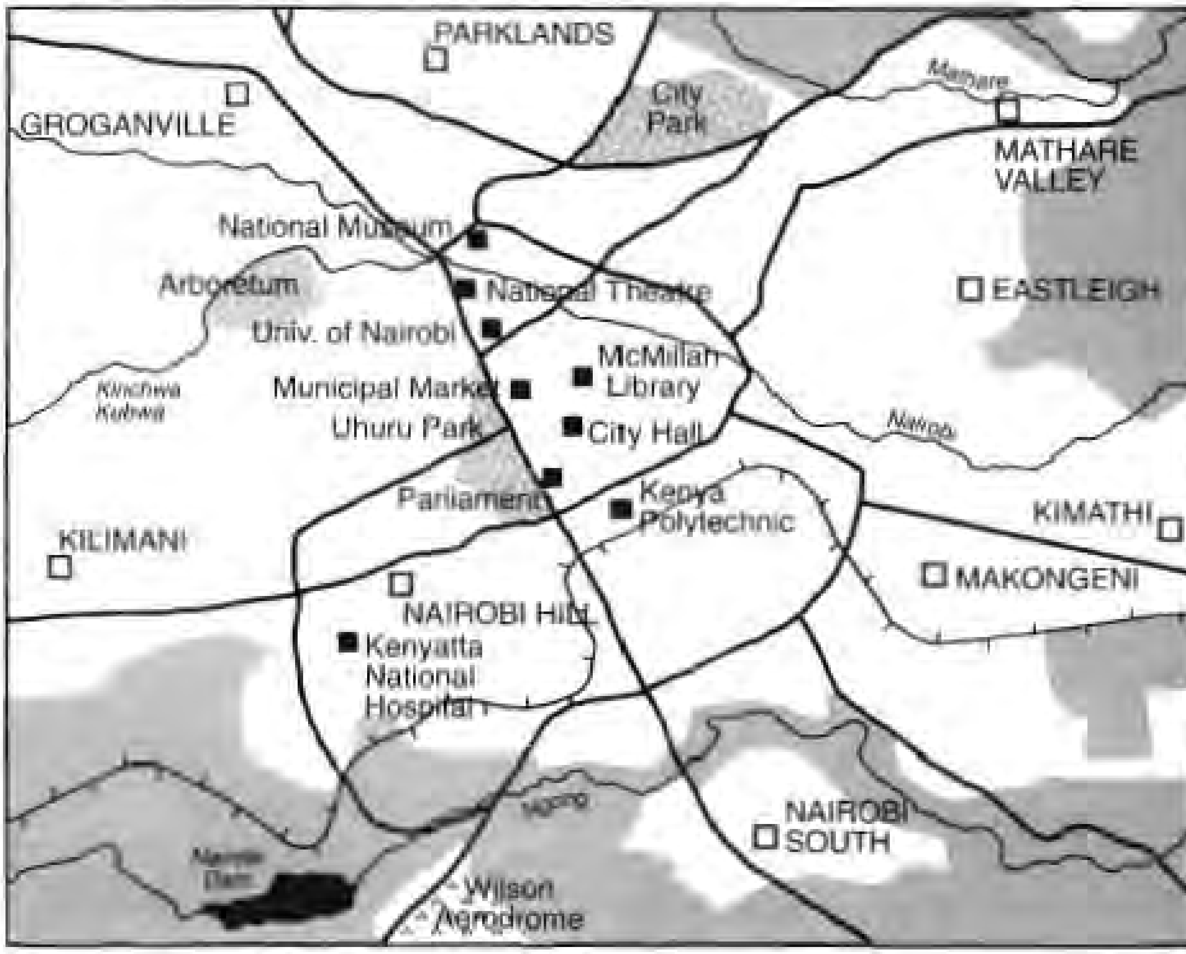
The zonal model contended that urban residential districts, resting on a dominant central business district, expanded radially outward defining concentric zones through land use.[2] The model is based on theories of urban land expansion stressing the principle of central area and axial growth. However, analysis of cities in the USA suggests that, although cities spaces do expand from central business districts, urban residential land uses are organised not in concentric zones but sectors. Residential districts thus tend to grow outward along radii defining what could be called a sectoral model of urban residential land-use.[3]

The sectoral and zonal models were derived from land economics and natural science. Land economics principles of central and axial growth provided the framework for determining the gradient of all urban land-uses, while ecological principles – impersonal competition, natural selection, succession and invasion – provided the framework for determining the specific location of a land use. Urban residential differentiation divides the population into a series of more or less distinct sub-communities, whose physical, economic and cultural characteristics are the result of an unplanned operation of ecological and economic processes. As a result of selection, segregation and the contagious character of cultural patterns, people enjoying the same socio-economic and political conditions tend to display, on the whole, the same characteristics.[4] The physical separation of an urban population and unequal access to residential land and infrastructure seemed, to the human ecologists, an inevitable concomitant of urbanism as a way of life.

Modern urban planning, as exemplified by the Kenyan urban planning framework, is based on ideas derived from these classical ecological models. These ideas are often seen as value-free or neutral: Hoyt observes that "other explanations of urban residential land-use structure based on a hybrid mixture of economics, social welfare and politics have as their real objective not the advancement of science and knowledge, but the overthrow of the free market economy".[5] But the ideological underpinnings of the two models have since become glaringly evident. Human ecological models of modern town planning were developed to defend and preserve the ideals and practices of a capitalist economy and society.[6]

Cleophas Lado is based in the Department of Geography and Environmental Studies, University of the Western Cape.

NAIROBI



Their empiricist, mechanistic and abstracted mode of analysis has enabled urban planners to absolve themselves of responsibility for urban development problems and accept social differentiation and inequalities in urban areas as the normal state of affairs. The planning recommendations perpetuating social segregation in urban residential structure have thus managed to escape unquestioned. Despite knowing this, countries aspiring towards egalitarian rural and urban socio-economic and spatial organisation continue to use models which defend and encourage capitalist spatial structures. This practice has survived due to dependence on foreign capitalist urban planning consulting firms and the machinations of an indigenous bureaucratic political system, which encourages class interests and is insensitive to the needs of the majority of the urban community.

This article examines the historical factors and urban dynamics of the continued use of this imported philosophy, methodology and personnel in urban planning and land-use in Nairobi. Signatures of four generations of urban planning dynamics and development are elucidated, while the invasion of Nairobi's open spaces by relatively poor individuals through the expansion and intensification of informal urban and roadside farming activities is discussed. Finally, the article provides brief recommendations for policy-making and implementation of better urban planning attributes in Kenya.

Historical and Urban Dynamics and Developments in Nairobi

The nucleus of present day Nairobi city was a site chosen by engineers building the Uganda railway in the 1890s. The site lay 527 km from Mombasa and 415km from Kisumu. Between Nairobi and Kisumu lay a countryside of steep slopes and the Rift Valley escarpment, which created formidable construction problems. To the north of the site lay the Aberdare range; to the south the Ngong hills; and upstream a river offered adequate water supply. The apparently deserted terrain in the area suggested lack of friction in its appropriation. These characteristics combined to make the location a suitable site for a camp. The pre-urban nucleus, Nairobi, was named after the river.[7]

By 1906 definite land-use zones, including the railway station, marshalling yards, government offices, business premises, a bazaar and residential areas had already emerged. By 1948, Nairobi had assumed an urban character through the construction of many large buildings in local stone and other public-sponsored housing schemes. There has been significant area expansion and population growth in Nairobi since independence. By 1997, Nairobi had attained an urban population of around 4 million.[8] Rapid urbanisation is therefore a post-independence phenomenon.

Nairobi has emerged as the largest and most important urban centre in both the pre- and post-independence periods and, therefore, provides a suitable case study for an assessment of space-forming factors in Kenya. The city has grown up alongside urban planning as an evolving modern discipline, and, through its attendant planning concepts and themes, has acquired imprints from the discipline. By examining the major concepts and themes which characterised these planning generations and their resulting landscape signatures, an insight is gained into the influence of imported approaches to urban planning in Kenya.

Wild-West approaches 1899-1927

"Wild-West" tendencies characterised urban growth in Nairobi between 1899 and 1927. Early settlers were guided by "no man's land" notions of land acquisition, private land ownership and land speculation.[9] The combined effects of these led to large tracts of land being alienated as private property on 999-year leases to individuals with little regard for the future community needs of the budding urban settlement. Houses were occasionally erected on these lands and, as a result, dwellings were scattered over large areas marking the extent of vested interests in land ownership. Consequently, land use developed not through organised planning but through chance and choice by inhabitants.

Architectural engineering approaches 1928-1948

Between 1928 and 1948 urban growth was characterised by the ideas encapsulated in the 1947 Colonial Capital Master Plan for Nairobi. The Plan accepted the structure and land values of the Wild West approach and proposed that the city developed naturally out of this land use. Segregating industrial zones from roads, public open spaces, residential neighbourhoods and the civil centre was proposed as the ideal planning approach. This land-zoning concept was derived from the "garden city" ideas typical of the British Urban Planning Tradition of the 1930s.[10]

The architecture-planner's contribution to land use change was in terms of creating rigidly segregated colonial social stratification of residential areas on racial grounds, a strong concern with health and safety aspects, layout and visual appearance, and conformity with accepted standards, densities and development principles. Apart from its health and safety aspects and colonial racial segregation, the 1947 Nairobi Master-Plan was a typical British-South African Master Plan instrument.

Systems approaches 1949-1968

The 1968 Nairobi Master Plan emerged in sharp contrast to its 1947 predecessor and encapsulates the major professional and methodological advancement of the intervening two decades. A revolution in planning ideas had swept aside the architect-planners' impressionistic and piecemeal methods of the second generation, heralding a planning science relying on quantification and integrated systems approaches. The plan's approach belonged to the era of methodological optimism and rational scientific approaches.[11]

Urban management approaches: 1970 onwards

Although no other master plan has been completed for Nairobi since 1968, the ad hoc isolated approach to planning land-use is characteristic of the fourth generation of planning approaches epitomised by short-term adaptations to solving problems in the urban environment. The type of urban planning in vogue attempts to achieve more efficient management of growth within the city and a more cautious approach to solving the problems of densification and incremental expansion at the outskirts. Thus, the fourth generation approach is marked by a shift from grand design to modern urban management.

Urban Planning Concepts and Themes in Nairobi

Urban planning in Nairobi has been characterised by these four main generations, but, despite their differences, certain planning concepts have remained intact and themes recurred. Thus, there has been a physical planning approach conforming to traditions of the Western architecture-planner, primarily concerned with the spatial symmetry and form of the urban area rather than its efficient functioning. There has been a consistent focus on moving the underprivileged around, preserving segregative residential neighbourhoods, protecting private landownership and preventing immigration.[12] Issues of the direction of urban expansion, road network and street layout pattern and the distribution of different land use zones are the predominant concerns of urban master planning. There is little to distinguish between the objectives of the 1927, 1947 and 1968 Master Plans and subsequent approaches with regard to land use zones outlay, reducing densities in African residential districts, and improvements in health and sanitation standards. In fact, all post-World War II developments have been based on the 1947 Master Plan.[13] In addition, four basic urban planning themes – the neighbourhood unit concept, cordon sanitaire, private land ownership and closed city policies – have recurred in all generations of urban planning in Nairobi

Neighbourhood units

The 1947 Nairobi Master Plan introduced the neighbourhood unit to guide the zoning of residential areas for the different races. The neighbourhood unit had been adopted in the United States in the 1930s to guide suburban expansion. Defined as an ideal residential zone limited in size to a convenient population for which varying needs could be provided, it was imported grosso modo into Nairobi to guide the future planning of residential districts, and was later extended to other British colonial capitals.[14] This concept was enriched in Nairobi by the racial discrimination tendencies of immigrant communities. The neighbourhood unit appears in the 1968 Master Plan and post-1970 ad hoc planning schemes as an important concept for protecting housing clusters whose total constitutes the residential morphology of the entire city.

Cordon sanitaire

Open space provision is another recurring theme. Described as "breeze lanes", open spaces were linked together to form continuous open belts, aligned, where possible, in the direction of prevailing winds. The veiled intention of these breeze lanes, introduced by the second generation phase, was to maintain undeveloped land as a buffer between different residential zones, thereby limiting the possible spread of disease. As this intention became politically untenable after the ascendancy to power of an African majority government in Kenya in 1963, open space preservation was accommodated in the 1968 Master Plan by creating and preserving sports clubs, golf courses and woodlots for recreational purposes. Parks or landscape corridors were integrated into a citywide highway system. Equally important was the decision to preserve all land belonging to the Nairobi National Park for tourist and recreational purposes. These spaces have since been invaded by individuals for informal agricultural land use.

Private land ownership rights

A third recurring theme is the preservation of private land ownership rights within Nairobi and its environs. Early travellers had, mistakenly, noted the apparently deserted nature of the terrain around Nairobi, and suggested that there would be no friction in land appropriation. This "no man's land" approach to land acquisition was accompanied by speculation which led to the acquisition of large tracts of land in the hope that once the city expanded, the value of holdings would increase. Until 1963, all Kikuyuland was used for agricultural purposes and owned on a family group basis (Mbari). Under the 1964 land reform programme, family group tenure was changed to individual freehold titles, signifying the official internalisation of an imported tenural system.[15]

Closed city policies

Closed city policies are short-term ad hoc negative actions directed towards stemming immigration to large urban centres. The target group is largely urban immigrants, the unemployed and petty traders in the informal sector. Nairobi's informal sector and its extensive squatter areas have suffered periodic and systematic offensives involving baton sweeps of beggars, destitute people and prostitutes, the demolition of informal settlements and stringent control of informal businesses. The urban poor have not been wholly accepted as part of Nairobi's urban economy, signifying a lack of significant shifts in planning control policy and tolerance.[16] But these anti-accommodationist policy measures, characterised in all four generations of planning, have not been able to check the growth of the city.

These general concepts and recurring themes suggest that Nairobi has adopted urban planning as a modern discipline through the four generations which accompanied the discipline. European urban planning concepts and practices, when applied in a different socio-political and economic context such as Kenya, require the political will to enforce their planning regulations and by-laws. Thus, what Nairobi planners require is not new paradigms of city planning, but the political will to enforce the regulations which are key to many problems in Kenyan cities.[17] This situation is compounded by the fact that the relationship between the chief officers of the City Council and elected councillors has not been smooth. Moreover, each of these parties has vested interests in the performance of the land market which they subvert to suit their own interests at the expense of those of the larger urban society and the efficient functioning of the city's economy.

What Nairobi planners require is not new paradigms, but the political will to enforce regulations which are key to many problems

Signatures of Four Generations of Urban Planning and Development in Nairobi

The organisation and content of the central area, industrial districts, residential neighbourhoods and the transport network layout are used to demonstrate the extent to which urban planning in Nairobi continues to be influenced by ideas and methodology essentially derived from the country's colonial past.

Central area

In the centre of Nairobi is the area where the city began. On the level ground lies the railway depot and line to Uganda, as well as the Nairobi River. With the spread of the town, it became necessary to relocate the railway line away from the centre of the town; its former location has been replaced by a six-lane dual carriageway of the Uhuru Highway. The central functions have not been relocated outside the Central Business District. Offices of the government, commercial and financial firms cluster together to be more mutually accessible. As the route centre, the central area provides a convenient place accessible to shoppers and employees from any part of the city.

Residential neighbourhoods and informal settlements

There are four distinct residential neighbourhoods which emerged through choice and opportunity by inhabitants. The 1947 Master Plan proposals for residential neighbourhood development were based on maintaining rigid racial and social segregation typical of colonial societies. Each of the three main racial groups was to live in separate residential neighbourhoods. In this way, urban apartheid was introduced and preserved in Nairobi.[18] Preservation of racial integrity, the prime objective of the planners, is demonstrated by the planners' concern over infiltration of Asians into the African zones and attempts to maintain the cordon sanitaire between different residential zones.[19]

Residential neighbourhoods developed more or less along the same lines, but employment opportunities which accompanied the attainment of political independence in 1963, led to rapid population growth, and hence the government reviewed the potential of the city for further expansion through densification of the hitherto built-up areas, where 50% of the land had remained undeveloped. Furthermore, expansions were made eastwards on black cotton, sisal and ranch land. As a consequence of racial rigidities in accessibility to land in Nairobi, 50% of the city's population lived in Eastlands on only 10% of the total housing area. Today each of the residential neighbourhoods is distinguishable by its density, quality of the environment and the socio-economic status of its population. For example, a low density residential neighbourhood covers the Hill, Muthaiga and suburban estates to the west. This neighbourhood consists of ridges separated by wooded valleys and fertile red soils, enabling the development of attractive gardens and a pleasant environment. The housing type is a one-family detached house on around 0.4 hectares, built of stone and with separate servants' quarters.

The medium density residential neighbourhood stretches over Parklands, Eastleigh, Nairobi South and the Central Business District. Though the majority of the inhabitants are of Asiatic origin, they are still divided into clearly defined income groups. Parklands is at the upper end of the scale with housing plots of 0.2 hectares each, whereas many plots and houses in Eastleigh are occupied by poorer people. The high density residential neighbourhood has a predominantly African population. There are, on average, 30 houses per acre in Eastleigh, each accommodating at least six people. The development of low-cost municipal housing has been extensive with single-storey housing units and limited communal services.

Apart from the planned low, medium and high density residential neighbourhoods, unplanned informal settlements have also emerged as part of Nairobi's residential neighbourhoods. Dagoretti, on the western fringe of Nairobi, covers 2500 ha and consists of several clusters (Riruta, Kangemi, Kawangware). Rapid population growth in Nairobi and the attendant demand for housing resulted in a deruralising process in Dagoretti, as landowners realised that building rental rooms was more profitable than using their plots for agriculture. Most housing units in Dagoretti are barracks of five to eight rooms, where a family occupies one or two rooms.

Densities are high, with between 300 and 500 people per hectare. The second squatter settlement, Kibera, lies 7 km from the city centre. Every piece of land has been built on, but expansion is limited due to surrounding reservoirs, golf courses, rivers and a railway. In contrast to Dagoretti, all land is owned by the government, but no real attempt has been made to intervene in Kibera's unplanned development. All dwellings are rental blocks, and absentee landlordism is common.[20] Lack of adequate water supply, sanitation, roads, high population density and the sloping physical configuration of the area result in a poor quality environment.

The third and oldest informal settlement is Mathare, located four to six kilometres north of the city centre. Mathare comprises a number of small villages containing more than 60 000 people.[21] Land belongs to the City Council, as well as individuals and companies. Densities are very high and the river's use as a sewer poses serious health hazards.

The three unplanned squatter settlements in Nairobi show remarkable differences in structure and function. Mathare developed through squatting; Kibera through construction of rental houses by absentee landlords; and Dagoretti through construction of rental houses by landowners. These squatter settlements have contributed substantially to the housing stock for the lower-income group.

Industrial districts

Another feature typical of the four generations of urban planning in Nairobi has been the physical separation through exclusive land use zoning of different urban functions, such as discrete industrial districts. Exclusive land use zoning reflects a Western planning principle established to cope with the effects of noise and pollution, which has been imported into an African urban setting with different environmental problems. The 1947 Nairobi Master Plan recommended an industrial district extending south from the existing heavy industrial area near the railway line. Most of the area is devoted to industry and warehousing.

The major shifts in industrial location were encouraged after realising that separating industry from housing, in a situation of inadequate public transport services, was creating problems of journey to work, encouraging the emergence of informal settlements. Industry has thus been tolerated to relocate in other parts of the city to achieve a better balance between job opportunities, labour force, raw material sources, and market centres while reducing travel time, distance and traffic congestion. The emergence of secondary commercial and industrial centres in Nairobi in the last two decades or so is a major change in the way the city operates.

Transport network layout

The city transport network in Nairobi has always represented a design problem. All four planning traditions have considered transport as an isolated issue, with their conceptual framework covering issues like minimising road accidents, reducing road hazards and instituting traffic controls.[22] By 1968 the third generation master planning approach had incorporated a systems' approach concept comprising nodes, links and flows of topological equivalences and their outlay on different uses within the city.

Through the fusion of transport demand and land use, a road network pattern evolved according to the projected form and symmetry of Nairobi. Cross-town journeys which inhibited traffic flow were re-routed and road space widened, circumferential roads and standard motorways provided. These improvements favoured private means of transportation rather than the Kenya Bus Services and *Matatu* taxi operators. Accessibility to an expanded central area and efficient movement throughout Nairobi required an integrated road and transport plan surpassing what the 1968 Master Plan could provide. The Nairobi planners' treatment of transport is again an example of the myopia characterising urban planning from one generation to the next.

Land Use Mix Ups: Informal Urban Agriculture

Nairobi may have been a well-chosen site for railway headquarters but, from a public health and sanitation viewpoint, it was a poor location for a city. It was built on the banks of a malaria swamp, with flat, poorly drained and relatively infertile black cotton soil covering most of the present urban lands in the southern and eastern quarters of the city. By contrast, the northern and western parts have better-drained and more-fertile red loam soil on trachyte. Although the city grew haphazardly, open spaces have been in evidence since the establishment of buffer zones between the European settlers and the non-white population.[23] In addition, strips were left clear along the banks of all streams for anti-malaria spraying operations, while poor soil drainage necessitated the wide spacing of European houses with pit latrines and, later, septic tank systems. These residences' spacious gardens are still a feature of the upper-income residential areas of Nairobi today. Main roads in the unplanned settlement were also extremely wide.[24]

When the Uganda Railway reached Nairobi in 1899, it became necessary for the colonial administrators to control settlement and land use, and implement a zoning policy together with appropriation of all land required for railway purposes.[25] This led to an ambitious plan to upgrade and expand the city, to make it a showpiece for the modern, well-planned colonial capital. Consequently, much of the vacated railway land became part of a park and boulevard system that remains an attractive feature of Nairobi, but which has also attracted increasing informal urban farm and non-farm activities.

The resulting land-use plan featured many of the principles of the 'garden city' concept of Ebenezer Howard, including the segregation of residential and commercial or industrial land; the use of the neighbourhood principle to separate local interaction from arterial traffic; the aesthetic and functional conversion of main roads into wide boulevards with generous verges; landscaped traffic roundabouts as well as broad, grassy strips along streams and drainage lines through the city; and large areas of parkland and forest reserves. However, today's City Council planning department confronts serious problems that are partly a colonial legacy and partly a result of rapid urban population growth and the consequent demand for land.[26]

The colonial zoning regulations and land-use currently operating in Nairobi were modified at Kenya's independence. Broad unwritten stipulations must be adhered to by urban developers who, as a condition for project approval, must leave riparian ways along drainage lines and natural watercourses.[27] Despite discouraging informal sector activities in the past, the City Council is now more tolerant towards some of these activities.[28] A Temporary Occupation Licence may be granted to open-air informal manufacturing or commercial activities *(jua kali)* provided they do not encroach on road reserves or land scheduled for development. However, no such privileges are accorded to informal urban agricultural activities. Urban agriculture in Kenya was – and still is, at least officially – illegal, putting it within the accepted definition of the informal sector. However, in view of the importance of maize in the local diet, and since it is one of the few foods that can be stored for dry-season consumption by the urban poor, it is not surprising that the prohibition on cultivation is widely ignored. The City Council tries to get rid of plots by slashing crops, and the argument used by colonial officials, that maize plots hide undesirables or criminals, is still used by local authorities.[29] Despite official disapproval, informal cultivation of open urban spaces in Nairobi is clearly increasing.[30]

Although Nairobi has been able to feed its residents with food drawn from a 100 km radius, its growth will be difficult without a refined and systematised urban food production policy for its population of about 1.5 million. Moreover, it has been demonstrated that city soils, if carefully tended, can be profitably tilled.[31] Indeed, in practical human terms, cultivation of urban lands is a palliative for the unemployed and those with low-paying or *jua kali* jobs. It is especially important as a source of supplementary food and income for female-headed households. At the highest levels in the Kenyan government, official attitudes to *jua kali* enterprises and the informal sector have recently changed, and there is a realisation of the valuable contribution of these sectors to the national development effort. In many ways it is an anachronism that the urban agricultural sector has so far been excluded from this more favourable official policy. While practical problems of land use zoning and servicing arise from the relaxation of restrictions against urban cultivation, these are not insurmountable if goodwill prevails.

The planning department faces serious problems ... partly a colonial legacy and partly a result of rapid urban population growth

Roadside farming

Roadside farming involves the growing of food, cash and fodder crops and the grazing of livestock on the road network reserves in Kenya. The road reserves belong to the government and are deliberately set aside for motorists' and pedestrians' use; and for road expansion or repair purposes. To protect the road reserves, the government has made it an offence to cultivate or graze on them.[32] However, peasant farmers have ignored this law and established farm plots and grazing patches, particularly along the Nairobi-Naivasha, Nairobi-Tigoni-Limuru, Nairobi-Thika and Nairobi-Mombasa roads.[33]

Because of the population pressure on the lands reserved for Africans, land fragmentation emerged, while soil depletion through erosion occurred.[34] Because of the increasing scarcity of agricultural resources, some local farmers have made use of marginal areas such as rocky parts, steep slopes, and rights of way; while some migrate to other districts in the country in search of farm land.[35] Roadside farming at the local and national levels is a clear indication of this significant land scarcity. Some indicators of land-population problems are those related to shortage of arable land coupled with land fragmentation influenced by the tenure system, leading to landlessness and squatting, with unemployment inducing people to seek jobs or self-employed occupations such as roadside farming.[36]

It has been established that those squatters migrating to marginal lands use farming methods which could lead to a disturbance of the ecological balance.[37] However, Boserup asserts that there is a significant positive relationship between population pressure and agricultural change.[38] In an essentially rural environment, population growth forces land-use to become more intensive; better tools and fertiliser are often adopted; harder work becomes inevitable; and the speed of irrigation is promoted and consequently agricultural change emerges.[39]

There is a significant pattern of interdependence between some of the socio-economic variables influencing roadside farming. The financial gains derived from roadside farm produce, the search for vacant road reserves for cultivation of food crops, and lack of adequate family holdings are some of the main reasons behind roadside farming.[40] However, the overwhelming motives given by the farmers themselves include hunger, especially the need for food for large households, unemployment, the need for money from the sale of part of the crop, and cutting down food expenses (fungibility). Generally, then, farmers cultivate road reserves out of sheer necessity.[41] The roadside farms are farms of hope, not wastelands of despair. Acceptance of these farms as a legitimate part of road survey and construction is recommended. Indeed, planning could aid in the harmonious integration of rural farming with other forms of land-use. It should be emphasised that the vitality of the African form of 'urban planning' as practised in informal agriculture and roadside farming is a direct response to alien concepts of urban planning.[42]

Conclusion

The four generations of urban planning approaches have not been able to resolve the many urban problems in Nairobi. Rapid urbanisation has continued to destabilise the balance between people, housing and employment. In addition, there has been a lack of or inadequate job opportunities, transport facilities, housing, electricity, water supply and environmental management. The Master Plans have raised expectations about the ability to control urban pressure, but achieved very little. These planning approaches should therefore assume part of the responsibility for their ineffectiveness in creating a humanised environment. Their ineffectiveness resulted from importing concepts and themes developed in the West and applying them in Nairobi irrespective of differences in socio-economic, cultural and political conditions. Kenya has yet to develop an indigenous philosophy to transform the signatures left by foreign physical urban planning traditions, not only in Nairobi, but also in other urban centres of the country.

Land policy must focus on improving access to urban land for the poor, and protecting natural areas

Three distinct aspects of the economic role of urban agriculture and roadside farming in Nairobi can be noted. First, a sense of independence and security in urban migrants (particularly women) is a precondition for the generation of a spirit of entrepreneurship needed for migrants to flourish in the city. Second, this productive sector integrates with the other informal enterprises, in that many informal and formal businesses are based on food produced in urban and roadside shambas and subsequently processed and marketed in various parts of Nairobi. Third, and perhaps most important, is the notion of 'fungibility', that through the production of their own food, poor urban and roadside farmers are releasing scarce cash resources that would otherwise be spent on food. Consequently, this cash augments household savings and can be reinvested in small businesses or used to purchase commodities.[43] Urban agriculture also induces more tangible benefits, converting vacant or unused land into productive green space that can help moderate the climate.[44] The theoretical significance of the urban agricultural sector reinforces the practical arguments for a positive change in attitudes of local government authorities towards this sector.

In summary, despite advances in urban planning and development, many municipal councils and local authorities in Africa continue to adopt a piecemeal approach to urban problems. They do not deal with them within the holistic context of the urban development management system. The list of attributes of 'good urban planning' today include flexibility to accommodate growth; consideration of the local spatial aspects of economic development; inclusion of social and cultural issues; consultation with and participation of the local people; and concern for the environment and quality of life.[45] Many developing country urban development plans have been ineffective due to lack of decentralisation and commitment of decision-makers, lack of revenue, and inappropriate structures for implementing the plans, as well as an inability or reluctance to enforce development controls.

Underlying virtually all urban environmental problems in Kenya is the issue of land use and housing, from the lack of affordable housing to overcrowding, to inner cities marred by informal settlements. Land policy must focus on improving access to serviced urban land for the poor, and protecting natural areas; for it is at these two levels that the greatest toll on the environment and human health is being felt. ✪

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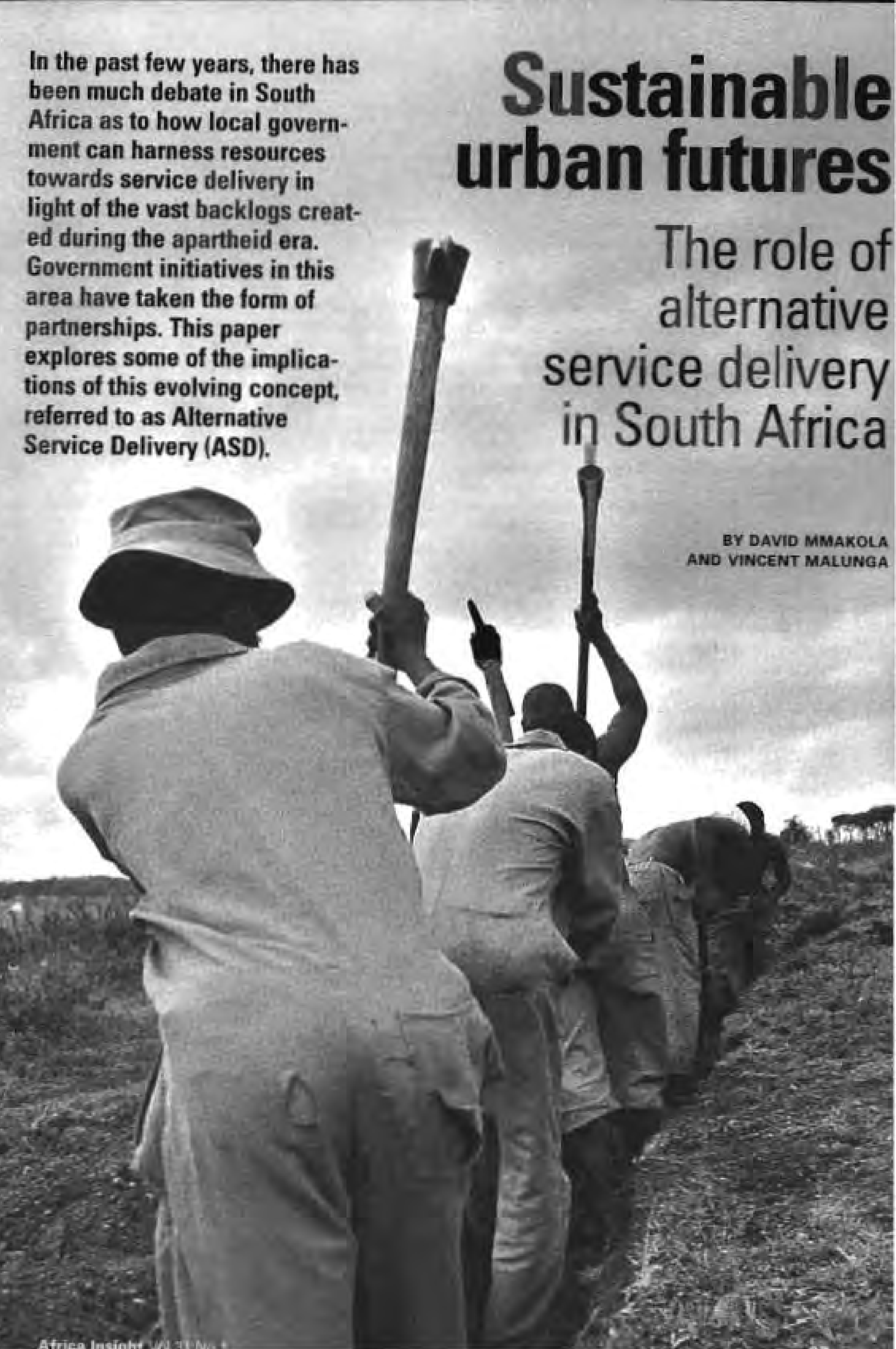

Sustainable urban futures

The role of alternative service delivery in South Africa

In the past few years, there has been much debate in South Africa as to how local government can harness resources towards service delivery in light of the vast backlogs created during the apartheid era. Government initiatives in this area have taken the form of partnerships. This paper explores some of the implications of this evolving concept, referred to as Alternative Service Delivery (ASD).

BY DAVID MMAKOLA
AND VINCENT MALUNGA

TABLE 1: IMPACTS OF EXTERNALITIES

	Negative Externality	Positive Externality
Quantity Produced	Too much	Too little
Costs/Benefits	Costs greater than social optimum	Benefits less than social optimum
Price	Too low	Too low
Stimulus to Innovate	Little stimulus to reduce social costs	Little stimulus to expand benefits

In this paper, suggestions are made as to how ASD can be adapted to South Africa given its unique challenges, legal frameworks and current debate. It is argued that, for ASD to be useful in South Africa, central government will have to set the necessary policy framework, build the capacity of local government, and develop its own capacity to monitor and regulate ASD.

Alternative Service Delivery: A Conceptual Framework

ASD refers to the delivery of services by organisations other than local government, through a variety of mechanisms. A contrast can be drawn between direct public delivery wherein a local authority uses its own employees to deliver a service, and indirect public delivery, namely ASD. To better understand ASD, it is useful to take stock of conventional wisdom on service delivery. Since the end of World War II, when the role of government increased considerably, the public sector has mainly rendered public services, motivated by the existence of market failures. Market failures occur when quantities and prices fail to reflect true social benefits and costs of commodity uses, because of externalities associated with their consumption. Externalities are unintended consequences – negative or positive – of consumption, and they have an impact on the costs and levels of provision of public goods.

Table 1 illustrates that in addition to pure public commodities, there are also toll goods and common pool goods. In fact, services that local governments provide, such as electricity, water or parks, tend to fall into the in-between "grey" categories. The table also suggests that market forces best handle private goods followed by toll goods, because it is easier to exclude those who do not pay. Collective action tends to work better for common pool goods while a hierarchical system works best for pure public commodities. Table 2 provides a broad framework in which the services that local governments provide can be situated to start answering the question of who should provide what service and how.

TABLE 2: FRAMEWORK FOR LOCAL GOVERNMENT SERVICES

		EXCLUDABILITY		
		High	**Low**	
	Low	Toll Commodities	Pure Public Commodities	↑ **HIERARCHY**
RIVALRY	High	Private Commodities	Common Pool commodities	
		Market	**Collective Action**	
		⟵	⟶	

Collective services such as air and water quality, street lighting and non-tolled roads come as close to being pure public goods as possible. Others, such as housing, water and electricity connections, education, health, tolled roads and public housing have a fair amount of excludability and low rivalry and as such qualify as toll services. Finally, services such as fire protection, police services and recreational amenities can be categorised as common pool services. In practical terms, these categories are not always clear-cut.

If these broad categories are accepted, it follows that air and water quality, street lighting and non-tolled roads can be best handled by local government through taxes, regulation or other policy measures. On the other hand, there is scope for exploiting market forces in the provision of house, water and electricity connections, education, health, tolled roads and public housing, as it is possible to exclude non-payers. Fees and other user charges are easier to enforce for this category of services and provision by private sector agents is most feasible. Direct stakeholders should address the third category with as much participation as possible. This will make taxes or charges more acceptable to users who could resist or even derail provision.

Types of Alternative Service Delivery

The delivery of services involves planning, finance and implementation.[1] Under a conventional contractual arrangement, planning and financing reside with the local authority, while delivery of the service is contracted out. Contracts are well-known in ambulance services, towing, street construction and correctional facilities, among others. An advantage of contracts is that they bring innovations in service delivery, while the private sector can realise significant economies of scale in research, capital investment and labour management.[2] Within the developed countries, contracts are typically used to involve the private sector in service delivery, while in developing countries, there have also been a number of highly successful attempts at contracting between the profit and non-profit sectors. One of the most successful contracting models is the Agences d'Execution des Travaux d'Interêt Publique (AGETIPs), which has been used mainly in infrastructure projects. AGETIPs use an integrated approach, promoting competition while facilitating access for small contractors. Project design takes into account local constraints, labour markets, the limited output of small contractors, the capability of local government, and the availability of consultant architects and engineers and other related factors. The model was first tried in Senegal and has since been attempted in other contexts.[3]

David Mmakola is a Policy Analyst (Institutional Development) and Vincent Malunga a Policy Analyst (Economic Development) at the Development Bank of Southern Africa. Thanks to Glynn Davies for useful comments.

Franchises are also commonly used, in which consumers pay the service provider directly. Franchises work best when a local authority decides that only a few providers should be allowed in a given geographical area, and certain standards have to be met.[4] Franchises have been used for cable TV networks, waste collection, airport services and utilities. Some local authorities also find it appropriate to establish "arm's length" agencies. Under this arrangement the local authority wholly or partially finances these organisations, and the agencies have some autonomy. In some instances, municipalities establish their own companies, known as municipal business enterprises, which operate in areas beyond the local authority: taking equity shares in other companies, raising money from within the municipality without affecting the local authority's financial situation, and offering speedier and more confidential forms of decision-making, for instance.[5] Related to arm's length agencies are joint boards and committees, which are formal, permanent structures, typically formed under compulsion or a compelling need to work together. Joint boards and committees are formed for representational, strategic and administrative purposes.

In some instances, public sector organisations collect taxes and issue beneficiaries with vouchers, enabling consumers to choose their own service providers. Vouchers are particularly suitable for tollable goods and may assume the form of subsidies; they have been used in the areas of education, housing, transport and food provision.

Within the South African context, a case can be made for the use of vouchers in housing delivery. One of the major problems with vouchers is that beneficiaries can sell vouchers to other people, resulting in redistribution of wealth from the poor to the rich. Voluntary service provision has also been evident in certain instances of service delivery: fire control, libraries, parks, data processing, administration, public relations and public works. Voluntary service delivery has a number of benefits, including the use of dedicated unpaid people, greater flexibility, and the possibility of augmenting resources through fund-raising, thus providing a focus for community involvement. Some organisations have even been able to, over time, function as arm's length organisations, especially in areas where local authorities are not keen to get directly involved. There are, however, problems with the voluntary sector: they can be unaccountable, unprofessional and undirected.[6] Local authorities should ensure that voluntary organisations have the required expertise before handing over service responsibility to them.

Groupements NAAM

Groupements NAAM are solidarity groups involved in the provision of services. They have significantly increased rural technical innovation, environmental sustainability and agricultural production. Although they are not a profit-making organisation, they have also focused on improving efficiency and productivity. Their distinguishing feature is that they emphasise indigenous local membership groups and support organisations.

Groupements NAAM's basic organisational units are at the village level. From 1960 to 1994, about 4 000 groups were formed in 1 000 villages in several countries in West Africa. Each group consists of 15 to 20 people. Several units in one village are brought together as Groupements NAAM, which are then organised as federations at the regional level. At the national level, there is a Union des Federations des Groupements NAAM. Groupements NAAM have constructed dams, built dikes and related projects, mostly providing labour.[7]

In addition, self-help can be used, when local government encourages neighbourhood or community groups to participate in an activity for their own good. This reduces the amount of government work and has been applied in care for the elderly, recreation and crime prevention. In the developing world, voluntary and self-help service delivery driven by community-based organisations is common. A well-known example is the Groupements NAAM Community Development in Burkina Faso, Ugandan Women's Movement against AIDS, and Community-Centred Health Care in Mali, the Gambia and Zimbabwe.

The ASD Debate

Governments often see ASD as a means of mobilising additional resources, especially when they run into serious financial difficulties, as in the case of New Zealand in the 1980s. Public-private partnerships are the most useful arrangement in this case. Whereas the traditional view of service delivery is that the public sector is best positioned to provide public services, this has recently been questioned. Now the private sector plays a significant role, because it is more efficient, with the appropriate expertise. However, cost savings cannot just be realised through private sector involvement. There is evidence to show that NGO involvement can drastically reduce the costs of rendering services, through multiple networks of service provision involving active participation of the users.[8] Many successful cases of NGO partnerships have arisen from a lack of state resources.

There is also a strong ideological defence of ASD. The privatisation of state assets in both the UK and USA has been closely linked to calls for leaner government: the state should only get involved in areas where the private sector cannot. Within this context, it is argued that ASD enables government to be more focused, leaving aspects of service delivery to organisations that are better equipped to carry them out. The idea of an enabling government has also been extended to the local level, where local authorities are encouraged to deliver services through the private sector, arm's length organisations, joint boards and committees and the voluntary sector. In such situations, the role of local government is not direct delivery, but control, partnership, support, regulation and influence.[9]

ASD is also favoured for the variety of choices it provides to consumers. This has the benefit of ensuring that consumers secure the lowest costs for services under a competitive service delivery arrangement. Private sector organisations also see ASD, and particularly privatisation, as a way of improving service delivery. They argue that ASD improves access to services, fosters an ability to change processes when problems are detected, enables better use of technology, reduces overlap among jurisdictions and encourages competition. NGOs and community-based organisations see ASD as a form of resource pooling and a mechanism to ensure the financial sustainability of service delivery, especially in developing countries.

However, it is important to note that ASD emerged under specific socio-economic contexts in the developed countries. It arose after universal service coverage had been achieved, and amidst pressures for better quality of services, high levels of technological development, low levels of poverty and sudden shrinkages in public sector resources. Even among the developed countries, these forces have had varying impacts. In Canada, for instance, attempts to copy a privatisation model from New Zealand, while ignoring the huge fiscal pressures that New Zealand faced during the 1980s, and which was absent in Canada, were heavily criticised.

Similarly, in the developing world, ASD has been criticised for insensitivity to contextual differences. High levels of poverty, the underdevelopment of the private sector, and the potential of the NGO/CBO sector to contribute towards development, are some of the underlying issues that should be borne in mind. Poverty renders service delivery by the private sector unaffordable. The absence of a visible, indigenous private sector leaves foreign companies as the only significant players. Although the involvement of these companies brings foreign investment, in certain instances it causes serious political problems. Perhaps the growth of the NGO sector in the developing world informs the way local authorities should engage other role-players towards service delivery in the future. However, serious problems emerge when these forms of service delivery take place on a wide scale.[10] Where local government has become weak, service delivery has been left in the hands of locally based organisations which are often still in their infancy. There must thus be active local government participation for sustainable service delivery, since ASD tends to suffer in the absence of an effective regulatory environment.

Another area of criticism relates to the time frames within which ASD, especially privatisation, is evaluated. The effectiveness of ASD is only visible in the long-term, but evaluation studies continue to be undertaken with short-term perspectives. What may be regarded as success may be only a phase in the development of ASD. For this reason, the wave of ASD that gained considerable momentum in the 1990s has not yet shown conclusive results. It has also been argued that ASD fails to resolve conflicting values. For instance, lowering costs can occur at the expense of employment. In an attempt to manage some of these problems, some privatisation deals guarantee public sector employees transfers to the new service providers for a number of years. Other areas of criticisms include the potentially negative results of competition for the provision of public services, and the danger of creating monopolies.

GUY STUBBS

The most visible form of ASD in the developing world is service delivery by locally based, non-profit organisations. There are many examples of success by community-based organisations in service delivery, in areas as diverse as housing, water and sanitation, and electricity.

Contexts of Alternative Service Delivery

ASD has evolved differently in the developed compared to the developing world. These differences of development are closely related to the historical role of local government in these societies, the levels of socio-economic development, and the significance of the private sector. In the developed world, ASD has progressed with an active participation of local government, while in the developing world it has tended to emerge as a spontaneous wave, sometimes in reaction to the incapacity of local government to deliver services.

In Western Europe and North America, local government actively participated in defining, regulating and monitoring the ASD environment. The opposite is the case for local government in the developing world. Developing countries, especially those of Asia and Africa, inherited highly centralised systems of local government. Local government had neither the resources nor powers to get actively involved in service delivery. Although during the 1980s central governments in these countries attempted to extend powers to local authorities, there was little political or financial support. Frustrated by lack of local government delivery, users took over the delivery of many of these services.[11]

What is immediately clear from this comparison is that the delivery of services by organisations other than local government takes place outside government control in the developing world, while in the developed world ASD emerged as a regulated arena. In the 1990s, however, there have been some attempts by local authorities to regain some of their lost influence. This has led to the emergence of intermediary organisations in the developing world.[12] Intermediary organisations comprise representatives from local government and other locally based organisations for service delivery. This factor has important implications when national governments attempt to create an environment for ASD to thrive.

Moreover, another aspect of the different nature of ASD in different contexts is the underdevelopment of the private sector in many parts of the developing world. In the developed world, ASD has taken the form of involving the formal private sector in service delivery. The virtual absence of this sector in the developing countries essentially means that ASD has to take different shapes in the developing world. For instance, in a developing economy, ASD has to be linked to the process of developing the private sector. Local government needs to play an active regulatory and monitoring role, structuring ASD arrangements to facilitate the development of an indigenous private sector.

The most visible form of ASD in the developing world is service delivery by locally based, non-profit organisations. There are many examples of success by community-based organisations in service delivery, in areas as diverse as housing, water and sanitation, and electricity. Some of these organisations have even been organised beyond local boundaries and have become national entities, one of the best known examples being the SAGUAPAC Co-operative in Santa Cruz, Bolivia.[13]

There is limited capacity to deliver services at local government level ... one third of local authorities are not able to render services

For countries with an active civil society, there is already an abundant, untapped potential that could be harnessed for service delivery. Local government should play an active role in optimising the involvement of this sector through financial assistance, provision of local authorities' staff, facilities and equipment, training, advice and fund-raising.

Poverty in the developing world also means that alternatives other than the profit-making sector have to be considered when discussing ASD. Rampant poverty, worsened by high levels of unemployment, inflation and other contributing factors, render most public services unaffordable for the urban poor. An ASD model that is sensitive to these dynamics should be promoted as far as possible. This view has tended to favour mutual self-help associations, where communities bring a significant amount of resources other than finance to service delivery. For countries with high levels of unemployment, ASD arrangements need to be specifically mindful of human resources consequences, and have mechanisms for addressing issues of access to economic opportunities.

The South African Situation

South Africa faces huge service backlogs in historically black areas. The Medium Term Expenditure Framework (MTEF) estimated for the 1998/9 financial year that between R47 billion and R53 billion would be needed to address infrastructure backlog in five years.[14] The MTEF also indicated that at the current government allocation rate, these backlogs could only be addressed by the year 2065. Government expenditure towards infrastructure services continues to fall below the estimated requirements. Additional funds will have to be mobilised to address these backlogs, or a lower level of services will have to be delivered.

There is also limited capacity to deliver services at the local government level. Project Viability, an exercise undertaken jointly by the Departments of Finance and Provincial and Local Government to investigate the liquidity of local authorities, has identified a number of management capacity problems. For instance, of more than 800 local authorities, one third are not administratively able to render services. Local authorities face skills flight, especially in financial and strategic management. The hope is that ongoing rationalisation resulting from demarcation will create more administratively viable local authorities. Given the urgency of the development challenge, other management resources, including those from the private sector, should be tapped to ensure that much-needed public services are delivered. It is against this backdrop that ASD has been mooted in South Africa.

Currently, ASD is mostly taking the form of public-private partnerships (PPPs), but other forms of partnerships, such as those between public sector organisations and civil society, have also formed part of the evolving policy framework. That service delivery in a democratic South Africa would need the participation of organisations other the state was realised as early as 1994 when the White Paper on the Reconstruction and Development Programme was released, acknowledging that state resources to address pressing needs were limited. Since then, a number of government departments have formulated policies aimed at mobilising organisations outside the public sector towards the delivery of public services. At the national level, a number of government departments have already started taking policy initiatives. In its macro-economic strategy, the Department of Finance strongly supports the private sector's involvement in service delivery, while the Department of Public Service and Administration sees service delivery as the joint responsibility of the public, private and civil society sectors. The Department of Public Works has already made plans for partnerships in asset procurement and operations; the Transport Department has initiated Development Corridors, which are essentially large-scale investments by private sector organisations in long-term concessions.

The best known of these is the Maputo Development Corridor. The Department of Provincial and Local Government[15] has established internal capacity in the form of local economic development and PPPs, issued guidelines to local authorities on how to involve the private sector in service delivery, and is currently in the process of developing a policy framework on municipal services partnerships.[16]

Amidst optimism from government institutions, public-private partnerships have met with strong criticism, especially from the labour movement. They argue that some of the supposed benefits lack relevance to the South African context or are ideologically unsound. For starters, some question the assertion that public funds for service delivery are limited, arguing that austerity restrictions are placing an undue constraint on resources that could be channelled to service delivery, and that a lack of co-ordination among government departments leads to a waste of resources.

In addition, labour argues that private sector involvement should be transitional, with the specific aim of building public sector delivery capacity. The Congress of South African Trade Unions (COSATU) has reasoned that municipalities' lack of capacity is the very reason that private delivery of public services would be sub-optimal: municipalities lack the capacity to contract, monitor and regulate such provision. Another criticism is that the profit motive will lead to "cherry-picking" and that the poor will be marginalised because private provision is not consistent with the state's commitment to universal service coverage. Other criticisms include fears of job losses, corruption during the bidding process, and poor delivery by the private sector.

In spite of this, several local authorities have already started taking initiatives to involve the private sector in service delivery, The Municipal Infrastructure Investment Unit, an agency formed by the Department of Provincial and Local Government to assist local authorities considering involving the private sector in service delivery, reports that by the end of June 2000, about eight projects had been approved, two had been signed, eight were in negotiation, while various others were in preparation or in the conceptual stages. But municipalities have also been promoting projects that do not involve the private sector, such as locally based community formations. Some local authorities are involved in a range of partnerships involving community-based organisations in the area of planning, local economic development, environmental management, water and sanitation, refuse removal and housing and integrated living environments.[17]

However, the trade union movement has singled out public-private partnerships in particular, as unilateral privatisation of municipal services by the government. As a result, a technical team comprising representatives from COSATU, the govenment and the South African Local Government Association (SALGA) was formed. Their brief was to draft a framework on Municipal Services Partnerships.[18]

There is a lack of trust of the private sector by some previously disadvantaged communities ... relations need to be cultivated

Issues around which consensus could not be reached were then referred to a sectoral forum, which is still attempting to resolve outstanding issues. The framework sets out the broad objectives for service provision, while arguing that the public sector is the preferred mode of delivery and that private provision of services should only be considered once all other providers have been eliminated as viable alternatives. In terms of the document, the private sector's role in service delivery should be geared towards building local government capacity, and for leveraging additional financial, human and material resources.

This framework agreement has since been followed by the Local Government Municipal Systems Bill and the White Paper on Municipal Services Partnerships. Of specific note is the range of institutional options identified in the Bill. It makes a distinction between internal service delivery by the municipality, and agreements with outside entities, such as other municipalities, organs of state, service utilities, municipal business enterprises, community-based organisations and traditional authorities.

Increasingly, it will no longer make sense to provide a uniform rationale for involving other organisations in service delivery. Whereas the benefits of private sector participation in service delivery have been expressed in terms of mobilising additional capital, technical expertise and managerial competence, the involvement of the NGO/CBO sector, traditional authorities and water committees bring a different set of considerations. Considerations must be expanded to include responsiveness, appropriateness, and empowerment. Evolving partnerships will have to be tailor-made. What will also be daunting for decision-makers is how to choose from this array of potential service providers.

Towards ASD in South Africa

ASD will have to be contextualised to accommodate South African nuances, taking into account the current problem areas, and laying down a few principles for guidance. Moreover, national government will have to strive to create an environment that facilitates ASD for local government by removing existing impediments. Local authorities themselves will have to develop mechanisms for systematically choosing between different types of delivery mechanisms. A number of models for doing so will have to be explored.

Contextual Issues

The South African socio-economic context, development of local government, views of the different role-players and legal impediments are issues to be borne in mind in ASD discussions. As far as socio-economic issues are concerned, the most critical are high levels of poverty in many areas of the country, the historical underdevelopment of the black private sector, high levels of unemployment, urban-rural disparities, and the growing civil society movement. There is a need for a strong empowerment element in ASD, as well as capacity building. Moreover, there is also a lack of trust of the private sector by some previously disadvantaged communities, suggesting that relations of trust need to be cultivated.[19]

With regard to the future of local government, it is fair to infer that in the long term this will be different from what is currently available. Outside the metropolitan areas, South Africa will have fewer, larger local authorities, with stronger secondary structures (District Councils), and consolidated urban and rural areas forming single municipalities. Up to now, municipalities have been active in urban service delivery. In the rural areas, mainly national departments, parastatal organisations and NGOs have handled public service delivery. Given the envisaged blend in local government arrangements, the implications are going to be vast. How the delivery framework will evolve is an issue that will have to be resolved as time goes on.

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The role of District Councils vis-à-vis primary local government structures will have to be monitored.

There is still no firm consensus among the key role-players as to the future of ASD. The Framework Agreement states that the preferred method of service delivery is through the public sector. However, the Local Government Municipal Systems Bill notes that:

A criticism of ASD is that the profit motive will lead to "cherry-picking" and that the poor will be marginalised because private provision is not consistent with the state's commitment to universal service coverage.

> When a municipality has to decide on a mechanism to provide a municipal service in the municipality or part of the municipality, or to review any existing mechanism, it must select the mechanism or range of mechanisms which will achieve the best outcome in accordance with the requirements of Section 76 (2). These requirements are equity, broader access, prudent and effective resource use, financial and environmental sustainability, and reviewability.

Nowhere in the document is the public sector mentioned as the preferred provider of services, meaning that each case would be judged according to its merits. This is likely to remain a hotly contested area, and may even become one of the key determinants of the future of ASD. No less significant is the prevailing legal environment. There remain a number of uncertainties which could affect the willingness of potential service providers outside local government to participate in ASD. Legal impediments include uncertainty over the circumstances under which national and provincial government may intervene in local government affairs, the authority to set and collect tariffs, reporting requirements, procurement and contracting issues, the fact that NGOs and CBOs are not registered as legal entities, and labour issues.[20]

The Role of Central and Provincial Government

South Africa is going through a process of decentralisation, wherein central government departments are establishing local service delivery structures.[21] Through integrated development plans, local authorities are expected to bring all these activities into one service delivery model. The major role of central government could be to develop the necessary legislative framework for ASD arrangements to take place, build the capacity of local government to engage in ASD arrangements, and monitoring and evaluation.

A related issue is capacity. Even the reconstructed local authorities that emerged after the 2000 local government elections will only develop the requisite administrative and financial management capacity in the medium to long term. ASD affects the kind of capacity that needs to be built, for example local authorities will need the capacity to contract, monitor and regulate ASD arrangements.

National government will have to take an active role in building this capacity. Currently, the Municipal Infrastructure Investment Unit assists local authorities that intend engaging the private sector in service delivery. So does the Development Bank of Southern Africa and other agencies. However, this capacity building is directed at assisting local authorities to engage the private sector.

Central government will also have to pay attention to the monitoring and evaluation of ASD. The Municipal Systems Bill proposes the introduction of a performance management system for local authorities. As the system develops, it will hopefully be differentiated to address local particularities.

The Role of Local Government

ASD in South Africa has to take the form of partnerships, with local government playing an active role. There are benefits to be derived from spontaneous development of ASD, including speedy delivery of services, effective utilisation of labour, and a sense of ownership of development initiatives. Nevertheless, to counteract the problems that bedevil ASD, local government needs to play a constructive role. It should be noted that an active role for local government does not guarantee positive results from ASD. ASD policies driven by vague ideological rhetoric that tries to co-opt civil society do little in practice to improve service delivery. Local authorities need to be systematic in their introduction of ASD. It also appears that there are a number of requirements, key considerations and criteria that need careful analysis to make ASD a viable option.

Requirements for Successful ASD

There are a few requirements that should facilitate the involvement of organisations other than local government in service delivery:

- Political support and leadership within the administrative arm of local government;
- Willingness to work flexibly with employees;
- Baseline information to compare costs;
- Focus on quality and cost savings.

Political and administrative leadership and support are particularly necessary to contextualise ASD within a long-term strategic vision of the municipalities. Some ASD options have longer-term implications that need to be carefully considered. Moreover, options such as privatisation trigger enormous resistance and without the political will to take decisions may prove to be particularly difficult to implement. ASD discussions also become fruitless when baseline information is not available. Discussions around efficiency gains from delivery alternatives can become ineffectual when there is no information about costs, the local population, available service providers and so on. Local authorities need to conduct systematic feasibility studies to gather this data.

Labour issues are at the heart of ASD debates. In a developing country like South Africa, where unemployment is on the increase, there is a pressing need to think about the labour implications of ASD. Some of the most intense debates stem from the way service delivery problems in a locality are defined. For instance, rather than ask whether to privatise solid waste collection, questions could be raised around how to sustain solid waste collection in a context of rising demands and limited financial resources. Such a question may bring all parties into a more useful debate. Once decisions have been taken about the type, quantity and quality of services to be provided, local authorities considering service delivery alternatives should create what Finley calls a community vision.[22] In the South African context, this comes in the form of Integrated Development Plans.

This vision should explicitly spell out, after due consultation with the community, the required mix and levels of services required. Moreover, the institutional constraints of each service should be considered, taking into account the possibilities of technological innovations. Also crucial is recipients' ability to pay, as this sets constraints on the options worth considering. Information on the source of finance is particularly critical as it facilitates the juxtaposition of existing sources of revenue against the financial implications of service extension and continued service delivery. It is also useful to consider existing capacity within the locality, for delivery. Existing enterprises need to come into the equation. In addition, delivery agents' capacity needs to be measured against the capacity of local government.

In other words, there is a significant level of adaptation that will have to be introduced for ASD to be an effective mechanism for service delivery in South Africa. An understanding of ASD should enable a broader look at a range of organisations, and far-reaching institutional innovation, which should facilitate an accelerated pace for service delivery.

ASD will have to have a targeted development element, to enable the previously disadvantaged sector to benefit

The kind of rationale that often accompanies ASD in the developed world is only partially useful in the South African situation, given the huge disparities. ASD will have to have a targeted development element, to enable the previously disadvantaged sector to also benefit. The key priority area at this stage is the development of capacity for local government to interact with a range of service deliverers, beyond the private sector. ✪

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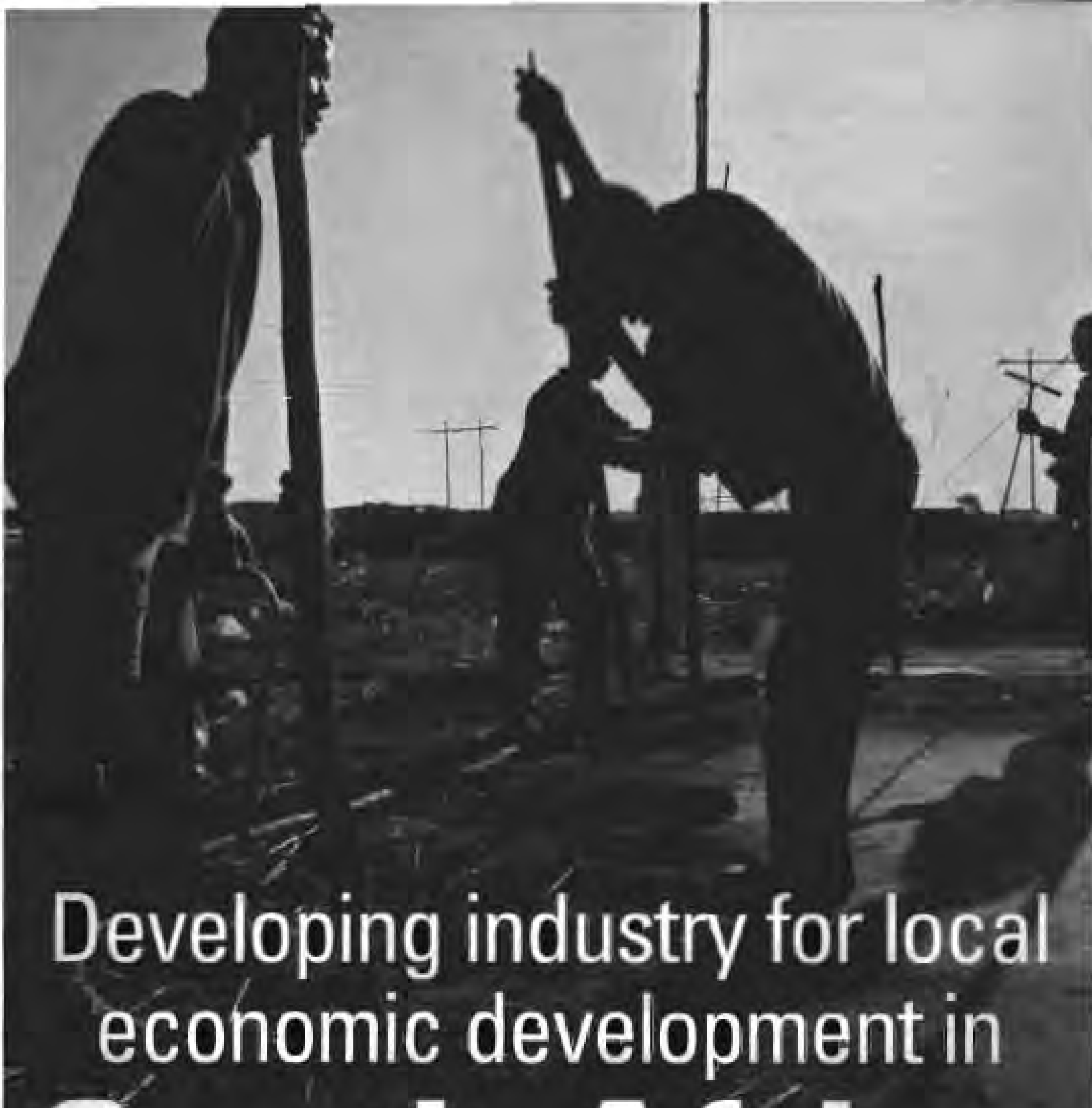

Developing industry for local economic development in South Africa

BY TAMZYN DORFLING

Industrialisation has been the hallmark of national development in the twentieth century.[1] This has, of course, also been the case in South Africa. The country's industrial performance was strong during the 1960s and 1970s, with output, employment, investment and productivity rising rapidly. Since then, performance in this sector has abated, with low output, employment growth and export growth.[2] The manufacturing sector in South Africa is large and relatively diversified. Since 1993 it has mostly grown strongly.[3] While manufacturing makes up the base of the economy, structural change in the economy has shown a move away from manufacturing and primary production towards services. In terms of job creation, the South African economy has failed to perform well since 1980.

TABLE 1: MATCHING BUSINESS DEVELOPMENT TOOLS AND OBJECTIVES[7]

Tool	Business Start-Ups	Business Attraction	Business Expansion/ Retention	Nurturing Innovation & Entrepreneurship
One-stop centre	X	X	X	
Start-up and venture financing company	X	X	X	
Small business assistance centre	X		X	X
Group marketing system	X		X	X
Promotion and tourism programming	X	X	X	
Research and development				X
Incubation centre	X			X
Technology and business park	X	X	X	
Enterprise zone	X	X	X	
Entrepreneurship development activity	X			X
Women's enterprise	X			X
Micro-enterprise	X		X	X

The manufacturing sector is the second largest contributor to formal employment, but there has been a drop in the number of people employed in this sector. The government is thus turning to local economic development strategies in an attempt to promote job creation and boost exports.

Industrial Development at a Local Level

There are many definitions for local economic development (LED). A broad meaning is used here: "initiatives designed both to promote growing local economies and address poverty alleviation".[4] The main objectives are to build quality jobs for the current population, to achieve local economic stability, and to build a diverse economic and employment base.

In selecting an approach to the development of a local economy, the following should be considered: traditional LED, or business attraction through incentives; small business development; human resource development; cities investing in business ventures; and community-based or self-help approaches.[5] Each of these is part of the combination of plans the community develops to create a local economic development strategy. Each locality has economic problems that result from people needing jobs, firms closing or leaving, and factors that attract or produce more jobs. Strategies that are selected are thus unique in their development and application.[6]

Traditional and small business development are important components of LED as the best method of establishing or maintaining a sound local economy. Matching business development tools and objectives is important. Table 1 shows how the 12 tools emphasise the different dimensions.

On a local or city level, the international trend has been a declining manufacturing sector and a growing services sector. However, it is clear that "manufacturing matters" if a city is to become a global competitor. For this reason industrial policy is important as it sets "the terms of the new competition and the context in which the new technology will evolve".[8] The manufacturing sector is also important in terms of its output and linkages to other sectors.

Tamzyn Dorfling is in the Department of Geography, University of the Witwatersrand. This is an edited version of a paper prepared for the Friedrich Ebert Stiftung in July 1999.

While industrial development has traditionally been the main sector leading the development of the economy, the new trend has been to consider the city as a whole rather than emphasising a few key sectors and protecting and restoring the old industrial economy to create employment opportunities. It is important to know about comparative strengths and weaknesses to shape the destiny of the city.[9] In this context, the role of government has changed to become more market-based or entrepreneurial.[10]

Internationally, there are a number of industrial cities that, after experiencing decline, have regained a measure of prosperity by reclaiming and promoting their cultural and architectural heritage to attract small business investment and tourism.[11] Tourism has been hailed as one of the "largest, fastest-growing sectors of the global economy – directly and indirectly driving more than 10 percent of GDP, jobs and investment".[12] Although not all cities have been successful, this form of LED can bring in new jobs and income. The sector is highly competitive and changes constantly, and continued promotion and investment is thus essential. Furthermore, the promotion of tourism is "inextricably bound up with growth strategies, image and making a city a good place to live in, as well as the obvious one of increasing the number of visitors".[13] However, although an asset to a locality, tourism should not be promoted as the solution for urban areas in a state of no-growth or decline. Tourism is thus best seen as only one component of an economic development strategy.[14]

LED approaches

One of the economic development models most widely used by communities is the traditional or incentive-based approach ("smokestack chasing"). This model assumes that a community can improve its market position with industrialists by offering incentives and subsidies. The argument is that new activity will generate taxes and increased economic wealth to replace the initial public and private subsidies. This model has proven that community promotion works and that it is important for communities to "package" themselves for marketing purposes. But, while location theory suggests that localities can market themselves and offer incentives that give a competitive advantage over other areas with similar resource endowments, there is some debate as to its efficacy. It is important that communities are careful with the type of investment they encourage. The community needs to link economic and employment objectives to the types of firms in the locality. For this reason, it is important for communities to be induced to expand in assisted areas.[15]

Some have argued that those industries best able to generate job opportunities should be given the most encouragement, while others point out that key industries need to be established in specially selected locations. Yet others suggest a policy of diversifying the industrial base of depressed areas to increase the growth potential in these areas. There are difficulties in using any of these approaches, and they are often incompatible.[16]

There is some evidence of a shift towards a market-oriented or entrepreneurial approach to local economic development in cities around the world. It has been suggested that "subnational economic development policy has undergone a recent shift from an almost exclusive reliance on supply-side location incentives to stimulate investment to an approach that increasingly emphasizes demand factors in the market as a guide to the design or invention of policy.

The mastery of demand factors requires a sensitivity by the state to the structure and possibilities of the market, an entrepreneurial sensibility".[17] Although there has been more emphasis placed on state entrepreneurialism, this does not mean that supply-side strategies have been displaced. Table 2 summarises some of the differences between the supply-side approach to development and the demand-oriented entrepreneurial approach.

It is not always appreciated that attempts to promote development in economic sectors other than industry also need to be made. Often the success of industrialisation programmes depends on improvements in other sectors such as agriculture, and the extent to which the improvements can be attained can either provide a curb or act as an incentive to the success of the new ventures.[19]

In the development of economies, industrialisation is sometimes regarded as a panacea. However, it is important to understand that economic development is not synonymous with industrialisation alone. Other than the importance of promoting the integration of economic sectors, it is also important in approaching industrial development at a local level by encouraging the integration of different institutional stakeholders, and of ensuring that the appropriate mix of tools or mechanisms are used.

Industrial Development as a LED Strategy in Port Elizabeth-Uitenhage

History of economic and social development

With a population of over one million people, the city of Port Elizabeth-Uitenhage is the third largest in South Africa. It is located in the Eastern Cape Province and is one of the main manufacturing centres in the country.

Since the 1920s the growth of Port Elizabeth has been largely influenced by the automotive and component sub-sector. Prior to this, the city was a growing centre of commercial activity and primary production, with strong links with the wool and mohair industry. Despite certain disadvantages, aggressive efforts to promote industrial development resulted in success – often at the expense of marginalised communities.

Investment from international firms shifted the importance of the town from a raw material export centre to a production site that would be tied to the dynamics of the global automotive industry. Port Elizabeth became known in the 19th century as the "Liverpool of the Cape", and in more recent times as the "Detroit of South Africa".[20]

There have been three main industrial development phases in the city, the first characterised by the assembly of parts made elsewhere and the production of basic consumer goods. The second phase, beginning in the 1960s, involved a shift to consumer durables and capital goods, influenced by the growth in the automotive manufacturing industry under the local content programme.

The third phase appears to be one in which import substitution has run its course.[21] Over time, the protectionist and industrial decentralisation policies of national government led to a crisis in the automotive industry. Moreover, the concentration of industries in the city created an undiversified economy that responded with difficulty to recessions and macroeconomic policies.[22]

Structural changes in the industry at a national level led to a decline in national automobile production, which had a ripple effect on a number of other local component manufacturing industries.[23] The primary, construction and manufacturing

TABLE 2: CONTRASTS BETWEEN SUPPLY-SIDE AND DEMAND-SIDE POLICY[18]

Supply Side	Demand Side
Growth is promoted by lowering production-factor costs through government subsidies of capital and land through low taxes.	Growth is promoted by discovering, expanding, developing, or creating new markets for local goods and services.
Main focus is on established, potentially mobile capital.	Main focus is on new capital.
Strategies focus on stimulating capital relocation or capital retention.	Strategies focus on new business formation and small business expansion.
Development involves competition with other jurisdictions for the same investment.	Development proceeds by nurturing indigenous resources.
Government supports low-risk undertakings.	Government becomes involved in high-risk enterprises and activities.
Any employer is a suitable target for development assistance.	Development assistance is offered selectively according to strategic criteria.
Government's role is to follow and support private-sector decisions about where to invest, what business will be profitable, and what products will sell.	Government's role is to help identify investment opportunities that the private sector may either have overlooked or be reluctant to pursue, including opportunities in new markets, new products, and new industries.

sectors were particularly affected, resulting in a long-term period of stagnation from the 1970s.

Since then there have been some changes in the national and global market-place which have resulted in new opportunities for the city. In the 1970s and 1980s the government's industrial development policies meant that Port Elizabeth's location was at a disadvantage in terms of distance from the main markets, there was limited export potential, and the close ties with the automotive industry were a hindrance.

However, new industrial policies introduced since 1994 emphasise the importance of export-orientated growth and competing in global markets, and the city's coastal location has become a significant advantage. The manufacturing and services sectors are the largest in terms of contribution to gross geographic product and employment.[24] There have been positive signs of adjustment to the shift in national trade and industry policy.[25]

In line with new legislation, there has been a change in the role of local government. Rather than simply providing services, facilities and other social benefits, there has been a shift towards the promotion of business growth, attraction of investment and employment creation.[26] Investment has been made in general social infrastructure in the city to improve the quality of life of the inhabitants and tourists, and to facilitate trade.

On the social front, there is a relatively well-developed infrastructure with regard to education and training, health and welfare, housing, transport, water and electricity, communication services, fire protection and crime. Although the less privileged areas have recently received more attention from the local authorities, non-payment of services remains an issue.

However, some of the indicators of social development are relatively bleak. In 1991 the human development index in Port Elizabeth was higher than that of the Eastern Cape Province, but lower than the national average. In the absence of recent official unemployment figures, local surveys indicate that there was a 32.8% unemployment rate in 1993, which increased to 40% in 1994.[27] The disparity in household incomes between different race groups is also significant.[28]

Industrialisation is sometimes regarded as a panacea ... but economic development is not synonymous with industrialisation alone

Current role of the industrial sector in Port Elizabeth's economy

The statistics for Port Elizabeth-Uitenhage record 698 officially registered manufacturing establishments, representing 55% of all manufacturing establishments in the Eastern Cape, and just over 3% of those in South Africa. The employment breakdown was skewed towards small and medium enterprises employing less than 200 workers. In 1994 the manufacturing sector contributed about one third of the total GGP, and employed 32% of workers in the city.

The most significant industry in Port Elizabeth is the automotive and components industry, with three of the seven assembly firms in the country, including Volkswagen SA, Delta Motor Corporation, and Samcor, located there. There are about 100 component producers in Port Elizabeth, with nationally nearly 50% of total employment and an even greater percentage of output being employed by fourteen large firms.[29]

The changing trade and industrial policy environment, and the introduction of the Motor Industry Development Programme has resulted in a national rate of increase in exports of 47% p.a. from 1988 to 1996. Despite the increasing pressure from reduced protection in this sector, it seems to have risen to the challenge and is performing well.

Besides its relative advantage in the production of motor components for the local and export markets in the mid-1980s, Port Elizabeth also had an advantage in terms of the manufacture of hides and skins, electrical machinery, and the processing of food products.[30] In more recent times, the government has identified and targeted four manufacturing sub-sectors with growth potential: besides the automotive and components sector, the textile, wool and mohair; leather and footwear; and food processing sectors have been targeted.

In terms of government's plans to stimulate industrial development in the Eastern Cape, Spatial Development Initiatives (SDIs) and an Industrial Development Zone (IDZ) are being developed. The Fish River SDI is focused on industrial development, and is aimed at promoting the growth of industrial nodes between Port Elizabeth and East London.[31] It is one of ten trade and industry department programmes throughout the country, with some 130 potential investment projects to give momentum to investment.[32] The Coega Industrial Development Zone, located 20 km from Port Elizabeth, is linked to the Fish River SDI. The IDZs are planned to facilitate investment in manufacturing.[33]

Prospects for economic growth in the city depend heavily on the Coega IDZ. It is unclear at this stage exactly what kind of industries will be located there, but there are indications that local commerce and industry are relying heavily on the zone to stimulate growth and development in the city. Many view the IDZ as the answer to the city's unemployment problem; however, there are some who fear that the development will generate few jobs, damage the environment, and impact negatively on human health.[34]

Towards a new LED strategy for Port Elizabeth

As in other cities around the world, Port Elizabeth is faced with the choice of a number of different local economic development options. In the past industrial development has been the most significant economic sector in terms of contribution to output and employment. The need to revive industrial development in the city is perhaps one of the main reasons for the concept of an IDZ being mooted at Coega.[35]

Until late 1998 it was envisaged that Billiton would become the main anchor tenant at Coega as it had committed itself to invest some R2.7-billion in a zinc smelter. However Billiton's technical partner, Mitsui, has backed off from the deal, and it has been unable to find another partner, although the South African Industrial Development Corporation is still involved in the development. The only other tenants were


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Portnet and Pretoria Portland Cement (PPC). Then in July 1999, Germany's stainless steel group Ferrostaal emerged as a new potential anchor tenant, based on industrial offsets from a multibillion-rand counter-trade arms deal.[36] Other than these core tenants, there have apparently been a number of inquiries from potential investors.

There has been significant debate at the local level about the appropriateness of the development at Coega. Questions have been raised about the role of the government in promoting development of this kind, while various interest groups have indicated concerns about the IDZ. In particular, the labour unions, citrus farmers and environmentalists have suggested that money would be better spent elsewhere. Besides these concerns, arguments have been made for making alternative use of the land and natural resources – particularly energy and water. The viability of another port in the country has also been raised, with two deep-water ports already in existence in Richards' Bay and Saldanha Bay. More profoundly, the Coega IDZ has apparently been marketed as a "top-down" local economic development strategy, with few direct benefits to the local people, although there is an opportunity to kick-start growth in the local economy through the attraction and promotion of large-scale investments in industry.

Many of the decisions and actions of those outside of the city are thus critical to the success of the IDZ: "80 to 90 per cent of the decisions about Coega are actually taken outside this province".[37] Apart from these concerns, there seems to be widespread support for this development strategy, especially from the business sector.[38]

Tourism has grown at a rapid pace during the 1990s and shows a lot of potential in the city. It has been argued that it is important for the Eastern Cape to develop and market a "cohesive, strong branding or image for the region as a whole".

Some of the main challenges faced by the Coega Implementing Authority include the lack of sufficient transport infrastructure, concerns of the labour movement, ecological challenges, linkages with the local economy, and credibility of the industrial cluster concept. The global economic crisis has affected commodity prices, including zinc, and has had an impact on investor sentiment which could affect the timing of the project.[39]

Some of the expected negative externalities associated with industrialisation at Coega include the damage that may be caused to the fishing industry, ecotourism, agriculture, and human health – a total of R114-million has been estimated as income losses due to the negative impact caused by the IDZ and port. Other opportunity costs include the existing salt-works at the mouth of the Coega River, an abalone farm and recreational facilities. The task of managing this process will be tested in finding ways to complement existing economic activity in the area, and to keep these costs down.[40]

Apart from the Coega IDZ, other local economic development initiatives have been undertaken in the city, with some success. A motor industry cluster is up and running as part of the Fish River SDI. Its vision is "to establish a viable, local and internationally competitive industry, capable of achieving both continuous growth and sustainable job creation".[41] This cluster facilitates the collaboration of business, government and labour to enable enterprises within the sector to compete internationally.[42]

There have also been success stories among individual firms within the automotive and component firms, particularly in terms of export orders and employment creation. Besides

TABLE 3: A PROPOSED INCENTIVE PACKAGE FOR SOUTH AFRICAN IDZs[58]

Current support measures	Amended and new support measures
• SMMDP	• Automatic unrestricted access to duty free inputs
• Export incentives: EMIA, Short Term Export Finance Guarantees, Market Access Arrangements, zero-rating for VAT on exports	• Preferential tax dispensation
	• Adjusted accelerated depreciation allowance
• Productivity and technology enhancement incentives	• Exemption of VAT on domestic inputs
• Policy based development finance (IDC, Khula)	• Rebate item 470.03 of the Customs and Excise Act
• MIDP	• Subsidised training and training facilities
• Textiles and Clothing DCC Programme	• Environmental support measures
• Government procurement preferences	• Possible support at municipal level
	• Discounted local rates and taxes
	• Supported lease of land and rent of buildings

the announcement of Portnet's commitment to invest R1.2-billion in the development of a port at Coega, Volkswagen South Africa (VWSA) has announced a R5-billion export order. This order involves the creation of 1 000 new jobs over an eighteen month period and an increase of production to double the existing quantity.[43]

One of the spin-offs of such investment is skills transfer, and the feeling is that this would "boost plans for the establishment of an automotive cluster in the Coega Industrial Development Zone".[44] A further major investment has been made by the South African Motor Corporation (Samcor) to gear up its Port Elizabeth plant after securing an export order contract with Ford Motor Company.[45]

Tourism has grown at a rapid pace during the 1990s and shows a lot of potential in the city. It has been argued that it is important for the Eastern Cape to develop and market a "cohesive, strong branding or image for the region as a whole".[46] For this reason, the concept of the "Sunshine Coast" has been developed.[47] The Port Elizabeth airport received international status in April 1998, and has plans to invest in extending its runway once it proves financially viable.[48]

There are also plans to relocate petroleum tanks and manganese ore dumps from their harbour location to Coega so that the harbour can be redeveloped as a "waterfront" tourist attraction. Initiatives such as the planned extension of the Addo Elephant National Park are also important for the growth of the city.[49] Another development that will impact on the tourism industry is the planned casino, Emfuleni Resorts, which is likely to invest in the region of R500-million.[50]

Small business development has also received attention from interest groups in Port Elizabeth-Uitenhage. The local authorities have developed a database of small businesses to support the implementation of the municipal Procurement Policy. The deputy-mayor, who chairs the Economic Development and Tourism Task Team, also heads the largest local business service centre in the city, the Community Self Employment Centre.

The City Council has established an Economic Development Unit aimed at stimulating and supporting small, micro and medium enterprise development. The Port Elizabeth Regional Chamber of Commerce and Industry has also set up a Small Business Task Team, and the Chief Executive Officer has prioritised the development of this sector as one of his main goals. More recently, five retail finance intermediaries were established to deal with micro-lending requirements. In line with the goals of national government, institutions are beginning to create a supporting environment for small enterprises, particularly those that were previously disadvantaged by apartheid policies.[51]

Pros and cons of industrial development

There are a number of disadvantages, as well as advantages, in pursuing industrial development as a strategy in the city. It is important to consider these in the context of the city as a whole, rather than only within the proposed Coega IDZ.

Income in the area is expected to be heavily influenced by the growth of industry resulting from the policies advocated by the DTI. Some estimates predict that in the Eastern Cape GGP is expected to grow by 2.3% per annum, sustained by the growth of the automotive sector, largely due to significant foreign export orders.

The construction of the Development Zone at Coega is expected to impact positively on the construction sector. At the beginning of 1997, it was expected that the construction phase of the development at Coega would result in temporary employment opportunities for between 24 000 and 34 000 people in Port Elizabeth-Uitenhage, and income of between R3 472-million and R6 240-million. The operational phase was estimated to generate additional jobs and income, accounting for between 34 and 60% of total GGP.[52] It is also envisaged that new jobs will be created by the relocation of additional anchor tenants, but some sources suggest that job creation will be lower than estimated.[53]

In Port Elizabeth-Uitenhage the relatively high unemployment figures and poverty gap point to the need for policies to solve these problems. For this reason, there is support for industrial development such as the Coega IDZ. However, there are reservations about the nature of the jobs that will be created in the short-term. There are indications that industrial development will be capital-intensive and require largely skilled labour, which will probably need to be brought in from outside the region.

Although downstream activities are expected to include SMMEs and other more labour-intensive industry, there is no certainty as to the exact extent and nature of this kind of investment. The shortage of certain skills in Port Elizabeth-Uitenhage suggests that the relationship between education and training and industry is currently relatively weak. Improved planning and development of the human resources in the area could address this mismatch between supply and demand of skills.

Employment and permanent direct income generated by the Coega IDZ and port are expected to be far more significant once others begin to invest in the development zone. This is particularly the case in light of the strong development trajectory as experienced at Saldanha and Richards' Bay. In terms of the expectations that have been created amongst the people of Port Elizabeth-Uitenhage around the Coega IDZ, it is important that this development takes off. The project could "kick-start" the local economy and create the capacity to support a higher economic growth rate. Growth scenarios show that Eastern Cape GGP in the year 2010 could be 8% higher than it would be without the project.[54]

The potential cost of industrial unrest is a further factor that will play an important role in attempts to encourage industrialists to invest in the city. In light of the need to address the apartheid legacy, the appropriate balance between security and flexibility in the labour market to achieve worker welfare and economic efficiency must be reached.[55]

One of the most serious barriers to industrialisation in many countries is the industrial investment climate. These conditions can be changed for the better by a government that gives top priority to creating favourable conditions for economic progress and a move to improve the investment climate is the logical starting point for any comprehensive industrial development programme.

One of the key factors holding up the progress of the Coega Implementing Authority is the granting of investment incentives by national government. This is because the details of the incentives will guide the decisions made by the private sector as to whether it will be interested in locating in the IDZ. Media reports in 1998 indicated that Mitsui's withdrawal from the process was a cause for concern.[56] Although the reported reason is the financial crisis in Asia, other sources blame the government for delays in providing investment incentive details. The legislation governing Industrial Development Zones was planned to be passed in the first quarter of 1999, and it was hoped that this would play a key role in determining the interest of the private sector.[57] However, legislation with details of incentives for the zones has still not yet been passed. The Industrial Development Corporation (IDC) has proposed new IDZ specific support measures to supplement existing incentives schemes and support measures.

The appropriate balance between security and flexibility in the labour market to achieve worker welfare and economic efficiency must be reached

However, the country's ability to provide incentives has some limitations due to fiscal constraints and World Trade Organisation obligations. For this reason, the IDZ incentives are likely to involve only marginal adjustments to current incentives. Proposed new incentives will be restricted to human resource development support, environmental support measures, as well as discounted local rates and taxes. Because grants, subsidies and exemptions may be limited, it will be important for South Africa to place emphasis on the regulatory support package and infrastructure in the IDZs.[59]

A further concern lies in the question of who the primary beneficiaries of industrialisation will be. The main beneficiaries of industrial development in the city are sure to be the industrialists themselves, especially where large-scale industry is the target of investment promotion efforts. Efforts need to be made to promote SMME development so that access to wealth-creation is broadened, particularly amongst the marginalised communities.

The city as well as the broader Eastern Cape Province will also benefit in terms of the creation of a critical mass of industry that will attract more business to the area. Local authorities will benefit from the income generated by rates and taxes, as well as service charges paid by industrialists.

In South Africa there has been scant analysis of the environmental sustainability of the economy. However, a need to shift industry onto a more sustainable development path has been identified.[60] Although there is environmental law, the role of the state in monitoring the environmental impact of industrial activity and administering and managing environmental quality has been ineffective.

Despite Environmental Impact Assessments, there has been discord because many of the SDIs have been planned on or near some of the most pristine land in the country.[61] In the case of the Coega IDZ, the environmental issue has been hotly debated. The Strategic Environmental Assessment that was undertaken for the Coega IDZ concluded that there are no environmental "fatal flaws" preventing the development from going ahead.[62]

The role of local government

The introduction of a Strategic Plan for the City in December 1996 provided the Port Elizabeth Local Council with the direction to develop a LED policy. In the same year, the Economic Development and Tourism Task Team (EDTTT) was established to provide the institutional structure through which various interest groups can be included in the economic development process at a local level. A procurement policy based on the Ten Point Plan on Public Sector Procurement Reform has been developed to stimulate the development of SMMEs through municipal procurement.[63]

Through the Task Team, the City Council is attempting to co-ordinate the activities of those involved in the development of the local economy. The establishment of an Economic Development Unit is planned to take this a step further. The Council is also playing an active role in the Coega IDZ project, particularly in terms of negotiations with national government, and resources and expertise. Furthermore, the creation of international links through the "twinning" of cities has been initiated by Council. This practice is particularly important considering the international isolation of South Africa in the past.

Conclusion and Recommendations

Industrial development in Port Elizabeth-Uitenhage seems well supported. As a relatively industrialised city, it makes sense that industrial development be included as part of the strategy-mix. The concept of the Coega IDZ and port provides a mechanism to achieve this goal. However, the tourism industry has also been growing in the city, justifying its inclusion in the city's "grand plan" for LED. It will be important to attract, develop and support new and existing large business. Particular efforts must be made to encourage small business development amongst the marginalised communities so that a greater impact is made in terms of reducing unemployment and poverty.

In promoting industrialisation at the city level, we can learn from experiences elsewhere. While there are no general "success models" of regional or local development, the literature reveals some useful insights. Community stakeholders in Port Elizabeth-Uitenhage need to ensure that the type of investment encouraged is matched with economic and employment objectives.

There also needs to be a common vision among the stakeholders in the LED process, so that there is a clear picture of where the city is going and what success entails. The momentum that has been created in the development of the Coega IDZ and port concept, and in other local economic initiatives, should be capitalised upon.

The creation of an enabling environment in the city is paramount. More needs to be done to market the city as a quality environment for both investors and visitors. Contrary to the previous government's stance, the shift in industrial and trade policy at national level provides Port Elizabeth-Uitenhage with the opportunity to use its location in the pursuit of export-led industrialisation. The differences between national, regional and local interventions to promote industrial development need attention, however. In particular, the impact of industrial policy in South Africa needs to be closely monitored by the local community. Cities and localities can have considerable impact on economic development. For this reason, the linkages between industrial and LED policy need to be strengthened.

In terms of LED efforts, it will be important that there are visible projects to quantify. LED is a complex process and the logframe method of analysis provides a way of breaking down the issues into manageable parts. This 'helicopter' vision is invaluable in the LED planning process.

Implicit in the logframe analysis is the identification of required outputs, activities and inputs and also the overall goal and purpose of the project. Other methods of measuring LED activity should also be established, so that progress can be monitored.

Lastly, serious planning of LED strategies needs to account for the sustainability factor. If strategies and projects do not deliver long-term and quantifiable benefits to the people of the city, the impact is questionable. The costs of such strategies and projects also need thorough evaluation so that scarce resources are not wasted.

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The Seven Buildings Project
Is co-operative housing the answer to South Africa's housing crisis?

BY TRACY CULL

One of the most pressing problems facing South Africa today is the provision of housing.[1] The consequences of housing shortages include overcrowding, squatter settlements, land and building invasions and poor access to services in both urban and rural areas.[2] Since its election in 1994, South Africa's first democratic government has regarded the provision of adequate and affordable shelter as one of its top priorities. Yet, despite the government's promise to deliver 1 million new houses between 1994 and 1999, many people are still homeless. The context of this challenge is an enormous backlog, intolerance shown towards the homeless and complicated historical, political, social and economic factors inherited from the previous government. By 1995, poverty and fiscal constraints were also identified as factors hampering the goal of universal housing access.

To help low income citizens finance a house, the government instituted a First Time Home Buyers Subsidy. However, despite a 1994 "Record of Understanding" with the major banks, throughout the late 1990s, most financial institutions appeared reluctant to grant "top-up" housing credit to housing subsidy recipients. Typically only 15% of housing subsidy recipients received bank loans to top up the housing grant each year. A further problem with the government's housing policy is the fact that most new housing projects have been "peri-urban" in character, on the outer edges of existing settlements. Land in these areas is favoured by developers because costs are cheaper and acquisition procedures usually easier. Residents of these areas then have to spend a large proportion of their already limited income on transport to places of employment and access to services and amenities, usually situated in the inner city.[3]

The challenge of providing housing for those in need is exacerbated by the huge task of upgrading existing accommodation. Within particular metropolitan areas, including Johannesburg, inner city decay threatens to turn the central business districts into slums. Landlords claim that they cannot afford the upkeep of flats but pressure is mounting for a solution whereby residents can gain ownership of property quickly and cheaply.[4] An answer to both these problems may be co-operative housing, a well-established form of tenure in other parts of the world but relatively unknown in South Africa.

Co-operative Housing

Co-operative housing is an affordable housing approach based on collective ownership.[5] In the context of scarce financial resources and the legacy of apartheid, co-operative housing could be a method to alleviate the problem of housing in South Africa. There are, however, few co-operative housing organisations. Groups and individuals face a complicated array of policies and laws in their attempts to establish co-operative housing projects. Until the late 1990s, South African housing policy did not support formalised co-operative housing. The introduction of an institutional subsidy mechanism as part of the government's housing subsidy was the first to support this form of housing.[6]

Co-operative housing organisations have worked in many countries including the UK, USA, Germany, Belgium, Denmark and Canada, and have become a relatively conventional and popular form of tenure. Co-operatives were originally established for food retailing but branched out into housing after obtaining low-cost government loans in the form of tax advantages.[7]

Housing co-operatives are also not new to developing countries: in the early 1970s, the co-operative housing movement in India was the largest in the world, with about 1.2 million members, while in Chile, an estimated 3.3% of the total population were co-operative members. Governments of other South and Central American countries have also acknowledged the potential of housing co-operatives and provided them with appropriate legal frameworks, as well as with technical and financial assistance.

In Africa (with the exception of North Africa), housing co-operatives are more recent. Since the 1970s, co-operatives have been organised in Tanzania, Kenya, Ghana, Lesotho and Zimbabwe, with varying degrees of success.[8]

In the context of South Africa, co-operative housing is based on the general principles of occupant control and management of accommodation within a subsidised framework.[9] The housing co-operative is an economic unit whose goal is to promote the economic interests of its members.[10]

The housing co-operative's operations and viability are determined not only by the general economic rules which apply to any type of corporate body but also by the social organisation and democratic management which is peculiar to this type of housing.

In most cases, housing co-operatives accept a basic set of principles which include voluntary open membership; democratic control of the association; limited share capital; the equitable distribution of any profits; mutual assistance towards a common goal and the promotion of co-operative education amongst the members of the association.[11]

Co-operative housing in South Africa: The Seven Buildings Project

In 1996 the Gauteng Provincial Housing Board enabled the approximately 2 000 tenants of seven apartment buildings in Hillbrow, Joubert Park and Berea to become owners of the flats they were living in.[12] This marked the successful completion of an almost six year struggle by the tenants for ownership of their own homes and the beginning of co-operative housing in the Johannesburg inner city. The project was regarded as a "pilot scheme" for the delivery of low cost housing and part of a broader plan to deliver some 1 500 units in the inner city.[13]

The seven blocks of flats from which the Seven Buildings Project gets its name are spread out among the Johannesburg inner city suburbs of Hillbrow, Joubert Park and Berea and make up roughly a third of all residential blocks in this precinct.[14] The seven buildings differ in size and the number of units they contain:

Argyle Court	72 units
Branksome Towers	69
Coniston Court	37
Manhattan Court	108
Margate Court	37
Protea Court	33
Stanhope Mansions	90[15]

The "Greying" of the Johannesburg Inner City

The Seven Buildings Project arose at a particular time in the history of South African cities. Decades of apartheid have meant that, unlike many cities where the poor have tended to relocate to the inner city to be close to places of employment, the South African system of race zoning and preserving the inner city for white use prevented this from occurring.[16]

Until its repeal in June 1991, the South African central government's policy on residential zoning patterns was framed around the Group Areas Act, which aimed to ensure that South Africans of different race groups lived in separate residential areas.[17] In most cases, the inner city and surrounding suburbs were proclaimed for white use while the majority were forced to live on the periphery of cities, although a few Indian areas were exceptions to this rule.[18]

From about the 1970s the urban racial order envisaged by the proponents of apartheid began to crumble as an increasing number of black people moved into the cities.[19] The first generation of illegal residents in the Johannesburg inner city were so-called coloureds and Indians who had been compelled to move into white areas because of an acute housing shortage in

Tracy Cull is with the Department of Geography and Environmental Studies, University of the Witwatersrand.

areas, which had the effect of prompting the government to enforce the Act more vigorously. The state at first attempted to apply the law by evicting blacks living in the "white" areas.[26]

In response to the threat of eviction, a residents' organisation, the Action Committee to Stop Evictions, was formed. This changed the balance of power by linking previously isolated tenants and substantially increasing their emotional and practical capabilities to fight the evictions.[27] A key initiative of this organisation was to ensure that not only was almost every "illegal" resident charged under the Group Areas Act defended free of charge, but the government was confronted with embarrassing publicity. ACTSTOP and its lawyers won their most important victory in 1982 when a Supreme Court ruling argued that alternative accommodation would first have to be provided before a family could be evicted.[28] Given the acute shortage of housing in "black" areas and the unlikelihood that alternative accommodation could be found, the Group Areas Act was only sporadically enforced from this time onwards.

By early 1983, it was reported that between 8 000 and 12 000 blacks were living in "white" inner city areas. This was spurred on by the realisation that the government was not acting against "illegals" and the growing expectation that the Group Areas Act would be repealed. Landlords felt more secure about letting to black tenants and some companies began housing black employees in "white" suburbs.[29]

Argyle Court: Although the Seven Buildings Project claims to be back on track after some hiccups, there is still much uncertainty over what the future holds for the SBP.

the areas zoned for their use.[20] This shortage was further exacerbated by the economic recession of the time which forced many to move to the Witwatersrand in search of employment.[21] In contrast to the situation in black areas, white residential areas were experiencing a surplus of accommodation.[22] Before 1976, many whites had bought property as a hedge against inflation but this backfired when rising interest rates made it impossible to keep up the bond repayments. As a consequence, the price of houses and flats began to fall. This trend was further intensified when the 1976 Soweto unrest caused some people to emigrate. The decline in prices made suburban housing affordable to whites who had previously been forced to live in the inner city.[23]

Until the late 1970s, very few inner city landlords would have let an apartment to anybody classified as other than white but, given the surplus of accommodation, landlords began letting vacant property in the inner city to blacks, in defiance of the Group Areas Act.[24] This gradual breakdown of the racial order, as well as the fact that not all whites were able to move out of the inner city, saw the establishment of so-called "grey" areas long before the repeal of the Group Areas Act.[25] Conditions were ripe for the emergence of slumlords and extremely overcrowded conditions. For a time, black settlement in the inner city met with little resistance and no one was charged with contravening the Group Areas Act. However, in April 1978, newspapers began to draw attention to the "grey"

History of the Seven Buildings Project

In the late 1980s, the owner of the seven buildings, David Gorfil, leased them to a "head lessor" who paid him an agreed amount to administer the buildings. However, the head lessor, who had no long-term interest in the buildings, began to line his own pockets by raising the rents, in contravention of the Rent Control Act, and not maintaining the buildings. This led to severe overcrowding.[30]

After a few years – during which the buildings deteriorated even further – tenants, organised by ACTSTOP, started a rent boycott to protest the exorbitant rents.[31] David Gorfil took over the buildings himself again and in 1991 the tenants were issued with a notice to vacate their flats. However, by the following month, the tenants had still not left their homes and the owner instituted legal action in two of the buildings. The threat of eviction united the tenants and led to the formation of the Seven Buildings Project (SBP).

A process of negotiation followed and resulted in an agreement which allowed the tenants to pay rent while they investigated the possibility of raising the necessary finance to buy the buildings themselves and construct a framework for ownership.[32]

A Seven Buildings Working Group, made up of tenants, attorneys, architects, quantity surveyors, and two housing service groups, co-ordinated by the Legal Resources Centre, was formed and conceived a framework which aimed to create a co-operative housing project to meet a number of objectives:

- affordable accommodation for low income earners through the involvement of tenants at all stages of the project and the availability of an appropriate subsidy scheme;
- security of tenure for all tenants and management and control of the buildings by the tenants themselves;
- the creation of social housing stock which would remain outside the speculative market and be available for low income earners in the future;
- involvement of the government to make available subsidies and interest free loans, and to create a framework of favourable legal and social conditions;
- the promotion and support of projects and enterprises to further the development of an economic base for the beneficiary community.[33]

Agreements to purchase the buildings were signed in March 1993, subject to the clause that finance for the purchase and refurbishment of the buildings was to be obtained from financial institutions.[34] This proved to be very difficult as financial institutions were increasingly "red lining" inner city areas by refusing to make bonds available. In the absence of help from financial institutions, the tenants had to find innovative ways to finance their project.

A solution was found in the institutional housing subsidy and the involvement of the Inner City Housing Upgrade Trust (ICHUT). ICHUT was established in 1993 to aid in the process of housing delivery and to overcome the increasing "red lining" of inner city areas by providing facilitation services and short-term bridging finance to housing projects. With major financial institutions extremely reluctant to get involved in mortgage finance for inner city residents, ICHUT saw a role for itself in providing short term finance.[35]

Co-operative Housing in Practice

The existence of a common goal is fundamental for the success of a co-operative housing association. The goal is shelter – more particularly in the case of the SBP, the ownership and upgrading of inner city apartments – and it is achieved through mutual assistance and joint action.[36] The idea behind a housing co-operative is that members become involved in building maintenance and upkeep, the provision of security services as well as the collection of rents and levies.

The initial idea behind the project was that it would be run by the tenants themselves on a non-profit basis

A second consequence of co-operative ownership is that the financial obligations of the members are accepted and managed in a collective manner.[37] In the case of the SBP, the co-operative concept has been very effective in that it has enabled the tenants to upgrade the buildings.[38]

Housing co-operatives have evolved three basic types of tenure: individual, mixed and collective.[39] The SBP falls into the category of collective ownership, where the entire building is owned by members of the co-operative association and members do not own particular units. For this model to work, it is essential that members be properly educated about co-operative principles. Members cannot sell their homes, and when a person leaves the co-operative, transfer of the unit is normally back to the co-operative which arranges for a new member to occupy it. The person leaving is usually paid out for any equity at the time of the transfer. Under this system, security of tenure is ensured through membership of the housing co-operative.[40] According to the General Manager of the SBP, no one has ever voluntarily left the Project. There has, however, been a turnover of residents due to tenants failing to pay their rents and "disappearing". When it comes to filling vacant flats, it is the policy of the SBP to give preference to people already living in the building.[41]

Institutional Housing Subsidy

Before the SBP, only units owned under individual freehold, 99-year leasehold or sectional title would qualify for the First Time Home Buyers Subsidy, which would exclude a communal project. A proposal was therefore made to the Department of National Housing and Development in March 1993 to allow a single lump sum subsidy aggregating the individual subsidies. The proposal envisaged that the subsidies be allocated collectively to the Seven Buildings Company instead of being allocated individually to the occupants. The subsidisation of the project rather than the individual would also ensure that the housing stock would remain affordable to subsequent generations of co-operative members.[42] It took three years for the SBP to become the first recipient of an institutional housing subsidy in the country.[43]

The initial idea behind the project was that, in line with co-operative housing ventures elsewhere, the project would be run by the tenants themselves on a non-profit basis.[44] The tenants' interests are represented by an elected tenant director from each of the seven buildings who sits on a Board of Directors. Under this Board is the administration, led by the General Manager who is in charge of employing and managing the caretakers or building supervisors responsible for the daily running of the building. Each building also has cleaners and security guards who are residents of the buildings they work in, and there is a maintenance team responsible for the general upkeep of the buildings. In addition, there is leadership in the individual buildings in the form of seven-member Building Boards which run "flat meetings". Their members sit on the highest leadership structure within the SBP, which replaced the previous Residents Association.[45]

Upgrading the Seven Buildings

The institutional housing subsidy covered only the cost of purchasing the seven buildings. However, the buildings had been left to deteriorate to such an extent that many of them were uninhabitable and posed a serious threat to the health of the residents.[46] Finance was therefore needed to upgrade the

Margate Court: Improvements include the installation of geysers in every unit, the rewiring and waterproofing of all the buildings as well as installing new plumbing, piping, security systems and intercoms. Furthermore, all but two of the buildings now have working lifts and each flat is metered individually for water and electricity.

buildings. ICHUT granted a short-term loan to the Seven Buildings Company to upgrade the buildings.[47]

Tenants pay what is called a "rental" each month (although this is not a rental in the common understanding of the term) as a repayment on the ICHUT loan, for electricity and water used and to cover the cost of administration and upkeep. The rent is calculated on the basis of square meterage. The Company earns approximately R250 000 from residential areas and R60 000 from commercial areas per month. The money from the commercial areas is used to service the loan while the rest pays the salaries of staff members, upkeep of the buildings, consumption of water and electricity, and rates and taxes.[48]

Recent Developments

Towards the end of 1998, about R400 000 of the ICHUT loan had been repaid with a 95% payment rate. Recently, however, tenants have begun complaining that the management of the SBP is not transparent and that little has been done to improve the buildings, although management argues that every unit has been extensively upgraded.[49] Improvements include the installation of geysers in every unit, the rewiring and waterproofing of all the buildings as well as installing new plumbing, piping, security systems and intercoms. Furthermore, all but two of the buildings now have working lifts and each flat is metered individually for water and electricity.[50] Despite these improvements, there have been allegations that the money was not used appropriately.

Trouble started in June 1999 with rent increases. Tenants argued that because they had not seen any improvements in their buildings they were not prepared to pay more. The explanation that the price of services had increased and therefore rentals would also have to rise was not accepted. Despite a number of meetings to resolve the conflict, five of the seven buildings – Manhattan Court, Branksome Towers, Stanhope Mansions, Margate Court and Protea Court – split from the SBP, throwing out the Project's structures and sidelining its administration. The "splinter group" argued that their actions were a way of forcing the administration to become more transparent.[51]

The five buildings that split from the Project opened a separate trust account for their rents. However, there is much uncertainty as the administration of the SBP has no access to this account and therefore no idea whether the rents are being paid or not. Residents of the remaining two buildings have also stopped paying rent. According to ICHUT, there is no mechanism in place for individual buildings to pay back their "part" of the loan as it was made to the Company.

In April 2000, an AGM was called to try and break the deadlock and move the process forward. New tenant directors were elected for the five buildings that had broken away from the SBP while the directors of Argyle Court and Coniston Court were re-appointed. With a majority on the Board of Directors, the "splinter group" were able to call for the services of the General Manager to be terminated and a new person appointed.[52]

There is much uncertainty over what the future holds for the SBP. According to the chairperson of the Board of Tenant Directors, the Project is back on track with a new General Manger and all buildings once more working together. According to the rules of the government institutional subsidy grant, after four years the tenants of the Project have to choose an option of tenure.[53] This process has been put on hold due to the problems that the Project is experiencing at the moment. In addition, as the ICHUT loan was made to the Company as a whole, it is only once this loan has been repaid in full that a different type of tenure, such as sectional title, can be considered.[54]

If the loan were to be repaid in full, then a tenure option other than co-operative ownership may be possible and indeed seems likely. The majority of residents support the idea of private ownership of the units, although there is a possibility that tenants would turn into "mini-slumlords" by subletting their apartments. Subletting and overcrowding are already happening in the SBP and this is likely to continue. The question arises as to how these people who are clamouring for a title deed are going to be able to afford the upkeep of their flats as many are unemployed.[55]

Lessons from the Seven Buildings Project

Co-operative housing projects such as the SBP are important for two reasons. Firstly, they provide accommodation for low income earners of the inner city, many of whom would not be able to afford any other form of tenure. Secondly, experience from around the world has shown that regenerating the residential component of the inner city is vital to stabilising the inner city as a whole. From the overview of the Seven Buildings Project, a number of lessons may be learnt for future co-operative housing projects.

Education is essential

Tenants must be educated about their rights and responsibilities as members of a co-operative housing project. At the start of the Project there was much intensive education concerning types of tenure, leadership skills and making choices which enabled people to forge ahead with their fight to own the buildings. However, as the General Manager of the Project points out: "wanting and having are two different things. When you educate somebody to want you must also educate somebody to be responsible in terms of being able to possess".[56]

If co-operative housing is to be successful, then it is important that future co-operative organisations learn lessons from the SBP

It is not just the ordinary tenants that must be educated concerning their rights and responsibilities but the tenant directors as well. They are ordinary residents who are elected to the position and given little training about what being a director of a company means. A stumbling block is that even when directors do know their rights and responsibilities, when they try to implement their decisions they face opposition because the majority do not know the rights and powers of directors.

Just who should provide the necessary education? The General Manager of the SBP believes that it is up to the Provincial Government to empower people through education as it is their responsibility to ensure that they do not spend millions of public funds (in the form of the institutional housing subsidy) on a group of people who are not equipped to run the project successfully. The Social Housing Foundation is another option, which has indicated that they would be in a position to train people on how to be responsible within a business environment of this nature.

However, there are a number of difficulties with this option. Firstly, the SHF does not want to become involved until the present problems have been sorted out and a proper management structure put in place. Secondly, there are doubts as to how receptive some members of the SBP will be to training and education.[57]

The smaller the co-operative housing project the better

A problem of the SBP is its size – it is too big and involves too many differing opinions over how the Project should be run. Furthermore, administration is difficult and time consuming. The problems caused by the size of the Project are exacerbated by the fact that the seven buildings which make up the SBP are spread out over a relatively large part of the Johannesburg inner city.

The breakdown in communication between members of the leadership and between leaders and tenants as well as allegations of a lack of transparency can all, in part, be traced to the size of the project. Despite the fact that each building has representatives on the highest leadership structure within the SBP, it is still up to the General Manager to report any problems that are being experienced as meetings of the Building Boards are not well attended.[58]

Many of the present tensions can be traced back to the issue of how the ICHUT loan has been distributed amongst the buildings. At the start of the project, the seven buildings were in varying states of disrepair. Yet, in accordance with co-operative ideals, financial obligations are shared equally by all members of the SBP, which causes much resentment amongst residents who believe that they are subsidising the upgrading of other buildings in the project.[59] What is missing is a sense of community which may be attributable to the size of the Project and the differences in location.

Tenant owned but not tenant managed

The SBP was to be run by the tenants themselves. However, the problems experienced have meant that this ideal is not feasible. In the past, cleaners, security guards and maintenance team members were all employed by the SBP, in accordance with co-operative ideals. But this system led to problems of alleged nepotism and discipline and so finally these jobs were outsourced to external companies on the condition that they employ residents of the SBP. It is envisaged that a similar process will soon occur with regard to the building caretakers.

Overcrowding is still a problem in the SBP. One of the ways in which they have tried to combat this problem is by giving vacant flats to people already in the building. In some ways, however, this seems to be rewarding people for breaking the "house rules" and subletting their apartments.

The Building Boards in each building are responsible for allocating vacant flats – a situation which is open to corruption. The General Manger believes that vacant flats should be filled with "outside" people who can and are willing to pay, so as to break the "cancer" of non-payment that he believes is spreading through the buildings. There is also a growing realisation that the Project needs a General Manager who is not a resident/owner in the SBP.[60]

Housing projects cannot work in isolation

Research done by the Johannesburg Housing Company (JHC) indicates that people do not view the inner city as a permanent home but rather as a stepping stone to the suburbs.[61] Many are forced to remain in the inner city for economic reasons but the ideal remains a house in the suburbs.[62] One of the main reasons for this transience is the 'crime and grime' associated with the inner city.

A stable residential population is essential for the smooth running of a housing co-operative. For co-operatives such as the SBP to attract and retain residents, the area in which the building is situated must be upgraded. Upgrading the inner city is outside the ambit of the SBP and is rather the responsibility of government, working together with the private sector. If government is serious in its declarations about the importance of housing then urban renewal must be part of its plans.

Conclusion

Is co-operative housing an answer to the housing crisis in South Africa? I believe that the answer is a qualified yes. Low income earners, even with access to housing subsidies, cannot afford to buy apartments in the inner city, let alone pay for the upgrading that many of these buildings demand. The collective manner in which financial obligations, such as accessing loans, is managed makes the co-operative form of tenure not only attractive to low income earners but, in many cases, the only way in which these residents would be able to afford to live in the inner city. A second consequence of co-operative housing is that it may lead to the regeneration of inner city buildings and the area as a whole.

As the case of the SBP demonstrates, co-operative housing is not an easy answer to the housing crisis in South Africa – there are many problems associated with this form of tenure. If co-operative housing is to be successful, then it is important that future co-operative organisations learn lessons from the SBP. These lessons include the importance of education; why it is crucial to take into account the size of the project; the reasons why ownership and administration should be separate and the fact that inner city housing projects should form part of a much broader regeneration effort. ✪

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Making a living in the City

Success and failure of small enterprises in the Johannesburg Inner City

BY ANNA PHOEBE KESPER

Small, medium and micro-enterprises have come to be seen as at the forefront of local economic development. SMMEs are reported to resolve the problems of insufficient employment growth while being highly efficient and flexible. The unprecedented emergence of small enterprises in segmenting markets and a globalising economy since the early 1980s revealed the absence of an established theory of small firm development. More open markets and changes in demand patterns have imposed pressure on manufacturers to produce higher quality in less time and in smaller quantities.[1] The new competition requires changes to be successful, with a new norm of production and new principles of efficiency.[2]

But what makes a successful SMME? There has been considerable debate on the issue of equating success with growth and the indicators used to measure it.[3] Some observers define success as competitiveness and measure it in increasing profits, although this does not invariably translate into higher wages or job creation.[4] In developing countries, characterised by uncertain market conditions and high failure rates of SMMEs, a firm's mere survival may be equated with success, which is then measured in terms of enterprise age.[5]

Given the varying definitions of success, it is unsurprising that no single reliable measure exists. In this study, an SMME will be termed successful if it has passed through its first two critical years, the owner-manager considers it a successful firm, and profits or turnover have risen over the past two years, accompanied by employment growth.[6]

Differences in the size and characteristics of firms confirm that "there is no one predictable way to growth or indeed a

Anna Phoebe Kesper is with the Department of Geography and Environmental Studies, University of the Witwatersrand.


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limited set of factors which will explain it".[7] Moreover, there are indications that relationships vary during the life cycle of a firm, and that firms may not grow during all stages of their existence.[8] It is therefore necessary to move away from models to trajectories. Given these circumstances, the case study method is appropriate. The overall conceptual framework which provides the basis for this case study research draws on various schools of thought (as shown in Figure 1) and includes:

- firm characteristics and competencies impacting upon the efficient transformation of inputs;
- age, experience and managerial skills of the entrepreneur and strategic choices;
- existence of institutions open to SMEs affecting costs of transactions, especially of information;
- location, affecting costs and constituting the social environment;
- industry's structure and dynamism and structure of the supplying industry and retail structure;
- the macro-economic environment.[9]

Potential Role of SMMEs in the Social and Economic Transition of South Africa

Since the elections of April 1994, the issues of black economic empowerment and a more equal income distribution have been placed high on the agenda of the new government of South Africa. Nevertheless, the need to diversify the South African economy, enhance productivity and international competitiveness, raise wage-levels, stimulate investment and allow entrepreneurship to flourish, is recognised as a pre-condition.[10]

The South African government suggests that the SMME sector – with government support – is capable of fulfilling these objectives and has introduced a number of supply-side measures to promote the formerly neglected sector. More critical voices, however, argue that the contribution SMMEs can make to job creation, economic growth and a more equal income distribution is rather limited.

Redressing historical patterns of racial inequalities of incomes, services, living and socio-economic conditions is one of the key challenges facing South African cities. High population growth rates aggravate the problem of urban unemployment. SMMEs, and micro-enterprises in particular, are labour-intensive and hence have a high labour-absorptive capacity, while the urban informal sector permits inexperienced job seekers to become self-employed. Nevertheless, formal and informal SMMEs can only contribute to urban regeneration insofar as they themselves survive or prosper.

Recognising the diversity of the SMME sector in South Africa, the White Paper on National Strategy for Development and Promotion of Small Business in South Africa assigns the SMME sector the following social and economic roles:

- Job creation
- International competitiveness and economic growth
- Income redistribution
- Black economic empowerment
- Poverty alleviation.[11]

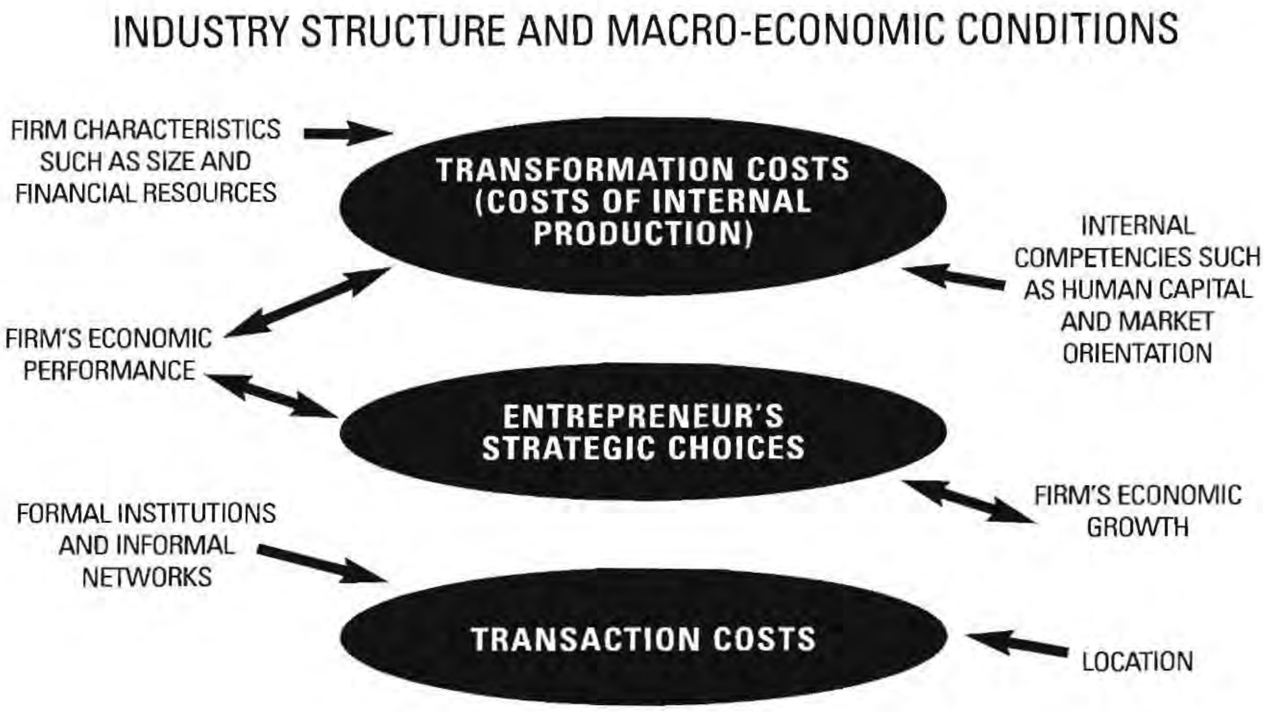
Recognising the potential contribution of SMMEs to sustainable economic growth, job creation and a more equal income distribution, the Department of Trade and Industry has adopted a range of policies and support measures aimed at increasing the growth rate of the SMME sector.[12] The overall objective is "to create an enabling environment" and "level the playing field" for SMME development.[13] Policy measures are also aimed at addressing the obstacles and constraints that SMMEs face, enhancing their capacity to comply with the challenges of globalisation, and strengthening their cohesion to increase the leverage of policy measures.

The mechanisms used for small business support involve institutional and regulatory reform, and the expenditure of public funds on supply-side measures to address market failures such as access to finance and programmes to modernise SMME manufacturers by providing information and technical assistance.[14]

Potential of the South African SMME sector to fulfil its assigned role

It is widely agreed that the SMME sector has the potential

FIGURE 1: FACTORS ASSUMED TO INFLUENCE SMALL FIRM GROWTH



to contribute to poverty alleviation and economic growth, but that it is not capable of simultaneously playing the role of a job creator, fierce international competitor, income distributor and economic empowerer.[15] In terms of employment creation, for example, SMMEs' contribution to employment growth is relatively low both because the majority of micro-enterprises are one-person operations and because of the phenomenon of "jobless growth".[16] Moreover, wage and working conditions in manufacturing micro-enterprises are reported to be uniformly poor both for owners and their employees.[17] SMMEs therefore do not affect the core economic power concentrated in the hands of large white-owned corporations.

The mid-1990s witnessed a wave of SMME closures as they were unable to compete. This clearly indicates that SMMEs do not have the capacity to be the sole actor of economic and social transition. By contrast, they might only accomplish one of the divergent policy objectives – and often then at the expense of another.

Success and failure of SMMEs in the Johannesburg inner city

Small and medium-sized enterprises today dominate Gauteng's manufacturing economy.[18] The Johannesburg inner city has a long tradition of manufacturing, with clothing and furniture production among the dominant industries.[19] However, the inner city has witnessed a decline of large-scale formal production and an influx of informal manufacturing.[20] The relocation of the CBD to the northern suburbs has freed office space in the centre of Johannesburg city which has been converted into affordable premises for informal manufacturers. Therefore, many researchers point to the city's function as a potential "incubator" for emerging enterprises.[21] Nevertheless, many informal entrepreneurs operate their SMME out of necessity rather than choice, so the likelihood of emerging entrepreneurs sprouting from the micro-enterprise seedbed in the Johannesburg inner city without any assistance appears to be dismal.[22]

The inner city hosts a variety of manufacturing activities, predominantly light industries such as apparel, printing and furniture. However, it seems that clothing and furniture SMMEs are generally not competitive in low-cost mass markets.[23] Indeed, the highly concentrated retail sectors impede SMMEs' access to the large lower to middle end of these markets, while the timber and textile industries do not cater for SMME needs.[24]

Hence, trade liberalisation increases pressure on manufacturing SMMEs to realign their production towards niche markets, and to consider exporting. Such a shift would require skills upgrading to exploit the advantages of production technology, and necessitate a wider and more focused market orientation both in domestic and export markets.[25] Only a few SMMEs have, however, invested in new technology as "the market is too small to warrant such an investment", while the relatively high labour turnover discourages SMMEs from investing in skills training.[26]

Company Profiles

Firm A had been established for 63 years at the time of the initial interview (1998). The present owners are the grandsons of the founder: Robert is a chartered accountant with experience outside the firm, while his brother has been working in the factory since he left school. They took over the business from their father about five years ago and have not moved out of the city centre because the factory had always been there and their father granted them the premises rent-free for the first five years. The workshop stretches over three floors, and a lift is needed to transport semi-finished goods from one production phase to the other. Shortly after take-over, the brothers computerised the production planning and sales system. Some staff left with the previous owner, and finding a new production manager was so difficult that they re-retrained the previous machine shop manager.

The firm is well-recognised at the high end of the South African furniture market, but its special range of bedroom and dining room suits with hand-made carvings is now outdated. Recognising this shift, the firm contracted an Italian designer to develop new ranges. But, with smaller orders bound to exclusive supply arrangements, the firm was no longer able to reap economies of scale. The firm ventured into hotel contracts for some time to keep its factory busy, but had to withdraw from this market due to co-ordination problems. Hotel contracts had occupied most of their production capacity, but yielded only low returns. Consequently, in 1998, the number of workers had to be reduced.

The brothers then persuaded their younger sister to open a joint furniture retail outlet in northern Johannesburg. They designed a range affordable to middle-class South Africans. A crisis caused by the sister leaving the retail outlet was overcome by the brothers' wives stepping in and initiating a huge marketing campaign.

Furniture SMMEs are generally not competitive in low-cost mass markets. The highly concentrated retail sectors impede SMMEs' access to the large lower to middle end of these markets, while the timber and textile industries do not cater for SMME needs.

Since then, the retail outlet has become the factory's largest customer. Meeting delivery dates is still a problem, and outsourcing part of the workload has been problematic. However, the firm is able to use the equipment of another furniture manufacturer located nearby. According to Robert, current low skill levels and demand fluctuation do not permit his firm to invest in this machinery. Efforts to penetrate new markets abroad have failed. The firm exclusively uses imported hard woods for its furniture production, and transport costs within and out of South Africa are relatively high so that the (pre-)financing of an export order poses a liquidity problem to the firm. As Robert does not want to explore export opportunities further, he reduced the staff contingent instead.

Currently the firm seems to be optimally staffed to satisfy demand levels. Owner-worker relations are good, and Robert and the supervisors meet every afternoon. Through a differentiation strategy based on quality and after-sales service, the firm has now secured a profitable market position in the medium to high end of the South African furniture market. Nevertheless, the owners aim to keep abreast of market and technological changes by cultivating a loose network of Gauteng furniture manufacturers serving the high end.

Firm-specific problems have had to be solved individually. Robert has been trying to obtain a work permit for an experienced German production manager to deal with the major weakness of long lead times and poor delivery, but is experiencing delays. Given the cumbersome outlay of the factory, Robert has thought about moving to the island principle where workers move to the product, but the current workload leaves no time for restructuring. This will be the first task for the new production manager. In July 2000, the company opened another showroom and reports growing profits for the year.

Firm B is also run by the grandsons of the initial founder. Donald joined the business 30 years ago without finishing school. He and his brother "grew up with the business" and spent all their weekends here. The mid-1980s were their most prosperous years, during which they employed about 60 employees and undertook a major upgrading of equipment. The 1990s, by contrast, were marked by strikes and a sharp decline in demand.

According to Donald, upper-class South Africans were either emigrating or hesitant to invest in "furniture for a lifetime" not knowing what to expect from the future. Prices were, however, not expected to be reduced nor sales effort increased, as the firm was considered well-known in the furniture market. Production capacity was reduced by not replacing retiring or retrenched workers, and both brothers have returned to working on the shop floor. Donald's brother supervises the cutting, while Donald does quality control and administration. With fewer staff, production organisation in departments has been replaced by piece work. Supervision has become easier and mistakes can be pinned down, but the unions negotiate payment by piece rate which means that quality has improved at the expense of productivity.

The upper floor of the building serves as a showroom for private and retail customers. Over the past months, they have built up so much stock that the firm now produces only to order. Nevertheless, customers are increasingly hesitant to come to the showroom despite the security installed, as the inner city is no longer considered safe. Relocating is costly, especially because an increase in demand is not guaranteed. Competition from imports is high in a shrinking market segment which is relatively labour and raw material-intensive. Donald has decided to let the business "go its way", and hopes to find a buyer for his business and premises who is willing to pay a decent price. Donald and his brother would then open a small repair workshop in the northern suburbs and manufacture single pieces according to exclusive designs. In April 2000, Donald auctioned off the business and is now working for another woodworking company.

Firm C was established about 10 years ago by a trained fitter and turner who had been a contracted installer of a large kitchen manufacturer. As he could not progress further in this career, Chris decided to start his own business together with a friend who was a skilled carpenter. They started in Chris' garage and purchased a few second-hand machines. As neighbours complained about the noise, they moved out of the garage into the then SBDC Salisbury Hive. After dealing in built-in kitchens, they designed kitchens and exhibited them at a local trade fair. The expressed customer interest resulted in few orders, so Chris' friend decided to pull out of the business, and Chris had to pay him out his share in the machines. Chris recognised that the kitchen market was dying and the competition too strong.

Hence, he ventured into shop fitting. At one stage he was so desperate for an order that he accepted a contract in George (Western Cape Province). Because of transport and accommodation costs, the contract yielded a great loss. Back in Johannesburg, Chris intended to sell his machinery to one of his neighbours in the SBDC Hive to pay off his debts, but this neighbour, Dave, suggested that they join forces and venture into manufacturing bars and exhibition stands instead. Chris did a CAD-course, and Dave reorganised their workshops in the cubicles of the Hive.

With Chris marketing their business and consulting clients in design and Dave supervising production, the business has grown slowly but steadily over the past five years. Apart from its design capacity, the business differentiates itself from competitors through its short lead time and on-time delivery. The firm owns three of each machine to guard against breakdowns, and the ten full-time employees are not unionised and have agreed to work extra shifts if an order runs late.

Although subcontracting allows the firm to react to demand changes, it requires supervision of quality and progress. Dave sees this unbalanced relationship as a problem: "If you are strong and your subcontractors weak, they come to you and want to know how you do it, they want to use your machines and borrow wood which they might never return". In the long run, the firm is looking for stronger subcontractors outside the Hive.

"I would need a lot of luck, a bigger order of which I can make real profit. I would then buy material and manufacture my own designs."

The firm might move into its own premises in the near future, for convenience rather than security. Suppliers, customers and the owners themselves live in the northern and eastern parts of the Witwatersrand. Chris argues: "The Hive was a good alternative to the garage to start off with, but once a firm is established, it is no longer an adequate business location." The firm currently suffers from late or non-payment, and delivery-bound deposits which are paid back only on timely delivery. As the firm is small and its power limited to negotiate better payment terms, it might move into another market niche of decorating lifts. With the current machinery and skills, the firm is well-equipped to move into any woodworking activity in demand. In July 2000, Chris was still operating from the Hive and had diversified his product range to maintain profit levels.

Firm D is located on the same floor as Firm C in the Salisbury Hive. Leonardo, the owner, emigrated from Mozambique about six years ago and found employment as a finisher in a furniture firm in Johannesburg. When he was retrenched, he decided to start his own business. He had brought some tools from Mozambique where he had learnt carpentry and hand carving at his uncle's firm. He now rents a small cubicle in the Hive where he has access to electricity, but not a phone, and he lacks his own transport.

At the time of the interview, Leonardo reported: "There are many people coming to the Hive to contract work out, and after they have had a look at a show piece and asked for the price, they usually choose one of us (the Mozambican carpenters) to do the job." The advantage of the Hive is that it is known to host a number of skilled carpenters, but competition is fierce, forcing prices down. There is no price fixing among the Mozambican carpenters, and contracts are usually not large enough to be shared.

Leonardo does not leave his workshop to look for more work as he wants to be there in case a contractor arrives. He would not have the resources to pre-finance an order, but instead depends on a deposit in the form of the wood to be used. Given these circumstances, he is grateful for every order and tries to put money aside for a phone and raw material.

His wife has joined him and is learning basic carpentry skills. Leonardo has the skills to do high quality work, and the capacity to accept more than one order a month, but he feels there is little he can do to change his situation: "I would need a lot of luck, a bigger order of which I can make real profit. I would then buy material and manufacture my own designs." Leonardo has never heard of any assistance programme for micro enterprises like his, and wonders if it would apply to him as a foreigner. He claims that all the Hive is interested in is receiving his monthly rental, and they seemingly have no micro-lending scheme or training on offer.

Firm E is located on the third floor of one of the inner city's office blocks. It was founded in 1995 in a flat in Yeoville by a Nigerian dentist who wanted to realise his mother's dream of having her own clothing business.

At first, the firm specialised in traditional African wear using the mother's designs. Two Nigerians and the dentist's sister were hired to do the sewing, and customers found out about them by word of mouth. When the dentist got married, his wife registered the company as a closed corporation. The couple discovered a niche in the black South African boutique market, but lacked the means to establish and supply their own retail outlet in the northern suburbs.

Their loan applications at commercial banks and the then SBDC were turned down, and private money lenders asked exorbitant interest rates. To generate more money, the firm continued to manufacture high quality ethnic and Western

SMMEs in the inner city may contribute to the revival of the inner city through wealth and employment growth

wear, but decided to also offer black schools the chance to order uniforms from them instead of department stores. In return, the firm would donate 10 cents for each uniform purchased to the school. The owners encountered distrust and insecurity on the side of the schools – presumably because they are foreigners.

A sales person was then employed to market the concept. When schools placed their first orders, the dentist used his overdraft to purchase the machines and fabric and to employ additional skilled workers. The firm currently employs 15 male and 10 female machinists. The dentist is part of a well-organised network of clothing producers in Johannesburg which is bound by ethnicity rather than proximity. Nevertheless, due to bad experiences, the firm prefers not to share orders with other firms.

The owners of the firm perceive customers to be relatively strict with them because they are foreigners. Several customers are not willing to pay a deposit on placement of an order, for example, but the firm accepts this to prove itself in a highly competitive market. The resulting cash flow problems are balanced with the dentist's personal savings. Personal deliveries are beneficial both to the customers who do not need to travel to the inner city and the firm to which customer satisfaction and feedback are critical.

The inner city seems the most strategic location for the firm. Workers largely live in the area, suppliers are close, and the rent is reasonable. Nevertheless, a planned retail outlet will be located in the northern suburbs close to where the firm's owners live. The building hosts a number of other clothing manufacturers, but there is no collaboration among them. Instead, the dentist unsuccessfully tried to take over another clothing company (Firm F).

Overall, the dentist was optimistic about the future and focused on his initial goal of opening an African boutique: "We will start in Johannesburg with a retail outlet, but aim to distribute nation-wide. We are foreigners, but we have our role to play in the New South Africa." However, in mid-2000, the company was closed. The dentist had used money from the business to open his own practice in the northern suburbs which pushed the business into cash flow problems.

Firm F operates from the top floor of the same building as firm E, and was founded in 1990 by Nbibi, the sister of the couple now managing the business. After having worked as a maid for several years, Nbibi ventured into clothing as she needed a less physically tiring occupation. She ran the business for nine years, but fell sick and asked her relatives to take over. The business had been doing cut-make-and-trim (CMT) work most of the time.

However, Nbibi had started from her home in Orange Farm sewing aprons and oven gloves. These products were sold door to door in high-income areas on the other side of town, but depended on Nbibi's ability to move around these areas and sell sufficiently during the day. When Nbibi received a remittance from her daughter in exile, she managed to move to the SBDC Salisbury Hive in the inner city, bought more machines and employed five full-time workers.

The fluctuating income from selling door to door, however, made it difficult for Nbibi to pay her workers' regular weekly wages, and her small factory was often without supervision and work. Nbibi therefore entered into CMT orders for retailers visiting the SBDC Hive. Nbibi received sufficient orders to keep her small workshop busy, and her turnover was regular and predictable, but profits were marginal. After having paid the rent, wages, transport costs and household expenditure, there was no money left to purchase fabric for her own products. Over the years, the Salisbury Hive was less and less frequently visited by retailers from the richer suburbs, and working conditions got worse as infrastructure was not maintained.

Nbibi started to look for more work, and when she got a large order about three years ago, she moved out of the Hive to the current location. The large order allowed Nbibi to buy more second-hand sewing machines and increase her workforce. The business went well for a year until Nbibi fell sick and could no longer run her business full-time. Orders were not completed in time or returned because of defects.

Nbibi urged her sister to move from Pietermaritzburg, Natal, to take over her business. Nbibi's sister Anna managed to give Firm F a turnaround. She was on the floor all the time and reorganised production. However, in early 1999 armed robbers broke into the workshop and stole the weekly wages and several sewing machines. Due to this incident, the firm had to retrench five workers. Later, Anna's husband left his job in Pietermaritzburg and joined his wife in running the

TABLE 1: CHARACTERISTICS OF SAMPLE FIRMS

	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G	Firm H
Start motivation	Family	Family	Challenge	Unemployment	Mother's dream	Age/family	Opportunity	Unemployment
Legal status	Formal	Formal	Formal	Informal	Formal	Informal	Informal	(In)formal
Age in 1999 (years)	64	76	10	1	4	9	14	14
Permanent employees	75	14	10	(1)	25	10	(last: 8)	28
Market	(inter)national	national	regional	local	regional	local	local	regional
Major problem	Market penetration	Labour relations	Cash flow	Low returns	Cash flow	Quality, crime	Death in family	Lead time
Major strength	Own retail outlet	Skills	Versatility	Skills	Flexibility	Low price	Quality, price	On-time delivery
Future outlook	Grow further	Close down	Grow further	Continue operating	Grow further	Continue operating	No longer existent	Grow further
In July 2000	Profits up	Closed	Grown	Stagnant	Closed (pr*)	Closed (pr*)	No longer existent	Profits up

* pr = capital was taken out of the business for personal reasons

• Data based on personal interviews

clothing company in Johannesburg. Together they have been trying to put the business back on its feet again. Anna and her husband never leave the business together during working hours. The husband answers the phone and door, works on quotes and delivers the finished goods while Anna supervises the production process from cutting to finishing. They have been able to purchase some additional machines.

Anna laments: "CMT work is a cut-throat business. We quoted R20 for a shirt, but when the order was placed R12 per shirt was stated. We need to accept any order at the moment to keep our workshop busy and have at least some income, but there is little profit in this type of work. There is no way out of CMT for us as we would not even have the resources to purchase our own material." Anna and her husband are trying to save for a company car: "Delivery on foot is dangerous these days!" They intend to keep all their workers and continue operating, but sometimes wonder if it is still worth it. Anna argues, "I often go without a fixed wage at the end of a week. I might earn more if I do some sewing myself for neighbours and friends – and there would be less to be worried about." In July 2000, Anna and her husband closed their workshop.

Firm G is run by a male immigrant from Malawi who came to South Africa in 1982. Having been acquainted with the industry since childhood, Obed found employment in an informal clothing business in the SBDC Pennyville Hive. The owners of his business recognised his skills and encouraged him to set up his own small business.

Initially, in 1985, Obed's business depended totally on its parent business – the previous employer provided space, sewing machines and orders. A turning point came when Obed managed to win an order independently from one of the agents visiting the Hive. He shared the order with his previous employer, but also employed his own workers.

By 1990, Obed had bought five machines from his previous employer and moved to the inner city where low-cost office space was converted into premises for informal clothing production. Obed specialised in cut-make-and-trim (CMT) work of lumber jackets and dresses. He grew his workforce and assets further and had to move to bigger premises. Obed decided to share a floor of an office block with another clothing manufacturer. The initially mutually beneficial relationship ended in dismay. Obed had been able to grow his business to 15 employees who partly came to work in two shifts. He always delivered on time and never had an order returned for defects. The other clothing manufacturer envied Obed's success and intimidated Obed's workers when he was away. In 1995, one of his Malawian workers was killed in a fight with the other owner.

Obed was insecure about his rights and those of his foreign workers in South Africa and only reported the incident to the police when the other manufacturer disappeared. Obed himself left the premises immediately after the incident, sold one of his machines to pay for the monthly rent and looked for new premises.

Only eight of the workers followed Obed to his new small factory in Market Street, and Obed lived in constant fear of further attacks. Nevertheless, he kept on doing CMT work for clothing retailers in the inner city and managed to get into a closer relationship with another informal clothing manufacturer (Firm H) in his block whose fax machine he could use to send out quotes and receive orders.

In December 1999, Obed used his holidays to visit his father from whom he had learnt all his sewing skills, but he never returned. His neighbour heard that Obed's father had died, and Obed had therefore decided to run his father's business rather than return to South Africa.

Firm H was also founded in 1985 as an informal business. Irene worked for 16 years as a machinist in a clothing factory until it went into liquidation in 1985. Over the years, she had moved up from a table hand to a department manageress, and she then started with two former colleagues in her backyard in Kathlehong. As there was no disposable income to purchase fabric, she accepted any order under the condition that the customer supplied the fabric.

Working from home was, however, illegal in those days, and apart from police raids, power failures disturbed her production. Hence, when the Kathlehong Industrial Park was built, Irene was among the first to move in. The park was secure, had regular electricity supply and hosted an NGO consulting SMMEs. With the help of this NGO, Irene managed to win an order to manufacture workwear for Colgate. This gave her "a real push". Apart from the supply of fabric, she received a monthly payment for the pieces completed. She could hence pay her workers monthly and even employ additional staff. Nevertheless, the concessionary order was not repeated, and Irene had to look for larger orders to be able to keep all her workers.

She moved to the Johannesburg inner city in the early 1990s. Irene started to work for other clothing manufacturers and established her own company contacts at the same time. She found, however, that her workshop never managed to finish orders in time which led to her subcontractors paying her less for the garments completed. As the business was becoming less profitable, Irene designed worksheets and worked out daily targets for each of her workers. She spent more time with the workers on the floor and bought a fax machine. Since the mid-1990s, Irene has never run late with her orders. Her staff work a 40-hour week.

In 1996, Irene obtained a loan from Standard Bank after she took part in one of its management training workshops. At first, Irene felt threatened by the additional payment obligation each month. She then learnt to appreciate the loan: "When I have got a commitment to make, I work even harder because I am more focused." Now Irene expects the business to finance its own growth. Her business is well-known to agents as a reliable manufacturer of all types of workwear. She no longer needs to look for work, but receives samples by courier to quote a price. Irene can agree to manufacture any quantity as she knows a number of other informal clothing manufacturers to whom she can subcontract part of the order. Nevertheless, she prefers to complete orders in her own workshop where she can supervise production. At times, Irene is asked to quote on corporate wear, too, but her workers find it difficult to work as efficiently with the more complicated patterns and softer material.

Irene is confident that her business will grow further in the future. Her firm is, however, not yet registered for VAT and hence excluded from directly bidding for government tenders. Scheduled for the year 2000 were the firm's VAT registration and the purchase of a company van for deliveries.

The case studies clearly indicate how success or failure is the result of overcoming problems and taking advantage of opportunities. Many of the firms were able to identify turning points which had a deep impact on their firm. Firm C for example, experienced such a loss at one stage that it was about to be closed, while for Firm H, winning a large contract facilitated expansion. Moroever, within the firm, the entrepreneur is a key player who influences or even consciously decides on success and failure. For instance, Firm G was closed for personal reasons. The age of the entrepreneur, motivation and availability of alternatives also impact upon the aspiration to grow a business. In addition, the human capital incorporated in the entrepreneur contributes to success or failure. However, it is difficult to determine whether higher education or longer working experience are more crucial. Firm A, for example, had access to one owner with long working experience and another with tertiary education. Firm G, by contrast, was successfully run by an owner with no formal schooling but long experience. Workers' skills form another asset if they are combined well and motivated. Firm B, for example, works with skilled and experienced craftsmen who are, however, not motivated to apply their skills. Firm E, by contrast, maintains good labour relations and can fully rely on its workforce.

In terms of equipment, all but one of the firms were operating with basic machinery including hand tools, and were well-equipped to serve their target markets with the type of machines they used. Production organisation including quality control, targets and supervision or team work, is also important. Firms which have focused on a certain market segment seem to be doing better than those which have to take on anything which comes their way. Firm H limits its production to workwear, for instance, while firm G specialised in dresses and jackets. Firm E was able to expand into school uniforms, but retrained its workers accordingly.

None of the sample firms has been involved in intense networks with peers, but relationships with other manufacturers ranged from information exchange and use of machinery to sharing of orders and subcontracting. Neither the age of the firm nor the numbers of employees working there could be related to success or failure. Firm G, for example, closed after 14 years while Firm H is prospering at the same age.

And both the more successful Firm C and struggling Firm F operate with 10 production workers. SMMEs increasing their workforce have made profits, but this might apply even to firms which have reduced their permanent workforce such as Firm A.

Three of the four furniture SMMEs interviewed would prefer to relocate to the northern suburbs which they perceive as more secure and closer to customers. All but one clothing manufacturer, by contrast, argue that they are strategically placed in the inner city where the centre of Gauteng's clothing production lies. Nevertheless, crime is of major concern to all manufacturers.

Wider perspective: Furniture and clothing SMMEs in the Witwatersrand

The firms surveyed here were part of a larger sample of furniture and clothing SMMEs in the Witwatersrand. Key findings can be summarised as follows:

- The start motivation and work experience of the owner-manager had little relationship to value growth of the SMME, except in that SMMEs whose owners had worked before or had been taken over a family business generally had a higher asset base. Higher education of the entrepreneur explained growth in profits and assets, while SMMEs run by older owner-managers showed slower growth rates.
- The skill levels of workers employed in the SMMEs ranged widely. Most firms adjust their workers' skills to their needs, either training them in-house or externally. Training for workers and good labour relations were positively related to growth.
- Neither the degree of automation nor the age of the equipment could explain growth or lack of it. Missing delivery dates and a lack of standardised quality control procedures did have a negative impact.
- Higher profits could be associated with serving the higher end of the clothing or furniture markets, and direct sales to the customer with employment growth. Advertising or customisation had little effect. Traditional advertising techniques were not found to be cost-effective.
- Networking of SMMEs took various forms. Close relationships to customers could not explain higher profits, but relationships to suppliers were important in the attempt to minimise inventories but still keep delivery dates.

Subcontracting was positively related to profit growth. Any other form of horizontal networking, however, was not significant.

• For the sample SMMEs, a larger workforce was not associated with higher profit margins. Most of the furniture firms had between ten and twenty employees, while the average clothing firm employed thirty workers. Profit growth depended instead on growth in assets which was, in turn, dependent on turnover. Due to the labour-intensity of the furniture and clothing industries, asset growth was in many cases accompanied by an increase in the number of employees.

Conclusions

South Africa is operating in a new, more open, trading climate which translates into building competitive advantage and prosperity at the local level. The Johannesburg inner city has a long history of manufacturing, but witnessed a structural change from large-scale formal production to small-scale and partly informal production. Overall, living and business conditions in the Johannesburg inner city are deteriorating. SMMEs in the Johannesburg inner city may contribute to the revival of the inner city through wealth and employment growth. International experience suggests that a shift in the size distribution towards smaller units is both economically and socially desirable. It is argued that SMMEs are better equipped to react to increasing market segmentation, are flexible and more competitive in globalising markets and have, moreover, a high labour-absorptive capacity. Nevertheless, it is not the enterprise size per se which decides success or failure.

The SMME manufacturing economy of the Johannesburg inner city is diverse. Successful and struggling SMMEs coexist and their growth trajectories have been all but smooth. Hence, it is difficult to determine which SMME will generate more wealth and employment. Often, it is the owner-manager who guides the SMME towards success with education or experience, ability to motivate and monitor workers and aspiration to stay in business. According to the manufacturers interviewed, however, the fate of their SMMEs does not lie entirely in their hands: "luck" appears in each of the eight case studies and takes the form of, for example, winning a large order or being a victim of crime. Significantly, the Johannesburg inner city is seen as just one production location among others, and to avoid the ongoing emigration of growing manufacturing SMMEs, local government needs to offset its locational disadvantages. ✪

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Local economic development in rural South African towns

BY DR HR LLOYD AND PROF GS HORN

Since the dawn of political democracy in South Africa, the country has undergone various changes on both the political and economic front. One significant change is the devolution of power to provincial governments, who were given discretionary fiscal powers. Another is the focus on interregional linkages in an effort to promote regional development and prosperity. With these changes, renewed awareness regarding the role of decentralised structures in creating economic prosperity was revived to such an extent that the creation of economic prosperity is no longer seen as the task of national government alone. More emphasis was placed on decentralised structures to create and be active in the promotion of economic prosperity, often through Local Economic Development (LED).

This article considers LED to determine how it is currently implemented and needs to be implemented in the rural parts of the Eastern Cape Province of South Africa to generate economic growth and development. The article is based on an empirical study which attempted to classify and identify a typical rural town in the province and how LED plans should be implemented in such a town to reap the benefits of LED.

Dr HR Lloyd and Prof GS Horn are with the Economics Department, Vista University (Port Elizabeth Campus).

Background to Local Economic Development Planning

Together with the economic and political changes experienced in South Africa since 1994, there is increasing awareness of issues such as free market economics, privatisation and global competitiveness. With paradigm shifts such as these, the emphasis on local and regional economies also changed, and renewed interest in local and regional economic development came to the fore. Specific attention was devoted to the following issues both at local and regional levels:

- increased support for decentralised structures to take the lead in economic development;
- improved efficiency inasfar as resource mobilisation at local and regional level is concerned;
- empowerment of local and regional structures to drive economic development;
- creation of an awareness that local and regional government should forge partnership agreements with local, national and international partners from both the private and public sector, in an effort to foster economic growth and development;
- promotion of national economic growth and international competitiveness.

It is now realised that by decentralising certain responsibilities, scarce resources can be applied more productively by embarking on programmes where private sector initiative is developed to take over activities which were previously exclusively dealt with by public sector authorities.

With the transfer of responsibility and accountability from a national to a regional and eventually a local structure, there is a recognition that those structures closer to grassroots levels know and understand the developmental needs of their respective communities and societies better.

Through such a process, creative thought is stimulated and local people are motivated to play a greater role in developing their own communities to the benefit of the larger whole.

In answering the question "What is LED?", the following definition is useful: "Local economic development is a locally-driven process designed to identify, harness and utilise resources to stimulate the economy and create new job opportunities".[1]

Therefore, LED is a process of co-operation in which regional and local government, community-based and non-governmental organisations, as well as the organised private sector, combine their resources and efforts in partnership agreements to generate economic activity and so create employment and better living conditions for their respective communities.

The exogenous component of LED entails how well the local government in its partnership agreements can respond to national and international processes and incentives to grow its own economies and generate more economic activity and employment. The endogenous component is determined by the capacity of local economies to utilise and develop additional human and physical capital.[2]

LED must, however, be understood in its broader context, namely to form part of the Economics of Regional Development in which economic location theory plays a decisive role. Locational factors such as labour costs, energy costs, suppliers, telecommunications, education and training facilities, road and rail infrastructure, as well as local government commitment, play a vital role. Besides these locational factors, agglomeration factors are also vital. Issues such as being located close to other related businesses or markets are of importance.

THE THREE MAIN ROLE PLAYERS WITHIN AN LED

SECTOR	ROLE PLAYER	DECISION CRITERIA
PUBLIC	Bureaucratic institutions: National Government; Provincial Government; Local Government; Officials in various departments	Legislation, rules, procedures, policy guidelines[4]
PRIVATE	Organised business; Employer organisations; Producers, consumers, investors; Individuals in general	Profit and utility maximisation
COMMUNITY	CBOs; NGOs; Community leaders	Welfare of the community

The objective of a local economic development plan (LEDP) is thus to address the service backlogs and economic challenges faced by rural towns. Key issues such as dwindling central business districts, lack of basic infrastructure, few economic empowering opportunities, and high levels of unemployment, should be addressed by an LEDP.[3] The aim of the LEDP is, with the help of the national and provincial government, to enhance and build on the capacity of rural towns by co-operative mutual agreements between the Transitional Local Councils, Community-Based Organisations, NGOs and organised businesses.

Through such ventures a common vision and mission for these towns can be developed, which will allow the towns and its stakeholders to be pro-active in addressing future economic growth and employment problems and be constructive in addressing current pressing issues. Successful LEDP requires the development of structures and frameworks in which informal entrepreneurs can operate more effectively; better co-operation and trust among all the roleplayers; as well as a change to a more positive mindset by all concerned.

LED: Key Role Players

Focusing on the role players and noting the fact that LED emphasises the bottom-up approach to local economic development, the community sector will play an increasingly active role in economic growth and development. This could be beneficial and advantageous in the long-run, because the community sector is well-known for being firstly, part of and in touch with the target groups; secondly, flexible and responsive to changes in community aspirations; thirdly, comprised of a heterogeneous group of individuals; and fourthly, having a shared vision and mission and being committed to the common good of their society.

In general, the focus of the LEDP as envisaged for rural towns, is to provide a more community-focused approach and less of a bureaucratic central approach. In this process, development will be enhanced due to the building and nurturing of mutual acceptance, trust and understanding amongst all societal stakeholders. It will furthermore, provide information sharing and being more committed to the common goal of developing rural towns and promoting local economic regeneration to the common good of all.

Local Authorities as Key Actors

Local authorities play a vital role in economic development. Through their participation in shaping policies and by-laws, endorsing support programmes, and enforcing tender practices, they shape society and thereby either enhance or hamper local economic progression.[5]

What is important from the side of the local authority in promoting LEDP, is thus to focus on its core activities, which include providing social, physical and economic infrastructure to facilitate growth and development; and creating an enabling environment by means of legislation, policies and support programmes to guide future growth and development.[6]

The underlying focus of these core activities is to foster economic development and employment creation by means of:

- sufficient investment in infrastructure;
- effective technical and administrative support for existing and potential entrepreneurs;
- incentives to investors to build capacity in the local economy with definite interregional spin-offs;
- agreements with all stakeholders to market a particular town, its people and its products.

Although most of the tasks performed at local government level are taken from the cues given by national or provincial government structures, being a decentralised form of governance they need to be innovative, in sync and receptive to the needs and aspirations of the local population.

LIMITATIONS AND CONSTRAINTS TO LEDP

The most common limitations and constraints identified in the implementation of a successful LEDP, can be summarised as follows:

CONSTRAINT/ LIMITATION	CAUSE	STRATEGY/SOLUTION
Lack of premises for new development	No new development	Create incentives and an enabling environment
	Sub-optimal utilisation of local authority buildings	Provide idle buildings for the community for development purposes
Insufficient entrepreneurs	Lack of administrative and/or technical support	Provide support and information
	Rather be employed than become self-employed	Provide idle physical capacity, i.e. infrastructure for utilisation by the community
	Lack of physical infrastructure	Education and training
	Lack of capacity	Encourage the entrepreneurial skills of learners at various schools in the area
Insufficient capital	Insufficient opportunities and information to attract capital	Provide a central office with knowledgeable staff to provide information on the town and its prospects to the 'outside' world
		Create an environment attractive to investment by means of legislation, incentives and influencing peoples' attitudes, etc.
Insufficient marketing	No combined marketing efforts of a town, its people and its products	All stakeholders to make a combined effort to promote the town, its people and unique products as a package to "outside" people.
	Insufficient information and knowledge	
Insufficient beliefs	Lack of belief in self; Lack of community's belief in the ability of the individual	Inform people through community initiatives of their unique characteristics as a platform for self-improvement
	Belief that what is created in the rural areas is inferior when compared with that created in the larger cities	
	Desire to become like the city instead of developing a successful independent identity	Highlight and concentrate on unique efforts

Eastern Cape Case Study

To ensure a comprehensive plan that reflects the aspirations and ambitions of all stakeholders, the success of the LED plan is largely dependent on the participation of as many local stakeholders as possible. With this in mind, the study was subdivided into the following phases to gain the widest possible range of views of the population in the surveyed towns:

Phase 1: The assessment, by means of workshops held in each of the respective towns studied, of the enabling environment created by the town's TLC.

Phase 2: By means of a series of workshops, an assessment was done of the aspirations, expectations and ambitions of a large and diverse cross-section of the population of each town. The stakeholders included in these workshops are organised business; workers; and the unemployed.

Phase 3: A general needs analysis and assessment, to determine the general needs of the respective towns by means of a questionnaire survey. A stratified cluster design was used to allow for inferences about the total population of a town.

Phase 4: A combined vision for each town was established, based on the afore-mentioned phases and feedback received on each of these issues.

Phase 5: Identification of key projects, programmes and business activities. From the information derived from the afore-mentioned phases, the role players in each town identified various projects, programmes and business activities which they perceive as being essential and desirable in the local economic development of their town.

Demographic make-up

A total of 202 people or about half of the sample are black, followed by 40% coloureds, 9% whites and a single Asian, while the majority of the respondents are male. The average age was between 26 and 45 years old. The highest concentration of household sizes for the sample is in the category of 2 - 6 persons, while just 7% of the people interviewed indicated that they have a tertiary qualification. It should be noted that persons who have not achieved an educational level of Grade 6 are normally described as 'functionally illiterate'. About 29% of the respondents in the surveyed towns can be classified in this way.

Two thirds of the citizens seem to be satisfied with the idea of staying in their town. Just over 20% indicated that they are not satisfied, with a full one third of the respondents indicating that they had contemplated leaving their town. The main reason given for their intention to leave is the high unemployment rate. The major reasons why the majority intend to stay is because they have strong family ties there, find their town a nice place to live in, or deem themselves too old to leave.

The majority of interviewees were the breadwinners of their household. Table 1 shows that 64.3% of the respondents earn a monthly income of up to R1 000. This is indicative of an extremely low disposable income which definitely has a negative influence on the purchasing power of the majority of the respective towns' consumers. This will thus seriously inhibit the turnover of established formal businesses, as well as the establishment of a vibrant SMME sector. As far as the main source of income is concerned, it is indicated in table 2 that only 37% of the averaged sample earn a regular wage, while people receiving a pension or a grant comprise 27%.

Small, medium and micro-sized enterprises (SMMEs) are often equated with the informal sector.[7] The Industrial Development Corporation defines SMMEs as commercial entities with assets below R12 million, while the statutory definition is an enterprise with assets less than R15 million. Whichever the definition, SMMEs make a significant contribution to the South African economy. Many countries, both developed and developing, have recognised the importance of SMMEs in generating employment and thereby creating a more equal distribution of income. In addition, SMMEs can exploit niche markets (both locally and internationally) more effectively and flexibly than a large corporate. International experience has also demonstrated that SMMEs play a valuable role in enhancing productivity, driving technical change and, above all, fostering entrepreneurship. Between 1994 and 1999, the IDC approved finances totalling R3.2 billion to 1 279 SMMEs, creating almost 39 000 new direct job opportunities in the process and generating an additional R405 billion in annual export earnings.[8]

Based on the importance of SMMEs, it is disturbing to note that a staggering 93% of the respondents are not aware of any local or regional policies relating to SMMEs. The vast majority of respondents are also not aware of any means of financial assistance available to SMMEs. Only a few respondents are aware of Business Partners (ex-SBDC) as the main funding agency to SMMEs, followed by a knowledge of other funding agencies such as the East Cape Development Agency and Ntsika. Some respondents also noted Louhen Financial Services as a possible source of funding. Most respondents are of the opinion that a partnership agreement should exist with SMMEs to facilitate local economic development. This would entail collaboration among all private sector stakeholders to pool resources in the development of SMMEs. The local authority and established business are seen as the primary agents for job creation in their respective towns. Yet there is a serious lack of knowledge and insight into the various policies, as shown in Table 3.


GUY STUBBS

The importance of the informal sector can not be downplayed in South Africa. With an underdeveloped and at times non-existent social security system, the informal sector plays a vital role in the survival of many South Africans.

It should be noted however, that the TLCs in the respective towns are also not pro-active in developing and promoting such policies. In the process, a stumbling block is actually created by the TLCs that inhibits the rapid development of SMMEs in the surveyed towns. Most respondents think that their local authority only pays lip service to the idea of creating an environment whereby SMMEs and larger organised business can interact and do business. Every time the Department of Labour comes to a town on their monthly visits, some attention is given to this endeavour.

Formal sector

The largest number of formally employed respondents are involved in the retail trade, which included operating or owning a petrol station, café, supermarket, hotel or clothing store, with up to 10 years experience. This indicates a vast amount of skills accumulated within the formal business sector, which could be helpful in addressing skills training to other SMMEs. The average number of employees was 38, of which 21 are full-time. This means that on average, every formal business owner creates jobs for 2.1 other people.

Potential forward and backward business linkages available to business owners in the respective towns are not fully exploited. As far as the procurement of materials is concerned, the majority of stocks and materials are obtained from outside town. All formal business owners indicated that they sell their output locally. But are the businesses profitable? Nearly 40%

TABLE 1: MONTHLY INCOME OF RESPONDENTS

Income in rands	% of respondents
0-500	37.3
501-1 000	27
1 001-1 500	9.8
1 501-2 000	7.3
2001-3000	5.3
3001-4000	3.2
4001-5000	3.2
5001-7000	3
7001-10000	2.2
>10 000	1.7

TABLE 2: SOURCE OF INCOME

Source	% of respondents
Pension or grant	27
Regular wage	37
Self-employed	15.5
Casual	20.5

TABLE 3: INFRASTRUCTURE TO ASSIST SMMES

%	Respondents are not aware of...
93.6	Technical advice centre /service
92.6	Accounting support centre/service
90.2	Administrative support centre/service
96.7	Tender advice centre/service
97.8	Business skills and related training centre/service
96.7	Business information and resource centre/service

TABLE 4: REASONS FOR UNEMPLOYMENT

Reason	% of respondents
No jobs available	61.8
Retired/pensioner	15.3
Ill health	7.6
Housewife / child-rearing	1.8
Physically disabled	5.8
Retrenched	5.3
Lack of skills	2.4

TABLE 5: SKILLS AVAILABLE

Skills	% of respondents
Building industry skills	30
Sewing, knitting, needlework	22.5
Office-related skills	8.7
Mechanic and welding	15
Retail	10.1
Domestic	8.7
Teaching	5

of business owners indicated that their earnings increased over the past financial year, with one third experiencing a decrease in earnings. This provides a good indication of the existence of a business environment in which SMMEs would struggle to develop and prosper. It is also interesting to note that most of the formal business respondents would like to see large chain stores and wholesalers settling in their town. The minority cited factories and manufacturing concerns as being important to settle in their town.

It is well-known that the capacity of the South African formal sector to create new jobs has been declining annually over the past three decades. Currently, only 14% of all new entrants into the South African labour market are absorbed by formal sector activity annually. Every year fewer job opportunities are created for every percentage point of economic growth compared with the previous year. Therefore, the salaried or wage segment of the labour market is stagnant at best and declining at worst. More people are moving into small business concerns, putting their life-skills to use in these operations whilst becoming entrepreneurs.

Informal Sector

It is generally accepted that the informal sector plays a significant role in the economic activities of South African township communities. Various reasons are given for this, one of which is the inability of the national economy's formal sector to create sufficient employment for the relatively fast-growing labour force. This leads to new entrants into the formal sector being increasingly forced to turn to the informal sector to earn a living. In the informal sector most become self-employed, which is in itself a great challenge, because there is no established and seasoned business culture. For decades, Asians, blacks and coloureds were prohibited by law from owning businesses in cities and towns throughout the country. They were conditioned to find jobs, and not to create jobs.

The point of view that the informal sector is a closed sector of the economy is fast disappearing, and planners in the public as well as in the private sectors increasingly realise that the informal sector is part of the national economy. This is substantiated by the fact that participants in the informal sector obtain a considerable part of their inputs (goods, services, raw materials and capital) from the formal sector and that many informal entrepreneurs are successful in producing goods for the formal sector.

The importance of the informal sector can therefore not be downplayed in South Africa. With an underdeveloped and at times non-existent social security system, the informal sector plays a vital role in the survival of many South Africans. Furthermore, in times of prolonged unemployment, with little or no support from the state, the informal sector becomes the sole means of survival.[9] However, the informal sector should not be thought of as a long-term solution to the unemployment and poverty problems in South Africa, especially in the rural areas.

The informal sector must thus be seen as a means to combat economic inactivity, but more importantly, to serve as a stepping stone for future formal sector entrepreneurs. The proposed LEDP in rural towns of the Eastern Cape Province will be of critical importance and value in that it will combat economic inactivity, and also provide a means of providing some formal structure to the informal sector. Via the proposed LEDP, informal sector operators can come into contact with established business, and can use the proposed LEDP as a way of marketing their goods in a safe and tourist-friendly environment. This may lead to extension and incorporation into the formal sector in future. With this in mind, a survey of the informal sector in the surveyed towns was undertaken to establish the feelings and aspirations of the operators in this sector with particular reference to LED.

The majority of people operating in this sector classified themselves as traders, i.e. operating spaza shops, shebeens or hawking. Repairs and mending slotted in at second place. Three-quarters of the respondents indicated that they have been involved in the informal sector for between one and five years. The fact that the majority of informal sector operators are still relatively new in business may prove useful in the development of an organised venue for applying their trades, as they are likely to be innovative in their way of conducting business. The survey also clarified the point that businesses in the informal sector are mostly subsistence operations based on sole proprietorship. Only 8 out of the total respondents indicated that they employ other people.

Unsurprisingly, almost 90% of the respondents indicated that their informal sector business is their sole source of income, where the majority earn less than R750 per month. In highlighting problems encountered in the informal sector, many of the respondents indicated their main problem to be people who are not paying their debts, followed by burglaries

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and a lack of transport. This can become problematic in the endeavour to formalise these operations in an attempt to expand the SMME where skills, finances and cash flows are of critical importance.

Around 80% of the respondents are in favour of the establishment of an organised venue to promote their businesses. Furthermore, most of the respondents are in favour of regulation by the local authority, in partnership with private individuals. The respondents' preferences of where the organised venues should be established, rank in the following order of preference:

- Empty and unutilised buildings;
- Close to their communities;
- Special areas dedicated for trading;
- Close to established businesses.

It was also gathered from the study that the majority of the respondents are of the opinion that such organised trading venues should be financed by means of the collaborative effort of owners and authorities. Most of the respondents are also in favour of a strong retail and manufacturing sector being established in their town, with specific emphasis being placed on larger chain stores such as Pep Stores and Shoprite.

Unemployment

Unemployment is probably the most severe problem currently facing South African society. It is a root cause of many other socio-economic problems such as high crime rates, violence and poverty. Every year the formal sector economy is unable to provide sufficient new job opportunities to job seekers, with the result that more people become unemployed, marginalised to the informal sector, or destitute and dependent upon the state and other members of society for assistance.

Table 4 shows that two-thirds of the unemployed respondents are without employment because job opportunities are not currently available in their town, while a few were either retired physically disabled, ill, or active in unpaid activities (as a housewife or student, for example). A large percentage of the respondents have been unemployed for a relatively long period of time, i.e. for up to 15 years. While 70% of the unemployed respondents indicated that they would like to find a job, about half are at least semi-skilled (see Table 5). Most of the unemployed people in the various towns subsist by means of casual jobs, followed by the extended family system and remittances.

Conclusion

This article emphasises the important and necessary role to be fulfilled by an LEDP in the rural Eastern Cape. The towns surveyed in the study signify a 'typical' rural Eastern Cape town and the problems faced by these rural communities. The survey was also an effort to generate possible solutions to address the integral issues of local economic development planning.

The primary focus of an LEDP must be to stimulate local economic development to create new job opportunities. This should be the result of an all-inclusive process with all stakeholders, from national government throughout all levels of government; to both organised and informal business; and ultimately grassroots communities.

The LEDP process is the only logical starting point to devise means and methods to combat economic inactivity in rural Eastern Cape communities. It is also logical from the stance of emphasising the importance of decentralised structures in creating economic prosperity in the respective local communities. Such decentralised structures operate and are familiar with the relative development needs and aspirations entrenched in these societies.

For the LEDP process to be successfully implemented, however, various social and economic strengths and weaknesses need to be considered. The following social and economic weaknesses restrict the development of a buoyant LEDP in the Eastern Cape:

- lack of suitable premises;
- insufficient number of enterprising entrepreneurs;
- insufficient capital;
- insufficient marketing efforts;
- suffering from a belief of rural inferiority;
- lack of knowledge and insight into the various local and regional policies which are available to assist and promote SMME development.

For towns to become more prosperous and make the LEDP more successful, they need to concentrate on and further develop the following issues:

- create incentives and an enabling environment for new developments;
- make more effective use of all idle local authority assets;
- develop a culture of self employment and self-belief;
- develop means to attract new ventures and capital into the towns;
- develop new avenues to market the unique characteristics of the respective towns to the outside world.[10]

Certain existing employment generating activities are the most promising and need stimulation: building activities, where skills of local residents are employed; manufacturing activities; retail trade activities operated from formal structures. If these recommendations are taken into account, local economic development could lead to job creation and economic prosperity in poor and marginalised areas in South Africa and indeed in other parts of the continent. ✪

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Community Participation
Facilitation or impairment of sustainable development?

IV Mashinini and G du T de Villiers provide a case study of the Production Through Conservation (PTC) Project in the Mohale's Hoek district in Lesotho

As a result of the world conservation strategy launched by the International Union for Conservation and Nature in 1980, sustainable development as advocated by the World Commission on Environment and Development in 1987, and more recently Agenda 21 of the Environment Summit report formulated in 1992, "sustainable development" has been adopted as the new development paradigm.[1] This new paradigm forms the basis of a framework to guide development polices, strategies and projects into the 21st century.

Sustainable development is generally defined as development that meets today's needs without sacrificing those of future generations.[2] This recognition of the central role of environmental conservation provides a new theoretical and practical departure from the old paradigm of development which preyed on the environment, as espoused in the post-World War II era up to the end of the 1970s. Sustainable development policies and strategies, in the context of rural regions in the Third World, entail sustainable agriculture, sustainable poverty alleviation activities, sustainable human development, income generation activities, community empowerment through participation, and sustainable institutional change for capacity creation and building.[3]

While in the past communities and their participation were considered pillars for the success of sustainable development, sometimes communities themselves resist the changes in their lifestyles introduced by foreign (often urban-based and internationally supported) interventions, even where these are intended to improve their livelihoods and ensure sustainable resource management in their regions.[4] More in-depth analysis of the role of communities in assisting or resisting changes introduced in their life patterns through foreign interventions is needed to provide a better understanding of the prospects and problems facing sustainable development.

Opposite: Some of the unused agricultural equipment supplied by the FISC project at Taung Ha Moletsane in the study area.

This paper contributes to such an understanding of the role of communities in the facilitation or impairment of sustainable development, through a case study of the Production Through Conservation (PTC) project in the Mohale's Hoek district in Lesotho. The paper discusses a post-project evaluation of the PTC undertaken from January to April 1999. The objective of the evaluation was to assess the impact and sustainability of the sustainable development initiatives promoted by the PTC in the Mohale's hoek district. A questionnaire was administered through interviews to 200 rural households, selected by multi-stage sampling.

Lesotho's National Policy on Sustainable Development

Like many other Third World countries, Lesotho started to devise its national policy on sustainable development towards the mid-1980s. Pioneer work in this regard was organised under the auspices of the United Nations Food and Agricultural Organization (FAO) in conjunction with the Swedish International Development Agency (SIDA). The two international development agencies launched the Land Use Planning project (LUP) in 1981, the objective of which was to train middle-level staff to impart the practice of sustainable land use to ordinary Basotho.

SIDA went on to launch the Forestry Training Programme at the Lesotho Agricultural College in 1983, which aimed to train and produce middle-level staff to facilitate sustainable management of the forestry resources in Lesotho. The organisation also launched the Farm Improvement with Soil Conservation (PTC) project in 1985, to teach the practice of sustainable agriculture, income generation activities and capacity building for sustainable development.[5]

The United States Agency for International Development Assistance (USAid) also made its contribution to these early efforts by supporting the Sehlabathebe Range Management Project in 1982 which aimed to pass on information about sustainable livestock production and range management practices to Basotho livestock farmers, especially in the mountain regions of Lesotho.[6] Furthermore, the FAO provided ongoing technical advice to the Ministry of Agriculture on matters of sustainable agriculture.[7]

The experiences from the implementation of these projects gained a national articulation and significance in April 1988 when Lesotho hosted the International Conference on Environment and Development to promote the idea of sustainable development, as advocated by the United Nations World Commission on Environment and Development through its report *Our Common Future*.[8] The International Conference on Environment and Development also solicited inputs from experiences by various projects and individuals, communities, development agencies and the private sector on sustainable development. These inputs acted as the basis upon which the *National Environmental Action Plan for Lesotho* was drawn and later adopted in 1989 as the national policy framework to guide sustainable development.[9]

For its part, the Ministry of Agriculture formulated and adopted the *National Conservation Plan for Lesotho* in 1988, and *The National Livestock Policy for Lesotho* in 1990, as policies to guide sustainable agriculture development in the country. The National Conservation Plan emphasised the need for a conservation-driven agriculture through the practice of conservation and agro-forestry throughout the country, while the National Livestock Policy stressed the need for sustainable livestock production and range management practices through culling, selective breeding and community natural resources management. In the pursuit of sustainable development, the Government of Lesotho, in conjunction with the donor community, has thus implemented a number of projects over the past 15 years, of which the Production Through Conservation (PTC) project was amongst the pioneers.

Background to the PTC Project

The Production Through Conservation (PTC) project started in 1985 as the Farm Improvement with Soil Conservation (FISC) project. The Project was a joint initiative of the Government of Sweden through the Swedish International Development Agency (SIDA) as its implementing agency, and the Government of Lesotho through the Ministry of Agriculture as its implementing counterpart.

The major objective of the Project was to promote sustainable development in Lesotho through the provision of development assistance to the rural communities in the Mohale's Hoek district, to practise conservation farming, agro-forestry, sustainable livestock and range management, and to embark on sustainable farm and non-farm household income generation activities.[10] To achieve its objectives, the Project introduced a number of activities related to sustainable development in the region, including sustainable agriculture, sustainable household income generation activities, and capacity creation through training, community participation, networking and institution building.

The Project wound up its support from SIDA in June 1998 through the official withdrawal of the last SIDA technical advisor to the Ministry of Agriculture, and a complete handover of all operations to the Ministry of Agriculture in Lesotho. The Project hand-over occurred after 14 years of continuous operation in promoting sustainable development in the Mohale's Hoek district. Eight of these 14 years were also spent in assisting the Ministry of Agriculture to promote its concept and methodology of sustainable development throughout the country.

IV Mashinini is with the Department of Geography, National University of Lesotho, and G du T de Villiers with the Department of Geography, University of the Orange Free State.

Assessing the Project's Outcomes

A waterway in need of maintenance at Mataveng in the study area.

Sustainable agriculture

The bulk of the PTC Project's activities were in the field of sustainable agriculture. In the area of sustainable crop production, the Project sought to assist the farmers to increase their crop productivity through the use of high yield, high quality varieties of seeds and chemical fertilizers. The farmers were also encouraged to do conservation work such as the construction of terraces and water ways in return for payment in the form of the hybrid seeds and chemical fertilizers which were used as an incentive. Ideally, the Project hoped that this would promote both conservation and productivity. The Project also supported the village development councils in the selling of hybrid seeds and chemical fertilizers to farmers through an input supply scheme in their villages.

However, as observed by Yaxley, the farmers used the improved seeds and chemical fertilizers only during the first year when they received them free of charge from the Project.[11] Once they had to pay for the input package, they stopped using these products in favour of their old lifestyles, which used only manure – or nothing – for nutrients. They also used their own seed left over from the previous year's harvest. In the survey evaluating the PTC Project, 32% of the interviewees used their own seed, as opposed to just 11% who used the seed promoted by the Project.

In terms of soil nutrients, 25% used chemical fertilizer from the Project and/or village input supply schemes, whilst a full 46% used manure and 20% used nothing at all. While sustainable agriculture encourages the use of natural nutrients rather than chemical fertilizers, this experience showed a lack of willingness among the famers to change their farming practices and adapt to the demands of the new practices introduced by the Project to ensure sustainable household food security. This may stem from an inability to pay for new seed and fertilizers.

Sustainable agriculture also frowns on the use of mechanisation by farmers. Instead it encourages the use of indigenous knowledge-based technology for production. In keeping with these views, the Project promoted the use of oxen for traction and promoted this use by supporting a hire scheme whereby village development councils rented out ox-drawn carts, ploughs, planters and cultivators to the farmers. In fact, the Project never had a single tractor among its fleet of farm machinery.

However, while 61% of the farmers used oxen, 29% still used a tractor. In general, the farmers said that they preferred to use oxen because they were cheaper than tractors and more readily available in the villages. They did not use the ox-drawn equipment promoted under the Project through the implements hire scheme because it was expensive.

Tractors may be seen by some as progress, and as an aid in developing larger plots of land.

Another innovation encouraged by a sustainable agriculture approach is experimentation with new crop mixtures, where advisable. The PTC Project did not encourage significant changes in the traditional crop mixtures, except to encourage farmers to plant fruit trees on terraces in the fields to promote their stability and productive use in fruit production for both household consumption and/or sale. However, the fruit production experiment became unsustainable because the farmers did not change their livestock management practices and stall feed to minimise damage to unprotected development properties caused by livestock under the open communal grazing system. There may be various explanations for this, ranging from a lack of interest in growing fruit, to a misunderstanding of the new management practices.

Similarly, the Project also attempted to promote sustainable agriculture through the use of irrigated gardens. Technical assistance was provided to individual members of the community for the construction of concrete benches for roof water harvesting which could then be used to irrigate home gardens. Only the aged and destitute women in the villages were given financial support to enable them to collect the necessary stones and sand for the construction of the concrete benches. Everybody else had to use their own means to collect the materials.

Not as many concrete benches as the Project had anticipated were constructed because the majority of the community were not willing – or able – to contribute their own resources to make the necessary materials available. Instead, they wanted the Project to give them the concrete benches for free or subsidise them. This suggests that they would not make sacrifices to accompany the new lifestyles introduced by the Project for the betterment of their own livelihood strategies, in spite of the fact that the vegetables produced were meant to improve their sustainable household food security situation through improved household nutrition and/or sale of the vegetables to generate income and thus alleviate poverty.

In terms of communal gardens, the Project gave technical assistance to the communities to construct water ponds, and in some cases improved their springs for use as sources of water for the irrigation of the communal gardens. However, the water ponds silted heavily because the communities could not spare labour for their maintenance without payment. Moreover, the spring development model constructed at one of the villages, Ha Sekoati, was completely beyond recognition by the time the evaluation was conducted due to vandalism of the irrigation infrastructure which had been installed by the Project.

Without water, the community gardens failed to produce any vegetables. The collapse of the community gardens was accentuated by lack of co-operation among members of the community in providing labour for maintenance of the plots and contributing cash payments for the replacement of vandalised or stolen infrastructure.

Sustainable agriculture also entails sustainable livestock production and range management. The Project encouraged livestock farmers to cull and practise selective breeding. Initially, efforts were made by the Project to help the District Agriculture Office implement the culling policy of the Ministry of Agriculture through a livestock exchange programme. This programme involved the release of one quality breed from the Project to the farmer in exchange for two culls from the farmer to the Project. The Project had anticipated using the culls acquired in this way for sale to the National Abattoir or the National Feedlot Complex in Maseru, to generate cash which would be used as a kind of revolving fund to purchase more improved quality breeds for exchange with the farmers.

However, the livestock culling and exchange idea was abandoned quite early in the Project because most farmers were not willing to accept it, instead preferring to keep their numerous, but poor quality, livestock. The cultural reasons for this practice were evidently not taken into account when designing the PTC Project.

The Project also promoted the production of fodder crops and encouraged the livestock farmers to stall feed their livestock. The project had hoped that stall feeding would force the farmers to reduce the sizes of their livestock, practise selective breeding, and relieve the livestock pressure on the range. Fodder production was adopted and practised during the initial years when the Project gave fodder seeds out freely to all farmers. However, the rate of fodder production declined when the farmers had to pay for the seeds.

Moreover, despite fodder production, the farmers continued to feed their livestock under the open communal grazing system, using the fodder as supplementary feed, mainly in winter when the grass was poor in the communal range. In essence, this meant that the stall feeding idea failed to have the intended impact on sustainable range management. Although unsustainable in the long-term, communal grazing is evidently more attractive to farmers in Lesotho, and they are unwilling to change.

Another innovation promoted by the Project was range management through the use of the rotational grazing system. The efficiency of the rotational grazing system was hampered by continuous destruction by livestock and burning by the "herd boys" who saw the enclosed areas as an interference in the old system of open communal grazing to which they were accustomed. Hence, they showed extreme unwillingness to adapt to this newly introduced practice. The Project also attempted to improve range management through the introduction of the equal grazing rights system which sought to encourage equal grazing rights for all adult community members under a gazetted chieftainship area, by dividing the carrying capacity of the area's rangeland by the adult population to determine the number of livestock units that each household would be entitled to graze on the range.

This meant that people with more livestock units than their quota would not be allowed to let the extra stock to graze on the range. Instead, they would either have to stall feed or cull them, or rent grazing rights from community members who owned less livestock than their quota or no livestock at all. The Project had hoped that this system would promote a realisation of benefit by livestock and non-livestock owners alike, and thereby improve their willingness to participate in range management. However, the equal grazing rights system was discontinued because the livestock farmers maintained that it cheated them. It is debatable whether the system failed due to a lack of cultural sensitivity or a lack of willingness on the part of the farmers to adapt to modern farming practices.

Apart from livestock and crop management practices, the Project also promoted sustainable agriculture by encouraging the farmers to practise agro-forestry. Seedlings were provided by the Project free of charge to the communities to plant in gully reclamation schemes and communal tree planting. The gully reclamation schemes were discontinued because of damage by livestock, whilst the communal tree plantations were destroyed by livestock, theft of wooden poles and frequently fires, set by people who had refused to participate in the tree planting but expected to share in benefits later.

It is debatable whether the system failed due to a lack of cultural sensitivity or a lack of willingness to adapt to modern farming practices

In the promotion of sustainable agriculture, the Project used the unified extension approach to replace the Training and Visit (T&V). The unified extension approach employed multi-purpose field-based extension agents. The efficiency of the unified extension approach was hampered by the monodisciplinary college training of many extension agents. This necessitated an expensive retraining programme. Moreover, the majority of extension agents disliked staying in the villages where they were stationed. Instead, they continued to stay in towns or service centres of their choice and occasionally went to effect service at their stations as they used to do under the Training and Visit system. This showed that the extension agents, too, needed to marshal the necessary willingness to accept changes brought about for sustainable development as a first step in convincing the communities within which they worked to accept change.

Sustainable income generation

Sustainable development also involves the promotion of household income-generating activities to enable communities to access sustainable household food security and poverty alleviation for sustainable human development. The Project promoted both farm and non-farm income-generating activities. In the case of farming related activities, dairy cows and piggery were promoted among community members who operated as Common Interest Groups. The project provided the initial training to the members of the Common Interest Groups and some initial loans. The sustainability of both activities was hampered by a lack of willingness to repay the loans meant to operate on a revolving fund basis by the first generation of beneficiaries. Again, this pointed to the fact that the attitudes of community members towards changes were fundamentally negative. They needed to adapt to the fact that development was not "manna from heaven", but demanded sacrifices and payments to become sustainable.

In terms of cottage industries, the Project supported a candle and juice-making enterprise at one area, Braakfontein, in Mohale's Hoek. The enterprise had closed down at the time of fieldwork for self-assessment. However, during discussions with the village development council of the area and some members of the Common Interest Group in charge of the enterprise, it was revealed that the sustainability of the enterprise was threatened by the continued preference for foreign produced candles and juice by local community members who were said to have a negative attitude to locally produced goods and services.

Community participation

Sustainable development depends on community empowerment through active participation in decision making, planning, implementation and benefits sharing. The Project promoted community participation through many means. First, the use of the participatory village development planning methodology was used. This methodology solicited the participation of all adult members of a gazetted chieftainship to devise their own village development plans with the Project serving as the technical facilitator. The effectiveness of this methodology was hampered by domination of the planning sessions and discussions by extroverts and rural elites who tended to use them for their own ends. The rural elites used their power to present priorities in which they stood to gain more than other community members and therefore indirectly led the project to contribute to social inequalities in the region.

Secondly, the Project used the area team approach in which the participation of line ministries with field staff in the rural areas in the district was solicited to assist the communities to effect village planning and multi-purpose extension service. The sustainability of the area team approach continued to be threatened by inter-ministerial rivalries at the district level and inter-departmental idiosyncrasies within the District Agriculture Office itself. This pointed to the fact that the perceptions and attitudes of the development officials themselves had to change to accommodate new methodologies conducive to sustainable development.

The Project also used participatory extension assistants elected by the communities for training in the fields of livestock veterinary services and technical repair of farm implements. The two services were found to be in a poor state because the people saw their expertise as inferior and bypassed them to seek service from the District Agriculture Office. This pointed to a negative attitude by the communities which needed to change to enhance the sustainability of the quality of life and livelihood strategies of the communities.

A vandalised afforestation and irrigation scheme at Ha Sekoati in the study area.

To effectively monitor the implementation and evaluation of their village development plans, the communities were assisted by the Project to devise annual village work plans. The plans showed the prioritised list of activities, the resources needed, and the envisaged time of implementation. At the time of the survey, many plans were gathering dust on the shelves of the offices of village development councils because they were not used by the District Agriculture Office to guide development assistance to the villages. The District Agriculture Office continued to be dominated by the Ministry of Agriculture in Maseru. There was a clear need for the District Agriculture Office to accept the changes in the mode of operation introduced by the Project for sustainable development to become successful.

Sustainable institutional change and capacity building

Sustainable development entails capacity creation through institutional reform and change at both local and national levels and networking. The Project provided training to farmers, field staff, and officials of the Ministry of Agriculture, through courses, seminars, field visits, tours and workshops. Some officials, especially subject matter specialists, were sent to the United Kingdom for Diploma level training. However, the sustainability of the training on the part of the farmers was hampered by their continued attitude of expecting incentives before they could apply themselves energetically to the betterment of their own livelihoods as trained by the Project. Most field staff and subject matter specialists used the training to increase their labour market value and seek greener pastures elsewhere, so it was difficult to retain qualified staff.

In the case of institutional restructuring and change, the Project trained the village councils in development administration to stage-manage sustainable development in their areas of jurisdiction. However, the efficiency of the village councils in development administration was impaired by their continual conflicts over power with the chiefs. Moreover, although the Project trained the chiefs, the majority of those who were trained were wives who acted as chiefs on behalf of their husbands, who were at work in the mines in South Africa or elsewhere in Lesotho. Heavy retrenchment of migrant Basotho workers on the mines in South Africa and those who were employed in Lesotho in the 1990s, as a result of Structural Adjustment Policies, have resulted in the re-occupation of the offices of chieftainship by the returned men. Unfortunately, the semi-literate, sexist and stubborn attitude displayed by most of them hampers the efficiency of their offices in the execution of the administration of development.

The new chiefs were found to prefer to work with the traditional council, the 'Lekhotla', which is composed of equally semi-literate men, most of whom were retrenched migrants like their chiefs, instead of the village development councils which were dominated by the more highly trained women. This marginalised women from participating in village decision-making processes. Again, the survey concluded that the chiefs had to change their attitudes and forego the luxury of power accorded by the old patriarchal based organisation and instead accept the new institutional changes necessary for sustainable development.

The Project also assisted the Ministry of Agriculture in its decentralisation to the district level to strengthen the capacity of the District Agriculture Office. However, the survey found that the decentralisation exercise was more in name than practised. The headquarters of the Ministry of Agriculture in Maseru continued to dominate decision-making and planning and imposed the annual activities onto the district.

The survey concluded, therefore, that the Ministry of Agriculture had to change its attitude and accept the change by relinquishing the necessary power through devolution to its sub-national levels as one of the preconditions for the successful implementation of its own declared national policy of sustainable development.

On a more positive note, the survey found that the networking links started by the Project between itself and both the Mafeteng Development Programme and CARE-Lesotho were still strong and constituted the main channel through which the modus-operandi initiated by PTC was implemented and expanded to the Mafeteng and Quthing Districts. However, the evaluation also noted that the Mafeteng Development Programme and CARE-Lesotho continued to provide some development assistance to the communities at Ha Seeiso in Mafeteng and Ha Tlhaku in Quthing which were visited during the survey. Hence, there is some concern about the future sustainability of activities in these areas when the Mafeteng Development Programme and CARE-Lesotho eventually withdraw their support to the communities.

Conclusion

Sustainable development has become widely accepted as the new paradigm in development thinking since the 1980s. While generally the success of sustainable development has been thought to lie with participation of the communities themselves, recent research casts doubt on this notion. Evidence is increasing that in some cases communities themselves hamper the success of sustainable development interventions because they are not willing to part with their old lifestyles and adapt to the sacrifices brought about by the new lifestyles deemed conducive to sustainable development in their regions. On the other hand, sustainable development projects need to be carefully tailored to communities to take into account local cultural practices, beliefs and attitudes, as well as the resources (both financial and human) that the community can muster.

The survey reported upon in this paper found that the Production Through Conservation (PTC) project initiated many activities to promote sustainable development in the Mohale's Hoek district. However, these activities failed to become sustainable throughout the region.

The main reason, from the Project's perspective, is that the community at various levels was not willing to adapt to the sacrifices, compromises and payments that accompanied the new lifestyles that were introduced by the Project for sustainable development. The Project, however, failed to take into account ingrained cultural practices and prejudices, and may even have contributed to the further marginalisation of women and the poor.

The survey thus suggests that community participation in the implementation of sustainable development projects does not always ensure success of such ventures. It is recommended that more research be done in this area to suggest methods for implementing successful sustainable development on a continent which clearly needs it. ✪

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Elizabeth le Roux
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