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MOBILIZING LOCAL RESOURCES FOR ECONOMIC DEVELOPMENT IN AN URBANIZING AFRICA

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE FOR
EAST AND SOUTHERN AFRICA

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MOBILIZING LOCAL RESOURCES FOR ECONOMIC DEVELOPMENT IN AN URBANIZING AFRICA

PROCEEDINGS OF A REGIONAL POLICY WORKSHOP

Organized by

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE

FOR EAST AND SOUTHERN AFRICA

NAIROBI, KENYA

25 - 28 SEPTEMBER 1990

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5. The Privatization of the Mauritius Housing Corporation by J.R.D. Valadon

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FOREWORD

The theme of this workshop, "Mobilizing Local Resources for Economic Development in an Urbanizing Africa", reflects two undeniable trends currently shaping Sub-Saharan African economies. One is the growing recognition of the local private sector as an alternative to the public sector and foreign assistance in generating employment and providing services. The other is the increasing importance of urban areas as centres of population growth and economic vitality.

RHUDO/ESA convened the workshop in Nairobi on 25-28 September 1990, to stimulate the exchange and analysis of ideas on these timely issues. The lively participation of over 50 delegates (from 10 countries and a number of international organizations) demonstrated that the issues are not of merely theoretical interest. As the following report of the proceedings will show, the discussions were concrete and relevant to policy decisions in every country in the region.

In the belief that training _is_ development, RHUDO/ESA has sponsored a variety of conferences, workshops and seminars throughout the region. The workshop on mobilizing local resources is representative of some of the best things about our training program: focusing on a unique angle of one of today's most relevant topics, the workshop brought policy makers, implementers and professionals from all over the region to learn and work together in an informal setting. This workshop complements a series of national training programs which will target specific country issues, as well as complementing the strategies of USAID Missions throughout the region which emphasize the role of the private and informal sectors.

RHUDO/ESA also supports projects that put these ideas into action, for example in small towns development in Kenya, housing in Zimbabwe and Mauritius, local government in Swaziland and Malawi, and support for private sector housing and urban programs in Botswana, and indeed throughout the region. We look forward to continuing our training and project activities throughout eastern and southern Africa.

Michael Lippe, Director RHUDO/ESA

RHUDO/ESA REGIONAL POLICY WORKSHOP

MOBILIZING LOCAL RESOURCES FOR ECONOMIC DEVELOPMENT IN AN URBANIZING AFRICA

AGENDA

ARRIVAL:	MONDAY 24 SEPTEMBER
1000	Tour of RHUDO activities in Nairobi, for early arrivals
1600- 1800	Registration
1800	Reception
DAY 1:	TUESDAY 25 SEPTEMBER 1990
0900	Opening - Mr. M. Lippe, Director, Regional Housing and Urban Development Office, USAID - Mr. S.A. Wasike, Permanent Secretary, Ministry of Local Government, Kenya
0930	Keynote Presentation: African Economic Development: The Role of Urban Centers and Resource Mobilization - Prof. A.L. Mabogunje, Nigeria
1000	Panel Response to Keynote Address - Senator A. Khoza, Swaziland, Mr. J. Mbogua, Kenya, Mr. P. Garau, UNCHS
1030	Coffee/Tea
1100	Open Discussion of Keynote Address
1130	Presentation: Defining the Issues - Mr. H. Sumka, Deputy Director, Regional Housing and Urban Development Office, USAID
1200	Open Discussion of Presentation
1230	Lunch
1400	Working Groups: Identifying Priority Issues and Describing the National Situation
1500	Coffee/Tea
1530	Group reports and Summary

DAY 2: WEDNESDAY 26 SEPTEMBER 1990

0830 Presentation: The Private, Small-Scale Business Sector in Africa: Its Constraints and Resources
- Mr. T. Oyieke, Principal, Matrix Development Consultants, Kenya

0850 Presentation: A Survey of the Informal Sector - The Burundi Case
- Mr. D. Hart, Private Sector Advisor, USAID/Burundi

0910 Panel Response to Presentation

1000 Working Groups: The Needs of the Small-Scale Business Sector

Coffee/Tea

1130 Group Reports

1230 Lunch

1400 Presentation: Private Finance of Low-Cost Shelter and Infrastructure - the Zimbabwe Case
- Zimbabwe Delegation

1430 Presentation: The Privatization of Housing Finance - the Mauritius Case
- Mr. J.R.D. Valadon, Mauritius Housing Corporation, Mauritius

1500 Panel Response to Presentation

1530 Working Groups: Issues Relating to Financial Requirements and Mechanisms

Coffee/Tea

1700 Group Reports and Summary

DAY 3: THURSDAY 27 SEPTEMBER 1990

0830 Presentation: Public Sector Impact on Private Sector Development
- Mr. G. Clarke, Consultant to the Urban Management Programme of the World Bank/UNDP/UNCHS

0900 Panel Response to Presentation

0930 Working Groups: Constraints to Private Sector Development at the National and Local Level

Coffee/Tea

1100	Group Reports
1230	Lunch
1400	Presentations: Enabling Strategies to Support Economic Enterprise and Mobilize Local Resources -
1500	Working Groups: Strategies to Enable Private Sector Development at the National and Local Level
	Coffee/Tea
1630	Group Reports and Summary

DAY 4 FRIDAY 28 SEPTEMBER 1990

0830	Working Groups: Summary of National Issues in Urbanization, Resource Mobilization and Economic Development
	Coffee/Tea
	Working Groups: Identification of Possible Programme Initiatives
	Group Reports
	Participant Evaluations
	Closing Luncheon

INTRODUCTION

The workshop was held over a period of four days from the 25th to the 28th September 1990. The workshop was introduced with a keynote address, and each separate topic was the subject of a presentation from an invited speaker. A panel discussion and plenary session followed each presentation. The workshop broke into multi-national working groups to discuss each topic with the objective of defining issues more precisely and identifying possible solutions.

These working groups gave participants an opportunity to compare experiences, issues and solutions which they were then able to discuss with respect to their own countries. The final session was organised on the basis of country groups and these produced strategies for each country. These strategies will provide a contribution to national discussions following the workshop.

A brief summary of the workshop discussions has been published in a special edition of "Urban Perspectives", the RHUDO/ESA quarterly newsletter.

The following report of the proceedings summarizes the presentations, discussions and working group reports on each topic. The full text of all the presentations is in Annex A.

OPENING REMARKS

The Director of RHUDO/ESA, Mr. Michael Lippe, welcomed the participants and observed that many countries have not found solutions to the rapid growth of urban areas in Africa. While agriculture is the backbone of most economies, successful development of agricultural production will not be enough to sustain a broad based increase in standards of living. He emphasized that "...we should not be content...with a situation in which countries can only look forward to marginal improvements in their subsistence or near subsistence economic levels. Unfortunately, that is what is likely to happen if urban development is neglected."

He stressed that "more and more of the economic development during this final decade of the 20th century and beyond must take place in the towns and cities of Africa. Much of this effort to improve urban productivity must come from within. Improvements in the functioning of financial, land and labor markets are at the heart of this. The success of these efforts will depend upon how well local resources can be mobilized. This is why this workshop is so important."

Mr. S.A. Wasike, Permanent Secretary, Ministry of Local Government, Kenya, welcomed participants on behalf of the Government of Kenya. He noted that Kenya was an especially appropriate setting for such a workshop as the country is experiencing a rapid growth in urbanization and in the expansion of the informal sector. He emphasized the important role of local authorities in creating an environment supportive of small business and the fact that the private sector can work in partnership with the public sector to provide services to the community.

DEFINING THE ISSUES

Dr. Howard Sumka, Deputy Director of RHUDO/ESA, focused the participants on the objectives and structure of the workshop. He underscored the fact that increasing urbanization in Africa is occurring along with poor economic performance that has left Africa behind the rest of the world. At the same time, donor resources are diminishing and foreign borrowing is no longer an attractive option.

The workshop was therefore concentrating on "mobilizing local resources", that is, "...resources of any shape or form which are internal to the country. Of course, they include financial and natural resources. But as importantly, they include human resources and entrepreneurial energy". He proposed that the task of the workshop was to focus on the strengths of cities and towns and to examine ways in which they could serve as a locus for rapid and sustainable growth.

Dr. Sumka explained that this theme would be explored by examining in some detail three interrelated factors: the small-scale private sector; the availability of basic shelter and infrastructure; and municipal management. The interactions among these elements have a critical bearing on the success, or failure, of urban development.

The ways in which the public and private sectors interact is fundamental and they must find ways to work together in achieving the common goal of improving the economic and social well-being of people in Africa. An example to be debated was how the public sector can stifle entrepreneurial investment through misguided public policies. A principal objective of the workshop was to stimulate thinking on enabling frameworks in which encouragement of small-scale enterprise and private investment is a major objective of local authorities.

Dr. Sumka concluded by enumerating the goals of the workshop:

> First, to explore the relationships among urbanization, economic development and off-farm employment opportunities.
>
> Second, to clarify the alternative policies that support private sector activities.
>
> Third, to elaborate strategies which support small-scale business.
>
> Fourth, to articulate the enabling role that local authorities can play to stimulate business.

Fifth, to facilitate the analyses of obstacles to local resource mobilization and of possible public and private initiatives to stimulate growth.

Mr. Lippe introduced the keynote speaker, the Pro-Chancellor and Vice-Chairman of the Council of Ogun State University in Nigeria, Professor Akin Mabogunje as one of Africa's foremost experts and thinkers on development issues.

KEYNOTE ADDRESS

Africa's Economic Development; The Role of Urban Centers and Resource Mobilization by Professor Akin L. Mabogunje

Professor Mabogunje introduced the theme of the workshop in a stimulating presentation. He noted that the 1980's have been a decade of traumatic economic regression for sub-Saharan Africa and that such an outcome after three decades of planned development provokes an agonizing reappraisal of collective performance over the period and a determination to formulate new and more appropriate strategies. Many of the causes of failure were internal to African countries and were the result of a tendency to copy rather than to adapt western models. Top-down approaches discouraged ordinary people whose energies most needed to be motivated.

Professor Mabogunje said that there is a clear relationship between the twin processes of urbanization and economic development. Structural adjustment programs will have significant consequences for the process of urbanization, whether they succeed of fail. If they succeed, revitalized urban economies will attract more people to the cities, if they fail there will be a continuing rural exodus which will also push large numbers to the cities. It is expected that the proportion of Africans living in urban centers in the year 2000 will be close to 40 per cent.

Professor Mabogunje believes that the needs of this expanding urban population will be met principally by the small-scale business sector, (also referred to as the informal sector). This sector will be the main provider of goods and services to the urban population and will thus also become the primary generator of employment opportunities in urban areas. However, public authorities in many instances place considerable regulatory constraints on small-scale businesses.

The address concentrated principally on the mobilization of financial resources and particularly on access to freehold land and to credit.

Professor Mabogunje focused on land as the main resource which must be mobilized in urban areas. Colonial governments generally restricted the access of Africans to land, introducing freehold tenure for Europeans only. After independence many countries were more concerned with undoing years of land expropriation than with enhancing the resource mobilization capacity of their people. Many introduced leasehold tenure rather than freehold

thus severely limiting the opportunity to mobilize resources through land transfers or credit using land as a security.

Even in situations where land is held in freehold, or where leasehold does provide a tenable transfer system, procedures governing land deed and title registration are often slow, inefficient and conducted on the basis of political and administrative influence.

Professor Mabogunje concluded his address with some proposals for future action. Policy and decision makers must create an enabling and liberating environment. This environment must concentrate on evolving rules, procedures, laws and institutions which are supportive of small-scale productive activities.

Policies must facilitate access for the urban population and small-scale businesses to titled land and credit. To achieve this it is essential to improve systems of land registration. It is also important that the majority of the people are involved in the process of land adjudication and registration. Urban management must therefore rely upon neighborhood organizations so that information can be accumulated effectively.

Improved land registration will increase the opportunities for individuals and enterprises to attract credit. In turn, local authorities should find it easier to increase revenues as they will have a better information base for property taxation. The increased revenues can be invested in infrastructure which in turn will create more opportunities for resource mobilization.

Even for those who are unable to use land to secure credit other mechanisms are beginning to be introduced which show some promise. As examples, Professor Mabogunje cited the banques populaires in Rwanda and unit community banks in Nigeria.

Panel Response and Debate

Three panelists responded to Professor Mabogunje's address. Mr. Pietro Garau of the United Nations Centre for Human Settlements (Habitat) commented that the paper's special emphasis on land ownership titles as the ideal collateral for small business financing ignores a key element of the development chain, namely the efficiency of the public sector and in particular of local government. UNCHS (Habitat) has based its policy on the "enabling" approach. But this approach is not limited to ways of mobilizing non-public actors; it also means enabling government, and local government in particular, to do a better job. The main issues on the local resource mobilization agenda should therefore be how to enable the enablers.

Looking at the macro-economic situation in Africa, Mr. Garau questioned whether the efforts of the small-scale business sector which mostly provides internal, low-technology, non-exportable goods and services, will be sufficient to make an impact on the current negative economic trends.

Mr. John Mbogua (Kenya) said cities must support small businesses and encourage them. A major concern is how to sensitize officialdom to the fact that hawkers and all other small businessmen are not a problem. This is simply how people make a living and the concern must be to make the politicians and others understand this.

Senator A.R.V. Khoza (Swaziland) emphasized the importance of the economic development and resource mobilization challenge that African governments face. As they deal with the problem of land for housing and business as well as credit they should simultaneously be dealing with institution and capacity building. He said that unambiguous national policies are required in order to mobilize local resources for economic development.

Professor Mabogunje responded to the discussion by saying that a fundamental problem is that African governments fail to respond to the wealth creating capacity of the people. Often the response to the free market economy is to call it illegal, illicit or informal and to prohibit its activities. Credit is the key to mobilizing other resources but land policies and practices restrain capital accumulation and wealth creation because they make it difficult to use land as collateral for credit. Professor Mabogunje cited the experience of the United States where a major factor in the economic development of new territories was community credit. Development occurred because the small man was supported in ways which responded to his needs and priorities. In Africa credit systems must also be tailored to meet specific needs ranging from systems based on mutual trust to more formal types of collateral.

Working Groups

After a plenary discussion of Professor Mabogunje's keynote address the workshop split into working groups with the principal task of identifying key issues related to the overall theme of local resource mobilization and economic development. Although priorities varied there was agreement on the broad issues to be tackled. These included:

- The perception of the informal small-scale business sector by central and local government is usually negative: it is seen as presenting a problem rather than a potential for development.

- A lack of credit for small businesses is common and mechanisms have to be developed to fulfill this need.

- The relationship between central government and local authorities is often poor. Also; local authorities do not see themselves as taking a leading role in economic development.

- The relationship between the public and private sectors is often one of suspicion rather than of co-operation.

Participants observed that there is a common perception among policy makers both inside and outside Africa that rural and urban development are distinct and separate processes. In fact, they are closely interdependent and urban and rural strategies must be considered together.

Overall, many participants emphasized that a change in attitudes within the public sector was fundamental to mobilizing local resources through encouraging small-scale businesses.

THE ROLE AND POTENTIAL OF THE SMALL-SCALE BUSINESS SECTOR

Presentations: The Private Small-Scale Business Sector in Kenya: Its Constraints and Resources by Mr. T.O. Oyieke

The Informal Service Sector of Bujumbura, a Case for Non-Intervention by Mr. D. Hart

These presentations took up the theme of the importance of the small-scale, or informal, business sector in mobilizing local resources for economic development in urban areas. Mr. Oyieke traced the growth of the sector in Kenya and showed how it had developed in response to the demand from an increasingly urbanizing population. Small-scale commercial, service and manufacturing enterprises now cater to the majority low-income population in all urban areas in Kenya. The small-scale business sector has shown a very much higher growth rate than the formal private sector in recent years and provides far more employment opportunities than the formal private sector.

Mr. Hart reported on a recent survey of 326 micro service and commercial enterprises in Bujumbura, Burundi. The survey found that although these enterprises make a significant contribution to local GDP and offer numerous income generating opportunities, the general economic situation in Burundi imposes a major constraint on the development of the sector. Limited consumer purchasing power and a consequently stagnant market for goods and services are the main limitations to the expansion of the sector.

Mr. Oyieke identified major external constraints to the sector's development in Kenya as being the lack of credit, security of tenure and formal recognition by the public sector. Businesses are inhibited from expanding by internal constraints as well. These include the lack of management skills and business awareness, and extended family obligations which drain their resources.

Efforts to support small-scale businesses have tended to be project specific and therefore have had only limited impact. A recent initiative in Kenya by Friedrich Ebert Stiftung/Small Enterprise Finance Company is aiming to address the problems of the small-scale business sector more comprehensively. The scheme creates mutual guarantee associations to enable members to receive regular bank credit based on the association's joint security. Association members also receive training in financial and business management and follow-up advisory services.

Panel Response and Discussion

Panelists agreed that the small-scale business sector offers enormous possibilities for income-generation and should be recognised as an important contributor to economic growth. It's growth is directly proportional to consumer purchasing power. Mr. Tomecko (GTZ, Kenya) thus argued that the most important support the public sector can give is to encourage a vibrant economy to ensure a market for the sector's products and to stimulate investments.

In addition, Mr. Tomecko felt that the interventionist approach should be replaced by an enabling approach which would use scarce public funds to reach the greatest possible number. Public assistance should be based on the expressed needs of entrepreneurs and be confined to providing the correct kind of infrastructure to help enterprises grow. It was generally agreed that governments should concentrate on adopting appropriate policies relating to licensing and security of tenure, and liberalize interest rates.

Working Groups

Working groups concentrated on the needs of small-scale businesses and the strategies which might be adopted to meet these needs. There was a general agreement that governments must effectively support the sector in the areas of security of tenure, capital, infrastructure, technical assistance and training. It was also generally agreed that public funds should not be used to subsidize the sector but that policies should encourage entrepreneurs to mobilize their own resources for expansion.

MOBILIZING LOCAL FINANCIAL RESOURCES FOR URBAN DEVELOPMENT

Presentations: Private Finance of Low Cost Shelter and Infrastructure: Building Societies in Zimbabwe, by Mr. W.M.P. Beresford with an introduction by Mr. M.M. Chenga

The Privatization of the Mauritius Housing Corporation, by Mr. J.R.D. Valadon

The presentations concentrated on the mobilization of local savings through building societies for low-income housing. Mr. Chenga and Mr. Beresford described the role that the building societies are playing in low-income housing development in Zimbabwe, and Mr. Valadon described how privatization of the Mauritius Housing Corporation is expected to benefit the low-income population.

Though formerly involved only in high-income housing, Zimbabwe's three building societies have recently developed new ways to serve the needs of the low-income majority. Mr. Beresford described how, in 1986, government facilitated the release of substantial resources from the private sector, at very little cost to the tax-payer, by permitting the societies to offer competitive investment rates. The new influx of investments enabled the societies to greatly increase the number of loans they made.

The building societies have been unable to realize their full potential in Zimbabwe because of the inadequate supply of two essential local resources: serviced land and building materials. This has led to enormous increases in construction costs which mean that low-income clients cannot afford to construct to the standards laid down by the local authorities which now urgently require review.

Mr. Beresford pointed out that although building society loans can greatly assist low-income groups to obtain housing and indirectly enable small-scale building contractors to develop their businesses, they should not be regarded as the key to the whole housing problem. The building societies can only be really effective within the context of a holistic housing policy which reconciles such issues as affordability, cost recovery and long-term credit, and effectively mobilizes all resources including serviced land, building materials and individual self-help.

Mr. Valadon traced the history of the Mauritius Housing Corporation which has operated as a parastatal since 1962. In 1977, following a severe cyclone which destroyed many low-income

houses, the corporation started to give priority to applications for loans from low-income families.

Mr. Valadon showed how the privatization of the Mauritius Housing Corporation has become imperative if it is to continue to serve the needs of the low-income population in an increasingly competitive climate. The Government of Mauritius is currently offering private enterprise an attractive package of tax and other incentives for the construction of housing affordable to lower and middle-income groups. This has encouraged the corporation to privatize in order to qualify for these benefits and continue to assist low-income borrowers.

As a private company, the corporation will be able to attract the best staff and operate more efficiently as it will no longer be bound by civil service salary scales and personnel procedures. It will also be able to raise funds from the public by calling for loans, offering shares and issuing bonds and debentures. There is already a sound financial basis on which to build and the Mauritius Housing Corporation has considerable experience of meeting the needs of the low-income majority especially through cross-subsidy schemes.

Panel Response and Discussion

Panelists agreed that local financial institutions should be encouraged to enable them to serve the needs of the low-income. Mr. Mwadeghu (Kenya) agreed with the Zimbabwe delegation that low-income earners have a low default rate and that building societies can successfully target them with minimum risk. Mr. Maganga (Malawi) felt that strong incentives from government will be required if private financial institutions are to be encouraged to direct their efforts to meeting the needs of low-income groups.

A lively debate followed which centered on the relationship between governments and housing finance institutions. Participants representing both public and private sector organizations noted the advantages of liberalizing housing finance systems and allowing competition between housing finance institutions. They also applauded the use of incentives, such as the deregulation of interest rates, to promote private sector involvement.

It was generally recognised that housing finance institutions can only be effective if their efforts are seen as part of a well-conceived housing policy in which the public and private sectors play complementary roles. The mobilization of private financial resources for the development of low-income housing will not be effective unless it is accompanied by appropriate government action to alleviate constraints. The most significant

of these are the shortage of serviced land and the imposition by local authorities of inappropriate and unaffordable sub-division and building standards.

PUBLIC SECTOR IMPACT ON PRIVATE SECTOR DEVELOPMENT

Presentation: Public Sector Impact on Private Sector Development by Mr. G. Clarke

The relationship between the public and private sectors at the local authority level was discussed by Mr. Clarke. His presentation focused on the impact of public sector planning procedures and regulations on private sector development. Mr. Clarke noted that the majority of urban growth in developing countries is now taking place outside official control systems. Between 60 and 80 per cent of households now living in urban areas can be described as being in the informal shelter and employment sector. Conventional public sector activities are restricted to trying to document unplanned growth and if possible to rationalize and service the resulting development.

Although governments are slowly coming to terms with the fact that such developments mobilize local resources and contribute to economic growth, most have not yet formulated a response. Mr. Clarke noted that instituting appropriate strategies will require a re-evaluation of the traditional role of the public sector. More emphasis must be placed on the sharing of responsibility for urban development between public and private organizations at the central, local and neighborhood levels.

This means that public sector urban management practices will have to be reformed with emphasis being placed on consultation and co-ordination rather than control. Governments must urgently develop strategic action plans to deal with urban growth in the short-term and begin to reform urban management practices for the medium to long-term. Areas in which reform is urgently required include land tenure and land registration systems, the provision and improvement of infrastructural services, municipal finance and the sustainable utilization of natural resources.

Panel Response and Discussion

Panelists agreed that public sector management practices must be reformed if urban growth is to be managed effectively. Many countries face major difficulties because of the constraints which central governments impose that restrict the ability of local governments to operate effectively. Local governments are better placed to work more closely with the private and community sectors but lack the financial resources, manpower and logistic support to do this well. Mr. Zwane (Swaziland) cited the land situation in his country where local authorities are unable to manage urban development because of constraints imposed on land transfers by central government. Mr. Liphuko (Botswana) felt that the most effective way of mobilizing private resources for urban

development was for local authorities to provide suitably located land on which low-income earners would be allowed to build.

Working Groups

Working groups discussed the constraints imposed by the public sector on the private sector at the local level and strategies which might be adopted for overcoming them.

All the groups agreed that appropriate strategies should be formulated to increase the availability of land, infrastructure and finance for private sector development in urban areas. The groups identified the main constraint to improved management of urban growth as being the poor performance of the public sector. In all the countries represented, central governments are unwilling to devolve responsibility to local authorities. Most countries lack experienced, knowledgeable and motivated civil servants, and few have an appropriate urban development policy and planning framework. All of the groups agreed that the introduction of suitable responses to these constraints would depend on political will and might therefore take some time to evolve.

THREE EXAMPLES OF ENABLING STRATEGIES

Three examples of initiatives taken to mobilize resources for economic development were presented by participants in order to clarify the concept of enabling strategies. The examples presented both positive and negative aspects of these initiatives.

Mr. Alder and Mr. Ogero described the approach taken in Kenya to support the informal sector. A very positive initiative by the government to provide structures to house artisans had been successful in some instances. However, failure at times to provide these facilities in appropriate locations led to under-utilization. A fundamental problem was that there had been insufficient consultation with the artisans in the development of this interventionist approach.

They went on to describe a new project to provide infrastructure for artisans in a number of towns which is based on extensive consultation so that the facilities provided will meet expressed needs.

Mr. Butler described the secondary centres development program in Malawi. Its objective is to provide infrastructure and facilities that will encourage economic development in these centres. Although the investments were implemented effectively, in many cases they did not meet the expectations of residents and councilors who were also unaware of the financial obligations they implied. As in the example from Kenya, this illustrates that consultation is an essential prerequisite to any development program.

Mr. Hoza described the operations of the Tanzanian Housing Bank. The bank has a mandate to reach low-income groups with housing credit but has encountered many impediments to achieving this objective. These include limitations on resource mobilization caused by the low rates of interest which can be offered to savers and the high building and planning standards which are required by the bank. The most positive initiatives to date have been the financing of sites and services schemes and the funding of housing co-operatives, particularly in the new capital, Dodoma.

COUNTRY STRATEGIES

The participants divided into 10 country working groups to relate the issues and strategies discussed in the workshop to the circumstances they confront in their own countries. The country working groups prepared short presentations on the main issues that impede efforts to mobilize local resources, and developed at least the outline of strategies that could alleviate these impediments in their own countries.

At the final session of the workshop the 10 country working groups reported on their deliberations. This lively session demonstrated that the complex issues raised at the beginning of the workshop by Professor Mabogunje and sustained through all the presentations and discussions, had stimulated a detailed analysis of the situation in each country.

There was broad agreement on the need for the public sector to recognize the importance of the small-scale business sector as a major contributor to economic development and to support its activities. The strategies proposed to achieve this varied from country to country resulting in a useful cross-fertilization of ideas and experiences.

The strategies proposed for each country represent the personal views of participants. They do not represent government policy. The menu of ideas generated through this workshop exercise appears likely to stimulate a continuing dialogue within and between the public and private sectors in each country.

The following is a summary of the country strategies as presented at the final session.

Private Sector Emphasis

Supporting what Professor Mabogunje called the wealth creating capacity of people, was recognised by all the country groups as the key to development. Some countries focused on the small-scale business sector while others considered that policies should also include the formal private sector and the middle-income group.

Although the definition of the small-scale business sector varied from country to country depending on local circumstances and the stage of development of the sector, there was general agreement that existing public sector practices and procedures have the effect of constraining the sector's activities.

A major point of discussion was whether government strategies should actively promote or more passively enable the activities of the small enterprise sector. The Burundi group felt that

government should continue the present program of watchful laissez-faire but also that there was room for a more active role for government in the formation of markets for the sector's products.

Whichever course is taken, most groups considered that a review of existing legislation, including by-laws and regulations, is urgently required.

Specific points made included:

- review restrictive legislation (Kenya)
- issue licenses, permits etc. speedily (Tanzania)
- encourage drafting of rationalized legislation concerning itinerant merchants (Burundi)
- grant, through enabling legislation, an a priori right to engage in commerce (Burundi)
- revise planning and building standards to ensure that they are affordable to low-income groups (Botswana, Swaziland)

Changing the Approach of the Public Sector

The groups agreed that in every country the public sector is largely ineffective, inefficient and bound by outdated practices and inappropriate legislation. Nevertheless, most groups accepted that the public sector must take the lead in instituting new policies as well as in implementing them. A change in the public sector's attitudes is essential. In particular support should be given to local authorities to help them become effective enablers of private sector development. This was seen as the key strategy necessary in many countries.

In some countries, e.g. Kenya, supportive policies have been in place for some time but efforts to implement them have been constrained by negative attitudes and the lack of management capacity in the public sector. Implementation requires numerous and diverse agencies and individuals to co-operate and to wholeheartedly adopt the same supportive approach.

Specific points made included:

- improve co-ordination within the public sector and between the private and public sectors (Zimbabwe)
- create a forum to facilitate the exchange of ideas on all development matters (Swaziland)
- the public sector should make every effort to work in partnership with the private sector (Tanzania)

Decentralization was also seen as an important strategy but many groups emphasized that this must mean devolution of authority as well as responsibility. It was felt that the local authorities

are the public sector agencies most able to maintain a dialogue with the private sector but that they will have to be encouraged to do so by central government.

Local authorities should replace their conventional "housekeeping" role with one which is more developmental. Local authority development strategies should be designed to actively promote local initiatives in productive enterprise. To this end some groups suggested joint ventures between the public and private sectors and the privatization of selected public services.

Specific points made included:

- local authorities should initiate and maintain a dialogue with the small-scale business sector and the business community in order to respond to the sector's needs (Kenya)
- central government agencies should assist local authorities to change their attitudes to the small-scale business sector and actively promote it (Kenya)
- privatize some responsibilities e.g. road construction, sanitation services, construction (Uganda)

Mobilization of Financial Resources

All the country groups accepted that local resources must replace foreign financial assistance to fund development. In countries where a huge budget deficit means there are no financial resources to spare, mobilization of resources depends on improving economic performance and planning at the national level. In countries with excess liquidity the main issue is to ensure that this is mobilized for the benefit of the small enterprise sector.

It was generally felt that housing finance should be relinquished to the private sector and public funds used solely for providing infrastructure and subsidizing housing for the very poor and disadvantaged members of society.

The country working groups' strategies for financial resource mobilization fell into three main categories relating to: national economic policy, local authority finances and access to credit.

National economic policy: many groups felt that governments should create a suitable climate for the development of more private sector financial institutions and provide incentives to encourage them to direct their resources to benefit the small man. Some groups felt strongly that government policies should promote a market for local products.

Specific points made included:

- recognize the small-scale business sector as an integral part of the national economy (Tanzania)
- establish a local financial market (Malawi)
- introduce a more attractive interest rate structure to encourage savings (Mauritius)
- encourage the formation of more financial institutions and competition between them (Botswana)
- enhance the savings environment and target local liquidity to specified needs such as shelter and infrastructure (Zimbabwe)
- promote a market for local products including building materials, clothes and food to substitute for imported goods (Namibia)

Local authority finances: most groups recognised the importance of local authorities as agents for the promotion of economic development in urban areas. Many groups felt strongly that central government should devolve not only responsibility but also the necessary financial autonomy to local authorities to enable them to become effective promoters of private enterprise.

Specific points made included:

- improve the revenue base of local authorities and make the collection of existing revenues more efficient (Swaziland)
- reduce delays in authorization of matters affecting local authority finances (Swaziland)
- streamline budgetary approval processes and local government taxing decisions to improve access to resources (Malawi)
- encourage local authorities to borrow from the private capital market (Kenya)
- introduce more equitable tax revenue sharing between central and local government (Kenya, Swaziland)
- improve tax collections/cost recovery systems (Zimbabwe)

Access to credit was seen as a major need of small-scale businessmen and most groups recommended that credit schemes should be developed or extended in response to this need.

Specific points made included:

- introduce incentives to encourage financial institutions to extend credit to small-scale business and low-income housing (Swaziland)
- develop financial instruments for converting short-term liabilities into long-term assets (Malawi)
- organize small-scale businessmen into groups to facilitate acquisition of credit facilities (Tanzania, Uganda)

- increase the capacity of savings and credit co-operatives to mobilize savings and lend for housing (Malawi)
- extend existing credit schemes for small businesses (Kenya)

Mobilization of Land Resources

Whether their land is under government control or in private ownership, all the country groups agreed that outdated and cumbersome mechanisms for the transfer of land were a major impediment to its availability for development for economic enterprise or housing. Many countries agreed with Professor Mabogunje that land is the key issue which constrains people's potential for capital accumulation.

Access to land and security of tenure are essential to encourage the individual to invest in the development of housing or business activities. Secure titles are also required by most financial institutions as collateral for loans. The individual entrepreneur is thus constrained from obtaining credit if he does not have a title deed to his land. Many groups felt that the improvement and acceleration of procedures for issuing title deeds was urgently required in their countries and some felt that financial institutions should be persuaded to accept other forms of collateral.

Specific points made included:

- streamline procedures pertaining to issuance of title deeds (Tanzania)
- introduce more appropriate forms of collateral (e.g. cattle) for low-income households (Swaziland)
- review procedures for land development and delivery (Zimbabwe)
- provide more serviced land and enabling, and consultative physical development plans (Botswana)
- bias planning and land allocation procedures in favour of the small-scale business sector and medium-sized manufacturers (Kenya)
- review and streamline all land legislation (Swaziland)
- increase capacity of the Lands and Valuation Department and of local authorities to manage urban land (Malawi)

Mobilization of Natural Resources and Provision of Infrastructure

The importance of maintaining a rural-urban balance was hinted at by some groups but not fully pursued. It was generally felt that in concentrating on economic development through urbanization it was essential not to neglect the environment and to recognise the importance of protecting natural resources.

Specific points made included:

- prepare a national conservation strategy and national settlement policy which should relate to agricultural policy (Botswana)
- prepare a strategy for the preservation of prime agricultural land (Mauritius)

As well as preparing national strategies which seek to preserve a balance between urban and rural development, governments can extend infrastructural services as an incentive to encourage urbanization in the most appropriate and least environmentally vulnerable areas.

Specific points made included:

- government should give priority to the provision of infrastructure as a means of encouraging decentralization of development (Swaziland)
- public sector funds should be used for infrastructure development and allocated in favour of small-scale businesses (Kenya)
- introduce coordinated planning to ensure that basic infrastructure is made available at the appropriate time and in the appropriate place (Tanzania)

Mobilization of Human Resources

The proposed strategies addressed the need to develop the capacity of both the public sector and small-scale entrepreneurs. Many groups considered that the key to improving the performance of the public sector is the introduction of more incentives to motivate individuals to do a better job. Public sector salaries are so low in most countries that civil servants and other officials are forced to have one foot in the private sector in order to survive.

Improved training was also seen as a means of changing attitudes in the public sector. Training for entrepreneurs, particularly in the area of financial management, was also regarded as essential by many groups. Some felt that the whole education system should be reformed to make it more responsive to real needs. Most school leavers will not find employment in the public or formal private sector and will have to make their own way in business. They will require appropriate skills to help them succeed.

Specific points made included:

- introduce better incentive schemes in the public sector (Tanzania)

- improve working conditions in the public sector (Zimbabwe)
- reform the education system to include more appropriate skills training (Zimbabwe, Botswana)
- emphasise in-service and on-the-job training (Botswana)
- emphasise training in simple management skills (Uganda)
- develop the self-confidence and decision-making ability of the local population (Namibia)

ANNEX A

PAPERS PRESENTED

AFRICA'S ECONOMIC DEVELOPMENT: THE ROLE OF URBAN CENTERS AND RESOURCE MOBILIZATION

AKIN L. MABOGUNJE

First, let me start by expressing my very profound appreciation to the organizers for the invitation to give the keynote address to this all important workshop for regional policy makers in East and Southern Africa. The issue of mobilizing local resources for accelerating the rate of economic development in our continent is perhaps the most central challenge facing policy makers in most sub-Saharan African countries today. Numerous prescriptions particularly of a macro-economic nature are being canvassed widely for achieving these objectives. Others, more sectoral in orientation, tend to emphasize the enhanced role of agriculture and rural development as critical for this purpose. In this address, and fortunately in this workshop, attempt will be made to stress the interconnectedness of the problems of development and to show that it could be very counter-productive to ignore the urban dimensions of the current crisis of development in sub-Saharan Africa. I have, therefore, titled this address: "Africa's Economic Development: The Role of Urban Centers and Resource Mobilization".

For virtually all countries of sub-Saharan Africa, the 1980s have been a decade of traumatic economic regression. This was a period of sharp and continued decline in the rate of growth of gross domestic product exacerbated by the rapid rate of population growth. The result has been the calamitous plunge in per capita GNP for the region from US$621 in 1981 to US$351 in 1987.

The serious collapse of living standards and individual well-being which this entailed in most countries has been harrowing in the extreme. This collapse has been characterized by a weakness in the growth rate (though not necessarily in the absolute value) of agricultural production, especially of food commodities; by a decline in the rate of industrial output due to the high cost of largely imported raw material and spare parts; by relatively unimpressive performance in the export field due to both declining export volume and deteriorating export prices for primary produce; as well as by a stifling debt overhang.

Such an outcome after three decades of so-called "planned development" certainly gives serious cause for African leaders and policy makers to pause and reflect on what they have been doing wrong. It provokes an agonizing reappraisal of our collective performance over the period and a determination to fashion new and more appropriate strategies of development.

Indeed, as the World Bank observed in its recent publication on sub-Saharan Africa, it would be futile and unrealistic to assume

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that the causes of our present predicament are external and related only to the drastic changes in our terms of trade.[1]

Rather, it is vital that we confront the fact that much of the causes of failure were internal to us and were the product of a strategy of development which was greatly misconceived. In respect to that strategy, the World Bank aptly observed as follows:

> "Governments made a dash for "modernization", copying but not adapting, Western models. The result was poorly designed public investment in industry; too little attention to peasant agriculture; too much intervention in the areas in which State lacked managerial, technical and entrepreneurial skills, and too little effort to foster grass-roots development. This top-down approach demotivated ordinary people whose energies most needed to be mobilized in the development effort.[2]

In considering a new strategy for moving countries in sub-Saharan Africa on to a new path of development, it is thus important that we re-examine the extent to which present strategy has failed to foster grass-roots development and especially to encourage the majority of the population in mobilizing resources for the overall economic growth of our nations. In other words, it is imperative for African countries to pay increasing attention to the consideration of critical areas of policy reforms beyond the purely macro-economic ones. The policy reforms required must go beyond lowering real exchange rates, or reducing fiscal deficits or raising export crop prices. They must strive rather to strongly influence the efficient functioning of productive units of the economy at the household or sub-sectoral levels. In this connection the situation in urban centres is particularly germane. This is because of the remarkable changes that have taken place and must continue to be anticipated in the distribution of the African population between urban and rural areas in the decades ahead. This, of course, does not mean that the rural areas can be ignored. Rather, it is to recognise that any proposals to improve productive situation in urban areas can be expected to have beneficial impact on the rural areas also.

There are, of course, many types of local resources and many ways of mobilizing them. There are, for instance, human, material and financial resources; their mobilization often entail institutional arrangements that invariably involves different combinations of all three resources.

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[1]. World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study, Washington D.C., 1969.

[2]. Ibid, p.3.

In this address, I want to concentrate on financial resources available in particular to urban residents and the situation of their mobilization today. I have therefore divided the rest of this address into four parts. The first examines the urbanization situation as it relates to the economic development of sub-Saharan Africa and the outcome that can be expected from the structural adjustment program in which most countries of the region are currently engaged. The second section considers the typical, and numerically the most important, unit of economic activities in African cities, namely the small-scale business sector and its role and potential for the economic development of the region. The third section provides the historical perspective for appreciating the problems and prospects of these small-scale enterprises in mobilizing necessary local resources to enable them realise their potential whilst the fourth and concluding section, titled "The Way Forward" offers a few policy proposals to show how a determined State can harness the tremendous energies of these enterprises and use them in achieving sustainable and self-reliant development.

URBANIZATION AND ECONOMIC DEVELOPMENT

The literature on economic development has often emphasized the close relationship between urbanization and economic development. The primary reason for this close relationship is the fact, noticed in the history of most advanced countries, that the early stages of economic development is marked by increases in agricultural productivity whereby fewer hands are required on the farms to produce food for the growing national population. The surplus rural labour thus becomes available to migrate to the city. Here, under ideal conditions, they are absorbed into continuously expanding non-agricultural activities of manufacturing, construction, commerce and services and thus help to raise the overall economic productivity of the nation or country.

The critical qualification, however, is the issue of the ideal conditions. In the context of this address, it is important to highlight this qualification for three reasons. First, the development of cities, particularly in east and southern Africa, was essentially the product of European colonization in the 19th century. It was, in fact, one of the most critical mechanisms used by these foreign colonizers to insert societies and economies in sub-Saharan Africa into the global free market, capitalist economy. There is, however, considerable concern as to how complete this insertion was because of the extent to which critical factors of production notably land and labour have been transformed to marketable commodities that can be used for a sustained process of capital accumulation. Some of the problems of economic development in sub-Saharan Africa still derive from this fact and continue to affect the effectiveness with which local resources have been mobilized for economic development.

Second, with the establishment of modern cities, subsistent agricultural production was forced to adjust. It had to become more productive in order to feed the increasing number of people being attracted to the cities and who were now engaged in diverse

non-agricultural activities. The fact that even in this context some economic development could be said to be associated with the increasing urbanization is attested to by the progressive decline in the relative contribution of agriculture to the gross domestic product of most sub-Saharan African countries. By 1965, this contribution had fallen to as low as 40 per cent; by 1987, it was down to only 31 per cent.

Third, this sharp fall in the contribution of agriculture to the gross domestic product was not due everywhere to the increasing productivity of the economy as a whole. In many sub-Saharan African countries, it was, in fact, due to the stagnation of agricultural production due to the neglect of the rural areas and the massive exodus of the more productive labour to the cities. Here, again the present economic crisis, which has laid virtually all sub-Saharan African countries prostrate, underscores the relationship between the twin processes of urbanization and economic development. It helps to highlight the fact that the structural adjustment program which many governments of the region have already initiated has an urbanization outcome of significant proportions. If the program succeeds, it can be expected that the revitalized urban economy will attract more people to the cities in search of employment and income-earning opportunities. If it fails, then rural immiseration will push equally large numbers of migrants to the cities.

Either way, the prognosis is that the urban population in sub-Saharan Africa which had jumped from 33 to 90 between 1960 and 1980 can be expected to triple again to 260 million by the year 2000.[3] The number of urban centres with population of at least one million which increased from one to fifteen between 1960 and 1980 is expected to jump further to 48 by the year 2000.[4] Moreover, the proportion of the total population living in urban centers which was only 19 per cent in 1960 and had risen to 27 per cent in 1980 would, by the year 2000, be very close to 40 per cent.

It is generally recognised that the needs of this burgeoning urban population for shelter, employment, transportation and other basic services can be met only marginally by the present formal economic institutions and administrative organization of municipal life. It, is, indeed, expected that by far the majority of urban migrants will be absorbed into urban life through what is now popularly characterised as the urban informal sector, or more correctly, the small-scale business sector. This sector has always been the more important especially for employment - opportunities in most sub-Saharan African countries. Under the impact of the structural adjustment program, it is also growing to become a sector offering tremendous opportunities for many urban Africans for entrepreneurial, technological and managerial development. But it is a sector which has suffered

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[3]. United Nations, The Prospects of World Urbanisation (Revised as of 1984-85), New York, 1987.

[4]. UNCHS, Global Report on Human Settlements, 1986, Oxford: Oxford University Press, 1987.

continued marginalization and inadequate policy attention by African governments.

In order therefore, to better appreciate the prospect for urbanization and economic development in the region, it is necessary to consider in a little detail the role and potential of the numerous enterprises that define this sector and which are likely to constitute both the agents and beneficiaries of enhanced resource mobilization.

THE ROLE AND POTENTIAL OF THE SMALL SCALE BUSINESS SECTOR

At the beginning of the colonial regime in the last quarter of the 19the century, most of Africa was characterized by an economy which was essentially re-distributive, with the basic socio-economic co-ordination provided by kinship relations. Kinship relations not only governed access to the basic factors of production, notably, land, labour and technology capital, but also determined the location of households and enterprises. In other words, the dominance of kinship relations placed considerable limitation on mobility, both social and geographic. Except as a result of serious environmental disasters or wars, the movements of individuals were greatly circumscribed and limited to within their ethnic groups. This is not to say that traders did not engage in long and short-distance trade. But the proportion that actually stayed away from their ethnic base on a permanent or semi-permanent basis was very small indeed.

Colonialism was to change this state of affairs radically. By promoting the increasing agglomerations of population in urban centres, it created the necessary conditions for stimulating the growth of entrepreneurship among individuals who saw urban centres as providing opportunities for vending various goods and services.

Urbanization thus provoked the rapid growth of small-scale businesses catering initially mainly for the needs of the urban Africans. With time, a number of these businesses developed strong symbiotic relationship with larger, usually foreign-owned businesses which became their suppliers or which used them sometimes as sub-contracting agents.

Until the path-breaking study of the International Labour Organisation under Hans Singer in 1972, it was customary to dismiss these small-scale business activities of Africans as an aspect of under-employment in African cities[5]. The ILO study on the other hand, investigated and analysed the essential nature of these activities. It saw them for what they truly represent, namely the fledgling economic adaptations of Africans and other third world inhabitants to the dictates of the modern capitalist urban economy. Consequently, prompted by Hart, the ILO characterised these activities as belonging to what it called the

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[5]. ILO, Employment, Incomes and equality: a strategy for increasing productive employment in Kenya, Geneva: International Labour Organisation

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"informal" sector in contradistinction to the full-blown, joint-stock, large-scale capitalist enterprises which belonged to the formal sector of urban economic activities[6]. This characterisation includes the fact that informal activities are nowhere officially registered or when registered, tend to be single proprietor enterprises, employ usually no more than ten individuals, provide various forms of apprenticeship, often keep no accounts of transactions, are usually low in capital intensity and are likely to be dependent more on individual (or family) rather than institutional financial resources. Incomes in these activities are much lower than in the large-scale formal sector but averages here mask large variations. Indeed, it is not uncommon to find that skilled craftsmen may earn more than most factory workers, whilst the astute trader can amass great wealth, especially if engaged in such activities as procurement to government agencies, or smuggling such articles as diamonds.

Since 1972, there have followed numerous other studies indicating the wide-ranging and diverse productive activities that are covered under the rubric of the informal sector. They extend from such activities as market-vending and hawking, to all forms of retail trading and wholesaling activities. They include traditional craft production such as weaving, blacksmithing, wood carving, beer brewing and herbal medicine preparations as well as modern artisanal activities such as carpentry, tailoring, shoe-making and furniture-making. They also embrace modern repair, motor maintenance and repair, radio and television repair as well as small-scale enterprises engaged in various forms of manufacturing such as milling, metal-working, garment industry, leather goods and shoe-making establishments. To this list must be added money-lenders and dealers in foreign currency.

Clearly, the scope is very wide. While not denying the "informal" characteristics of many of the activities in this sector, there are at least two reasons why it may be more appropriate simply to describe the sector today as essentially small-scale businesses. The first reason is the enormous growth in number that has characterised the sector especially since the early 1980s when the down-turn in the economy of most African countries had forced many school leavers and even graduates to have to operate in this sector. To this category of entrants into the sector must be added a growing number of retrenched staff from the formal sector under the impact of the structural adjustment program. The higher average level of education has, in many countries meant that many of the enterprises operated by these new entrants into the sector, although still small, cannot be correctly described as "informal".

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[6]. K. Hart, "Informal income opportunities and urban employment in Ghana", Journal of Modern African Studies, Vol ii, 1973 pp 61-89

The second reason derives from this last point. As the level of education and skill acquisition of proprietors of enterprises in the sector has risen, there is noticeable a qualitative shift in the degree of technological sophistication and consequently an ever increasing diversity in the range of activities within the sector. A growing number are now using power-driving machinery and do keep accounts of their transactions. Their vigour is best appreciated when it is recognised that they now provide viable alternative for municipal services traditionally regarded as a monopoly of public agencies. This is particularly so in the area of urban mass transit, urban housing provision, urban water supply and even urban electricity supply.[7]

Yet, for all of them access to resources remain a painful constraint on their growth potential. Not infrequently, the capital intensity of these enterprises is low not because they have no potential but because they do not have the wherewithal to meet the requirements of the formal financial institutions for loans and advances. Most of them are compelled by the present situation to continue to depend on a wide variety of informal sources of resource mobilization. These modes of resource mobilization are usually high cost and not always adequate both in terms of the amount provided and their time frame. They do not therefore provide adequate opportunity for growth and development which many of these enterprises, particularly the more modern ones, are capable of achieving both in terms of equipment sophistication and employment expansion. Yet, only when this happens can these small-scale businesses truly achieve their potential and effectively contribute to the development of individual countries. In order to better appreciate what needs to be done to rectify the situation, it is necessary to provide some historical perspective to the problem of resource mobilization in sub-Saharan African cities.

RESOURCE MOBILIZATION IN AFRICAN CITIES

The point has already been made that urbanization was one of the mechanisms used by European powers in the 19th century to insert societies and economies in sub-Saharan Africa into the global free market economy. However, in undertaking such a scheme, colonial administrations found themselves in a contradiction between their two missions of subjugating and exploiting African peoples and inserting their economies into the global, capitalist system. The subjugation and exploitation of the people entails not only establishing an administration with significant coercive

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[7]. See the study by Alex Anas and Kyu Sik Lee, Infrastructure Investment and Productivity: The Case of Nigerian Manufacturing - A Framework for Policy Study, World Bank Discussion Paper, Report INU14, Washington D.C., May, 1988; also Dale Whitttington, Donald Lauria and Xinming Mu, Paying for Urban Services: A Study of Water Vending and Willingness to Pay for Water in Onitsha, Nigeria, World Bank, Report INU 40, MARCH, 1989; and Dale Whittington, Donald Lauria, Daniel Okun and Xinming Mu, Water Vending and Development: Lessons from Two Countries, USAID, WASH TECH. Report, NO-45, 1988

power but also appropriating, especially in eastern and southern Africa, substantial amount of land on which European settlers could be accommodated. On the other hand, the insertion of African societies and economies into the global capitalist system began with the colonial demand for labour for agricultural and urban infrastructural developement as well as for clerical and domestic services. This demand began the process not only of rural-urban migration but also of the capitalist transformation of the traditional African mode of production.

In general, capitalist transformation has three elements to it. First, as already noted, capitalist transformation requires that all factors of production, in particular land and labour, should be commoditized in the sense of having an exchange value, besides their use value. This is to ensure that such factors, whether land or labour, can be sold or alienated to someone else on the payment of an appropriate price. Second, capitalist transformation requires the existence of markets where such commoditized factors of production can be exchanged and where price can be determined in response to the forces of supply and demand. Third, capitalist transformation requires the existence of a government that is not indifferent to the cause of capitalist accumulation and can ensure that transactions in the various markets are honoured and, where contractual relations are involved, that there are sanctions for any breaches.

Nonetheless, in attempting the capitalist transformation of African societies and economies, colonial administration commoditized African labour but did the same for land only in so far as Europeans were concerned. This has meant that whilst Africans were made to become wage and salary earners, exchanging their labour for monetary compensations, individual, freehold tenure to land was made available everywhere only to Europeans. In East and Southern Africa, this was preceded by acts of widespread expropriations whereby large tracts of land were declared Crown land and made available to European colonists on freehold basis. By contrast, various subterfuges and contrivances were developed to prevent Africans securing such freehold titles. Rather, everywhere, Africans in the cities were presented with land of uncertain tenure under such titles as certificates of rights, occupancy certificates, head-lease, quitrent, <u>permis d'habitation</u> and <u>livret de logeur</u>. Indeed, until after political independence, the general policy was not to encourage Africans to think that they had a right to permanent residence in the city. Thus, by denying Africans freehold rights to land, they were prevented from having access to an economic asset that can be mortgaged to mobilize credit resources from the capital market. This credit mobilization capacity is one of the most important characteristics of freehold land as a means of capital accumulation in the process of economic development.

In spite of this policy, African societies recognised that capitalist transformation represented a novel situation for which tradition provided no relevant guidance. It was, however, imperative to respond to it realistically especially as its demands were very exigent. Thus, to respond positively to the needs of the large number of urban migrants for shelter and workplaces in peri-urban locations, land-owning African families

also began the process of creating individual plots of land and selling them to willing buyers.

Their efforts have resulted today in the fact that more than half of the built-up areas of cities in most sub-Saharan African countries with such singular exception as Zimbabwe were developed through this process. Yet, most of these plots of land have no official title of changed ownership and are unregistered in a formal sense. They cannot, therefore, at the level of individual owners, be treated easily as an economic asset and used effectively as a means of resource mobilization and capital accumulation. At the level of the municipal authority, their unregistered status constitutes grave problems for raising local revenue from tenement rates or property taxes. This situation has also denied many African cities of the opportunities to mobilize resources from the capital market through bond issues for undertaking much needed infrastructural development.

Throughout the colonial period, therefore, resource mobilization through land ownership was thus construed as largely a European phenomenon. It was promoted through the instrumentality of banking institutions and served not only to enhance the economic well-being of individual Europeans but also to ensure that the European community at large, through property tax, can mobilize resources for providing and maintaining necessary infrastructure and community services. The self-reliant and sustainable development profile of major municipal centers in Zimbabwe even today attests strongly to what can be achieved if the foundations for effective local resource mobilization were well laid.

With the end of the colonial regime, may African governments were more concerned with undoing the effects of years of European land expropriation than with enhancing the resource mobilization capacity of their people. With regard to land tenure, the pre-occupation seems to be to repudiate the European preference for freehold tenure and roll back the unrestrained sway of the free market economy as it affects land. Between 1970 and 1985, as many as twenty-one out of forty countries, representing some 75 per cent of the total population of sub-Saharan Africa, decided to nationalize their land and to offer their citizens only leasehold tenure of varying duration rather than encourage the expansion of the market for freehold land.

This preference for nationalization and leasehold tenure evinced by African governments has meant the substitution of administrative for market processes in the provision of land for urban and economic development. Nonetheless, appropriate institutional arrangements both for validating existing rights and for adequately providing building plots for all those who require them are hardly in place in most of these countries. Scant attention is being paid to the provision of a legal and fiscal cadastre at least for the cities in most of these countries. Indeed, as Falloux noted, sub-Saharan Africa is the only region of the world where land property rights have hardly

been surveyed.[8] As a rough estimate, less than one per cent of the region, primarily in urban areas, have been covered by any kind of cadastral survey. The result of all this is that although leasehold tenure need not be a total impediment against citizens being able to use land as an economic asset for mobilizing resources for development, the bureaucratic processes of applying for and securing state allocation of land are not only tedious and protracted but also lend themselves easily to class bias and abuse. In such situation, the class of people who become proprietors of small-scale businesses are more likely to find themselves at some disadvantage in securing state land allocations.

Furthermore, even in countries where land is not nationalized, the rate at which deeds and title registration is undertaken in Land Registries and Land Departments often serves as a disincentive to most people seeking to take advantage of State validation processes for freehold purchases. If no dispute occurs, the process of land registration takes an average of 15 to 18 months. Normally, a period of two to seven years is not uncommon. This lengthy and costly procedure has led to tens of thousands of land titles pending. In short, in most African countries where land is marketable, title registration is often conducted on the basis of administrative and political influence and thus still constitutes an impediment to resource mobilization.[9]

Of equal significance in constraining the capacity of small-scale businesses for resource mobilization is the historical evolution of credit institutions during colonial times. By the late 19th century, credit institutions in the developed countries had evolved to a stage where credit provisions can be undertaken on the basis of impersonal rules involving the provision of collateral of significant worth as security for loans.

The banking system introduced during the colonial regime thus emphasized the vital role of collateral in any provision of credit. This was one reason why it was critical for Europeans and Asians to have access to freehold land which they could use to secure loans to develop their property or enhance the productive capacity of their businesses. The factor of colonial subjugation underlines why the same administration made it very difficult for most Africans to have similar basis of access to credit and other financial resources.

Since independence, many African countries have tried to resolve this problem not through tidying up the land title and registration processes to facilitate access of most individuals to banking institutions but rather through devising various on-lending schemes which allowed some agencies of government to

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8. Francis Falloux, Land Information and Remote Sensing for Renewable Resource Management in sub-Saharan Africa: A demand-Driven Approach, World Bank Technical Paper, No.108, September 1989, p.9

9. Ibid. p.47

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act as intermediaries between the financing institutions and the borrowers. Given the political manipulations that often accompany this type of credit provision, it is not surprising that the recovery rate of most loans given out in this system has not often been impressive. As an alternative strategy of resource mobilization, therefore such on-lending schemes have proved far from satisfactory and in many countries are in various stages of disfunctionality owing to the low rate of loan recovery.

CONCLUSION: WHICH WAY FORWARD?

There are, of course, other types of financial resources such as savings and there are various mechanisms for mobilising them. I have, however, used the example of land and bank credit to underscore a most critical point in any discussion of resource mobilization for economic development. This is that societies in virtually all African countries have been and continue to be very dynamic in adapting traditional institutions and practices with which they are familiar to the purpose of ensuring individual and group survival in the transforming situation of a free market economy. By contrast, the State seems to be caught in a position in which it appears to be trying to protect and maintain an inherited but outmoded legacy of the colonial past. This is certainly what is entailed when all the adaptations made by the people are described as "informal" and are hardly seriously addressed by policy instruments. By contrast, what is formal commands most policy attention even though it relates to the activities of an insignificant though influential minority comprising largely of foreigners, foreign enterprises and their local allies.

Clearly, if economic development is to be sustainable on the basis of self-reliant activities of Africans, this situation must be directly confronted. Policy-makers and bureaucrats must recognise that colonial laws and procedures which they inherited have evolved from the customs and experiences of specific European societies from which the colonizing powers had come. These laws and procedures have unfortunately been transplanted in their codified form and constitute the set of "formal" institutional rules which societies in colonial territories are now meant to follow. With the possible exceptions of countries such as South Africa, Kenya and Zimbabwe where, because of the size of European settlers, the intensity and depth of penetration of these rules may have been highly significant, over much of sub-Saharan Africa, the period of colonial rule was in reality not more than three-quarters of a century. The degree of penetration of these rules can therefore be expected to have been very superficial and to influence only a limited aspect of social and economic life.

The present economic crisis in most sub-Saharan African countries can thus be seen as posing for their governments the question: Which Way Forward? The situation, indeed, presents vast opportunities for policy and decision-makers to meet the needs of the majority of citizens for an enabling and liberating policy environment. Such environment must perforce concentrate on

evolving rules, procedures, laws and institutions which are more supportive and promotional to the fledging efforts at development of the generality of citizens and of their productive activities. With respect to resource mobilization, such an environment must be more facilitative in enhancing the access of significant proportion of urban residents and small-scale businesses to titled land and credit. The real challenge with regard to titled land is both to produce cadastral maps of land holdings cheaply and to involve the majority of the people in the process of land adjudication and registration. There are presently available technological options which can facilitate the relatively inexpensive production of the beginnings of a cadastral map. But to complete the process of transforming this into a legal and fiscal cadastre would depend on an urban management which sets great store on neighbourhood organization. For it is at this level of organization that information can effectively be accumulated to facilitate the process of adjudication and, therefore, of registration.

The enhancement of the access of urban residents and small-scale businesses to secure title to land is bound to have tremendous significance for their ability at resource mobilization. It will release to such individuals and enterprises assets which should heighten their capacity to attract credit from modern financial institutions for business expansion and further capital accumulation. In turn, their improved conditions should make it easy for municipalities to mobilize more local resources through having a better information base for property taxation. The vastly increased revenue that can accrue to such municipalities should make it possible for them to engage in further programmes of local infrastructural development, thereby creating more local employment and increasing opportunities for more resource mobilization.

But even for those urban residents and enterprises which cannot as yet aspire to land ownership, it is possible to conceive of other strategies to improve their access to credit. There are evidence that where such strategies are based on the rich African traditions of community self-help they stand a good chance of succeeding. The World Bank, for instance, reported on the "banques populaires" programme which had since 1975 provided a means for mobilising financial resources in the rural areas of Rwanda.[10] Similarly, in Nigeria, a major initiative is being promoted through establishing what are known as unit community banks. These are banks owned and managed by individual communities which are not meant to have branches, hence their designation as unit. They are, nonetheless, meant to be licensed, regulated and their activities monitored by the Central Bank or a special branch of it. The equity capital of the banks is put at a level much below that of normal commercial or merchant banks. A large proportion of it is meant to be contributed by members of the community in the same manner as they have always raised funds for specific projects like building schools, clinics and water supply schemes like in the Harambee

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10. World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth, Washington D.C., 1989, p.172.

Movement in Kenya. To encourage this effort at resource mobilization, the government is providing substantial matching grants to each bank. The banks are meant initially to concentrate on very limited banking functions notably receiving deposits, taking savings and giving out loans. The interest rates charged may or may not be the same as those of the commercial banks but they cannot be below the minimum re-discounting rate of the Central Bank.

Clearly, community banks or "banques populaire" are attempts to confront the credit needs of small-scale businesses with creative policy-formulation and programme development. They represent some of the imaginative strategies that can be devised, based on the traditions of people and calculated to harness and direct the tremendous energies of African societies. They provide a more durable foundation not only for sustainable development but also for the emergence of economically strong and democratic nations.

In this address, I have tried to provide a historical perspective for appreciating what can be done for stimulating resource mobilization around two aspects of urban economic life, namely land and credit institutions. I have no doubt that during the course of your deliberations many other aspects of urban and national life will be identified and strategies outlined for capturing their potential for resource mobilization and economic development. The last decade of this century promises to be one in which African nations are being challenged to be the architects of their own fortune. I have no doubt that with the calibre of people assembled here from both the public and the private sector the structure and size of that fortune can be expected to be of robust proportions.

Let me conclude therefore by expressing the hope that out of the deliberations of this Workshop will emerge new and strategic ideas which will assist our many nations in effectively mobilizing all our peoples and all our local resources for the challenging task of developing this great continent of ours.

I thank you all for your attention.

THE PRIVATE SMALL SCALE BUSINESS SECTOR IN KENYA: ITS CONSTRAINTS AND RESOURCES

T.O. OYIEKE

DEFINITION OF SMALL SCALE BUSINESSES

Small scale businesses are defined in many different ways depending on the parties interested in relating to them. In Kenya, for example, most non-governmental organisations which have shown interests in their development have defined small scale businesses as those requiring capital investments not exceeding Sh. 10,000/-. Kenya Industrial Estates on the other hand has defined them as businesses requiring between Sh. 500,000/- to Sh. 2,000,000. Most commercial banks regard any businesses requiring capital investments below Sh. 1,000.000/- as small scale.

Prof. Akin L. Mabogunje, in his key note address to this workshop provided a fitting frame within which the small scale businesses in Africa are defined. The characteristics of small scale businesses listed include:

- informal activities which are not officially registered.
- when registered they tend to be owned by single proprietors employing no more than ten individuals who are basically apprentices.
- the enterpreneurs keep no accounts of their business transactions.
- they are enterprises which are usually low in capital intensity and depend largely on individual rather than institutional financing.

For purposes of this paper, I wish to adopt the definition on Prof. Mabogunje's keynote address. I wish also to state that the terms small scale businesses and informal sector business will be used interchangeably but meaning one and the same thing. I wish to add one more characteristic to those mentioned above, i.e. that most operators of informal sector businesses do depend absolutely on income derived from the business for their subsistence.

HISTORICAL PERSPECTIVE OF SMALL SCALE BUSINESSES IN KENYA

Pre-Independence Economy

The colonial process established dual economics in Kenya. The monetary economy was primarily for servicing the crown establishment and its servants. The white settlers, the colonial administrative machinery and the "duka wallah" who provided the necessary goods and services to keep the process

running. Parallel to the monetary economy, there existed the subsistence economy of the "natives" which initially was barter economy but later adapted money as an exchange media but not for its own sake.

Natives were coerced into working either in plantations (white farms) or in other machineries of colonization such as railways, public service etc. Terms such as "kirut" and "ogirimiti" originate from this era in Kenya's history. The individuals so recruited into forced labour agreements performed menial jobs. Few were permitted to develop to senior management position. Those who did were called "Nyapara's" meaning supervisors. The wages were not paid in cash money, but in kind - posho, blanket, calico or japan clothing materials.

Against this background, demand for goods and services both effective and otherwise continued to come mainly from the white settlers, white colonial administration personnel and the Asian shop-keepers. The coming of the natives to urban or farm settlement situations did not create any demand for manufactured goods and sophisticated services.

The source supply for the goods and services was through:

1) importation
2) railways and harbours
3) farm yards in white highlands
4) public works department.

The second world war changed many things in Kenya. The most important being the political awareness by the natives and demand for some of their rights. The attitudes of the white settlers and the colonial government which protected them also changed considerably towards the native. Wages were improved. People went further up the ladder of both settler farm management and colonial administration. Skills and knowledge were acquired through practical apprenticeship.

Side by side with the formal business sector which supplied the needs of the establishment and its settler community, there was established small enterprises which manufactured and supplied goods and services to the simple unsophisticated but growing demand from the African populace in urban or rural areas.

Post Independence Economy

The intervening period between the second world war and independence which was characterized by Mau mau war of independence greatly accelerated changes in Kenya. At independence there was generally greater awareness of monetary economy among the Africans. Many more people of african origin held positions and jobs with reasonable monetary incomes. Cash crop farming was opened up for africans resulting in considerably more cash income flowing into the rural areas.

Kenyanisation of the economy policy resulted in influx of people from rural areas into urban areas in the hope of getting jobs. More schools graduates were churned out as a result of school facilities expansion policies. Unfortunately there was disparity between demand for employment and ability of the public, private and formal sector to absorb that demand.

The spirit of struggle created during Second World War and Mau Mau war of independence experiences led those who did not get formal jobs to embark on informal self employment. Their enterprising natures identified discrepancy in demand and supply for certain goods and services and they ventured to meet the demand.

The category of goods and services which were in demand were:

1) Household furniture and fittings
2) Cooking and water storage facilities
3) Clothing and textile
4) Public transportation
5) Servicing of motor vehicles
6) Repair of electronic equipments
7) Catering and food manufacture
8) Burglar proofing and house security.

INTERNAL CONSTRAINTS TO DEVELOPMENT

When small scale enterpreneurs venture in a business branch in which they have no previous or only superficial experience this becomes a constraint right from the start. The reasons to enter into such businesses may be the notion that there is much money to be made. For example, when matatu became fashionable as a means of transport, many people ventured into the business. The drivers and touts who understood the business more than the proprietors became richer while the proprietors sunk.

Apart from the general technical know how of the business, many manufacturing enterpreurs found it difficult to break through due to heavy competition and their lack of ability to match competition with quality and good finishing touches. Limit of imagination reduced most interpreneurs to producing similar products without attempts to introduce variety and wide product mix.

Management Skills

General business management skills forms a major draw back to business development among small scale enterpreneurs. Starting with how the finances are managed. In most cases the businessman's pocket is their cash register, safe and bank. They are not able to separate between business money and personal money. This leads to mismanagement and on several occasions eating into the capital. When they consume money intended for working capital and are unable to meet customers

supply deadlines they loose out heavily. Related to above is the fact that most small scale enterpreneurs do not keep any business records and are therefore not able to account for income and expenditure. Most live from hand to mouth because of this. They are therefore also unable to make forward business expansion plans leave alone forward budgeting. To crown it all, most small scale businesses find costing and pricing for their goods and services a very taxing experience. Sale prices are, therefore, reached by rule of thumb and in most cases the customers are subsidized unknowingly.

Product promotion and sales drive may be a constraints in some small scale business branches. In my opinion, this is one area where they have out done the formal sector. A walk around matatu terminals in Nairobi will loudly echo this view. Racecourse Road, Landhies Road and Gikomba areas are show windows for all merchandize and services offered by small scale businesses. This phenomenon is repeated in nearby all urban places throughout Kenya.

Equity base and Socio Economic Responsibilities

One major developmental constraint for the informal sector and which links up with other external factors is that of source of finances and economic responsibilities. Most small scale businesses have little funds of their own which is needed to form an equity base. Apart from selling some other assets e.g. livestock, the only other source of funding may be the immediate family or the extended family. The equity base is, therefore usually very unstable and shaky.

The business is usually looked upon as the milking cow to supply daily sustenance and subsistence to the enterpreneur and his family. Whether the extended family have contributed to the initial equity or not, their demands on the generated income must be met as a tradition. Income is therefore drained before it can be reinvested. The vicious circle thus created does not allow for business expansion.

EXTERNAL CONSTRAINTS TO DEVELOPMENT

Credit Limitation

One of the major external constraint to small scale enterpreneural development, which was discussed extensively by Prof. Mabogunje, is lack of access to funding by formal financing system. Most banks have looked upon the small scale enterprises as bad risks not worth any minutes consideration. This view stems basically from the fact that most small scale enterpreneurs are unable to produce tangible collateral to secure loans and credit from banks. Part of tangible security demanded are land title deeds which either the businessmen do

not have due to delayed adjudication and land registration or because the titles are in joint ownership of the family.

In the absence of formal financing outlet, some enterpreneurs have borrowed from money sharks who have literally drained them due to unfavorable repayment conditions.

Security of Tenure

Since most of the small scale enterprises are informal they are not recognised by the authorities both in central government and local government. They operate mainly on sites and plots leased to them by private landlords or belonging to the local authority. Knowing their legal status, the landlords usually exploit them through exhorbitant user rents without providing any basic service facilities. Lease agreements are drawn in absolute favour of the landlords.

The tenants can be evicted or the rentals can be increased at moments notice.

Source of Raw Materials

In some cases, especially in the manufacturing businesses, the sources of raw materials are linked to the market outlets and credit sources. Since the enterpreneurs lack on credit to finance working capital, they seek "soft" loans from suppliers of raw materials. The supply of such raw materials is usually linked up with sale of finished products through verbal or written agreement. The agreement purports to guarantee sale of finished products to the supplier of the raw materials whereupon the credit amount for the raw material is recovered.

In practice the cost of raw materials is charged at such high retail price while the products are purchased from the manufacturer at whole-sale price. The end effect is that the small scale enterpreneur does not gain anything while the product ends up being sold at exhorbitant profit margin for the loan shark.

Rules and Regulations

For a long time even central government did not officially recognize the informal sector and its contribution to national gross domestic product. This has now changed and a Ministry of Technical Training and Applied Technology has been created with a mandate to promote informal sector development among other duties. Several local authority rules and regulations are hostile to the informal sector to the extent that they frustrate any attempts of the enterpreneurs to develop. For example some councils have bye laws which prohibit licencing of small scale business which do not operate in permanent premises. When informal sector businesses have sprung up in such councils, there has been always a cat and mouse hide and seek game.

There are some councils though which have recognized the value of informal sector to economic growth of the towns and do support efforts of the enterpreneurs to develop within tolerable limits.

POTENTIAL OF SMALL SCALE BUSINESSES AND THEIR CONTRIBUTION TO NATIONAL DEVELOPMENT

Growth Potential

The effects of structural adjustment have started manifesting themselves in many parts of the country. Policy of District Focus for Rural Development strategy has transferred many civil servants to man posts in rural/urban centres. This move has also transferred a considerable volume of effective demand from the large to smaller towns and market centres. Communication in terms of roads has improved to facilitate the District Focus Policy. This has also improved and expanded the market horizon of goods and services manufactured by the informal sector.

From a recent study, not yet published, made by Matrix Development Consultants, the growth rate of the informal sector business compared to that of the formal sector over a period of five years showed a ratio of 1:5 for eleven towns selected at random. In most of those towns no major formal sector expansion had taken place. The number of informal sector operators on the other hand had grown by a factor of five and there was no sign of cut throat competition among them.

Contribution to National Development

a) Apprenticeship

In keeping with the 8-4-4 education system which emphasizes vocational training, the informal sector have proved a very useful venue for offering practical technical training for school children and school leavers. Some polytechnics have made arrangements to attach trainees with "jua kali" artisans to learn practical aspects of their trade.

b) Employment Creation

Linked up with the growth potential discussed above, the informal sector have an impressive capacity to absorb job seekers. The present capacity is reported to be 40 times compared to the formal sector. This means that any investment in the informal sector will have a multiplier of 40 in terms of job creation as compared to the formal sector, if similar investment was made there.

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c) Resource Transfer to Support Agricultural Sector

The availability of appropriate technology within the rural areas through development of informal sector artisans is a major contribution to stabilizing agricultural development. Farmers do not have to travel long distances to purchase farm implements they need or to repair and service what they use. Technologies for transportation of farm input such as fertilizers and manure have been brought nearer the farmers. Water harvesting, animal watering and feeding technologies are now available to farmers at affordable prices or purchase conditions.

INITIATIVES TAKEN TO SUPPORT SMALL SCALE BUSINESSES

Conventional Initiatives

Some conventional initiatives were taken by agencies and non-governmental organisations on a philanthropic basis. Most support was given in form of soft loans (credit) which were channeled through groups. There was no requirement for commitment to use the loans properly nor to repay promptly. Some of the loan was in cash while others in kind and the groups were made responsible for the administration of the loan in terms of disbursement and collection.

Although the intention was admirable, the methods used for availing and disbursement of the loans was poor. Dishonesty in handling the aid money was rampant among those with the responsibility to manage them. When loanees did not repay, the leaders were not bothered since they themselves had embezzeled some of the money. They all saw the money as charity rather than loan to facilitate their business growth.

All these experiences confirmed the impressions and prejudices by the banks about credit risk of the small scale businesses. The main faults of the conventional initiatives were:

- Lack of proper training in the matters of financial management.
- Absence of clearly identified loan purpose from the loanees point of view.
- Poor loan administration processes
- Lack of commitment by group toward group loan repayment, therefore lack of peer pressure group to substitute collateral.

Recent Initiatives: Credit Guarantee Scheme

Credit and security of tenure have remained the major problems facing the small scale businesses. Benefiting from conventional initiative experiences attempts have been made to address the problems of the small scale business in their entirely. A model

scheme has been developed by FES/SEFCO to address the problems of informal sector development as a package.

This scheme operates on the basis of enlisting the mutual guarantee of all the loanees based on a registered associations formed by groups in different locations.

The pillar of mutual guarantee is the willigness of each member to contribute proportionately to their loan amount into a mutual guarantee fund according to an agreed formula. This contribution is pledged as initial security should anyone fail to repay their loan.

In addition to the contribution, the members agree to chattel mortgage their capital assets in favour of the association to be liquidated should they fail to repay.

The mutual guarantee fund together with the chattel mortgage are used as pledges (security) to a guarantor willing to guarantee to commercial banks as collateral for 100% loan requirement by the association. A further 20% is deposited to protect interest and other charges.

When the quarantor has provided sufficient guarantee in form of fixed deposit for 120% of required loan amount to the bank, the bank then issues term loans to the association members under the normal bank conditions. Such loans are used mainly for funding working capital requirements and the amounts vary between Sh. 5,000/- and 20,000/- for up to 36 months period.

When a loanee defaults, the mutual guarantee fund is used to pay off the bank. The association then involves its right on the chattle mortgage and demands repayment failure of which the chattel is sold.

This arrangement has met with unexpectedly high rate of success since repayment rate over the past six years has been 97%. A total of 17 associations representing 350 artisans and small scales businesses have benefited from approximately Sh.4 million. This may seem a drop in the ocean when compared to the large demand. But it is a good start which can be emulated. Some four (4) local authorities have been attracted to this scheme and have agreed to provide the Deposit Guarantee as a security for facilitating loans to informal sector operators in their towns.

Other benefits accruing from this arrangement include:-

- Training in business record keeping, general business management and salesmanship
- Opening bank account.
- Intensive follow up and advisory services for business success.

THE INFORMAL SERVICE SECTOR OF BUJUMBURA

A CASE FOR NON-INTERVENTION

DONALD HART, Ph.D.

INTRODUCTION AND METHODOLOGY

The Informal Sector Survey represents the first comprehensive study of Bujumbura's informal service sector and is a collaborative endeavour between USAID and the Ministry of Labor and Professional Training (MOL). The objectives of the survey were (1) to provide baseline data as part of a tap of the Burundian economy; (2) to further co-operation with the Ministry of Labor; and (3) to provide analyses which will be of use to the Government of Burundi in the formulation of policy and legislation concerning the micro-enterprise sector.[1]

Six hypotheses served as guides for questionnaire design. The first three relate to the economic importance of the sector, while the second set assumes that: informal entrepreneurs are blocked from achieving formal status by inhibitory legislation, and that they would generally prefer formal status if it were available at a reasonable transaction cost. The survey also takes into account the question of the sector's importance to vocational training and to entrepreneurial development.

In consultation with the MOL, the survey team chose the following informal enterprises for the research: food and general stores, beer bars, flour mills, restaurants, photo studios, hair salons, and electronic repair shops. Original censuses, which commenced with lists from zone administrative offices, revealed a population of 1,772 informal service enterprises in Bujumbura. A total of 326 interviews were conducted on stratified random samples with a questionnaire which was widely pretested and revised. The team also conducted 117 interviews in the three provincial centres of Gitega, Rumonge, and Ngoziwere, but the data from these interviews has not been analyzed for the present report.

SOCIO-ECONOMIC PROFILE

The typical owner of an informal service enterprise in Bujumbura is male, Burundian, married, thirty-seven years of age, has six years of education and six other members in his household. Less than one fifth of the owners are women: they do not predominate in any of the sectors surveyed, not even as hair dressers. The large majority of the owners (72 percent) report that their service enterprise is their principal economic activity. Two

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[1]. The survey was conducted by Dr. Elizabeth Adelski from February to August, 1990. The present document is based on draft chapters written by Dr. Donald Hart of Labat Anderson, Inc., who is serving as Private Sector Advisor to USAID, Burundi, and who provided technical guidance throughout the survey.

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thirds, however, have other sources of income in addition to these businesses.

The enterprises' linkages are predominantly with the central market for supplies and neighborhood clientele for sales. Most businesses reported no linkages with the formal sector, while one third cited clients from the interior as a significant target for sales.

Salaried workers and family members constitute 90% of the labor force. The remainder are apprentices and household servants who work part-time in their employers' shops. The typical laborer is male, Burundian, born outside of Bujumbura and works full-time. Approximately one quarter of the laborers are from Gitega, and one quarter are citizens of the countries that border Burundi. The average monthly salary for a laborer in the informal service sector is FBu 3,000 ($17). Nearly one third of the employees in the service sector earn less than that average, and only 2% earn more than FBu 10,000 ($57) per month. None of the businesses register workers with the INSS and generally ignore labor and employment regulations.

The number of people employed by the businesses surveyed remained stagnant over an average period of slightly more than four years, reflecting virtually no enterprise growth.

A third of the owners report having borrowed money for their businesses; 20 percent have solicited bank loans, and of these nearly two thirds were approved. For start-up costs, the great majority report having used funds from personal savings, and only five percent ever borrowed from informal money lenders.

While two thirds of the businesses pay municipal taxes, very few pay income taxes and are not required to do so, as the Ministry of Finance recognizes that income from these businesses rarely exceeds minimum requirements for family maintenance.

Inferences from the survey data and subsequent information interviews suggest that 14% of owners may actually possess a valid business license ("carte de commercant"). Respondents indicated that the process for obtaining fully legal status is not difficult or time-consuming, Although they considered it somewhat expensive. They emphasized, however, that little or no advantage was to be gained through formalization. In fact, the increased visibility to the administration through business registration could have a negative impact, by allowing businesses to be readily identified for payment of dues to the Chamber of Commerce, mandatory savings at CADEBU, and so forth. Moreover, the entrepreneurs, so long as they were registered at the municipal level, encountered no regulatory obstacles to the conduct of day-to-day affairs.

ECONOMIC ANALYSIS

An economic analysis performed on data from the 326 enterprises surveyed yielded the following basic information:

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According to owners' estimates, 99% of the services surveyed in Bujumbura are worth less than FBu 3 million or $17,000, and therefore can be classified as micro-enterprises. The average net worth, based on estimates of gross assets, is 265,000 FBu, or $1,500. Initial investment averaged FBu 165,000 ($945), but the median figure was only FBu 60,000 ($343), reflecting higher costs for the mills and photo studios.

Calculated at constant 1986 rates, the average increase in value of the enterprises from start up to the present is only 5%, with an average age of enterprises being around four years.

The average annual gross income of the enterprises is FBu 465,000 ($2,660), showing little variation according to age of enterprise. This figure is well within the range of earnings previously reported for the informal sector in Bujumbura. Both an earlier World Bank study and this research indicate that the informal sector generates substantial revenues.

The following major points can be made about the role of Bujumbura's informal service sector in Burundi's economy, based on 1988 national statistics and this research:

- A comparison study reveals that the informal service sector of Bujumbura contributes nine times the value added of the Novotel, the city's largest service enterprise.

- Bujumbura's informal service sector generates FBu 823 million annually.

- Bujumbura's informal service sector generates 2 percent of Burundi's tertiary sector's value added.

- The informal service sector's fiscal contribution to the state is disproportionately low (FBu 12.9 million in comparison to the amount it contributes to the economy (FBu 823.3 million)

CONCLUSIONS AND POLICY IMPLICATIONS

THE SURVEY HYPOTHESES

The informal service sector comprises 43 percent of all the informal businesses in Bujumbura and 25 percent of all businesses, formal and informal, in the capital city. In Bujumbura alone, the 5,000 people actively engaged in the informal service sector represent the equivalent of 20 percent of all salaried employees in the formal private sector of Burundi. This data supports the first of the hypotheses initially postulated for the study, that the informal service sector accounts for a notable proportion of all commercial activity in Bujumbura in terms of employment and numbers of enterprises.

Bujumbura's informal service sector generates 823.3 million FBu annually, which is 2 percent of the value added of Burundi's tertiary sector and 6% of the national GDP. These services generate average gross annual incomes of FBu 465,000 ($2,657) which is ten times the GDP per capita. Because national economic accounts in Burundi are not disaggregated by city or other geographic region, we have drawn the comparison of the sector as a whole with the largest modern service enterprise in Bujumbura, the Hotel Novotel. The informal service sector generates nine times the value added of the Novotel and engages twenty-nine times the number of salaried employees. Although we cannot extrapolate the economic data to a national level without unacceptable risk of error, we can safely affirm the second hypothesis, that the informal service sector makes a significant contribution to local GDP.

The third hypothesis stated that the informal service sector makes appreciable fiscal contributions through direct and indirect taxation. It was not possible to measure the extent of indirect taxes; nonetheless, given the modest level of forward linkages to the modern sector, one may infer that the informal sector's fiscal contribution through indirect taxes is very low. The sector contributed FBu 9.8 million (US$56,000) in municipal taxes, 2.5% of all municipal taxes collected in Bujumbura in 1989. The amount of income taxes collected from the informal sector is roughly one third this amount. As these figures are very low in absolute and in relative terms, the hypothesis is refuted. There is, however, a distortion factor in this presentation of the data, since, the sector's unpaid municipal taxes due account for 6 percent of total municipal tax receipts. Thus the potential fiscal contribution of the sector is much larger.

The final set of initial hypotheses are all corollaries of a single premise, that an excessively complicated regulatory system obstructs a natural tendency towards formalization of prospering micro-enterprises. The hypotheses are these:

- Many successful operators in the sector would prefer formal business status if it were available to them at an affordable transaction cost.

- If barriers to formal status were mitigated, many entrepreneurs would expand their businesses, and the benefits to the economy and to society would correspondingly increase.

- The lifting of barriers would also limit growth of the informal sector by easing a continuous transition of owners and employees from that sector to the modern one.

The survey results challenge each of these hypotheses, largely because the premise upon which they rest seems to be unfounded. We have, in fact, failed to identify any particular regulations that have a direct, negative effect on the informal sector. At present the government allows the sector to function largely outside of the regulatory structure. This position reflects a permissive, laissez-faire stance towards informality, as well as

an apparent intention to grant increasing administrative responsibility to local authorities.

It is the larger economic situation in Burundi that at present poses real constraints upon commercial development. Insufficient revenue and too few clients were cited by a third of the respondents as the major single reasons for closing a former business. Everywhere the effects of severely limited consumer purchasing power are evident: imitative entrepreneurship, atomistic competition, minimal profit margins.

Two central questions, not formulated as hypotheses, also influenced the design of the questionnaire: (1) To what degree is vocational apprenticeship realized in the informal service sector? (2) To what degree does the sector serve as a breeding ground for future successful entrepreneurs in structured businesses?

Apprenticeship is neither common nor formal in the unstructured service sector. Apprentices constitute only 6 percent of the people currently working in the sector, and, as previously reported, their role consists of "learning by imitation in the shortest possible time" (World Bank 1987). People generally acquire the necessary technical skills by working in a service enterprise as paid labor. More extensive vocational apprenticeship is unnecessary because (excepting electronic repair shops) the types of services surveyed do not require specialized skills.

The informal service sector is a breeding ground for entrepreneurship only to a limited degree. The limited revenues of entrepreneurs restricts their commercial growth. The feeble purchasing power of their clientele pushes them into diversifying their economic activities rather than concentrating on one, improving a set of skills, developing a growth business, and "graduating" to the formal sector. Entrepreneurial success (owning more than one business, or developing a profitable one), seems to be correlated with personality rather than with the particular skills acquired in the informal sector. Research on the formal sector would provide more insight into this question by identifying entrepreneurs who have "graduated" from the informal sector and analysing how they have handled the transition. The present research indicates that working in the informal sector does teach some basic business skills and provides experience for managing small-scale enterprises.

Absence of diachronic data does not permit an assessment of the growth potential of the informal service sector. Inferences from profitability and from the virtual absence of informal credit markets suggest, however, that growth is limited. In consequence, the capacity of the sector to absorb a significant percentage of the estimated 60,000 new yearly entrants to the job market should not be overestimated. The informal service sector does not represent a vastly growing, major contributor to employment or to the economy of Bujumbura; nonetheless, as the data cited above amply demonstrate, the sector cannot be ignored in any evaluation of the urban economy and labor force. Its importance is easier to appreciate by considering the consequences, both to the direct

participants as well as to the social stratum it serves, of its repression or elimination. Policy considerations affecting the sector should be weighed carefully in light of the data presented.

POLICY IMPLICATIONS

One of the principal objectives of this survey is to provide data which will contribute to the judicious formulation of policy in Burundi. , Before proceeding, however, we must stress the limitations of this analysis. First of all, the data refer only to Bujumbura and only to those businesses which would emerge into the modern tertiary sector. Second, the present report is not intended to issue policy positions. The implications of these caveats are that any conclusions extrapolated beyond the informal service sector must be cross-checked with data from other studies in Burundi, and that the conclusions reached in the present analysis are tentative and heuristic. They are intended to encourage public officials and donor partners in Burundi to examine policy proposals in the light of new information, and to weigh carefully the potential economic and social returns of development assistance projects aimed at the micro-enterprise sector.

This brief analysis will explore implications of the survey data for a few areas of primary concern to the Burundian structural adjustment initiative and to the international donor community. These areas are:

- legalization and formalization of business
- fiscal policy
- labor and employment
- credit

Legalization and Formalization

One third of the merchants interviewed claimed to hold a business licence, although we estimate that no more than 14% actually possess a "carte de commercant". They are generally aware of the requirements for obtaining the license and indicate that they do not consider the process difficult. Although they consider the fees expensive, the fact is that the transaction cost for formalization appears moderate. Transaction costs comprise expenses resulting from cash outlay for permits and licences, legal fees, and bribes, as well as the costs of lost time from productive business activity. There is ample evidence that the legal registration of a small, unincorporated business in Burundi has become a fairly rapid, unencumbered process. The fact that even 14% of the owners of the informal service sector possess a valid business license, and that possession of the license is distributed randomly in terms of nationality, suggests both ease of acquisition and an absence of discrimination against non-nationals at this level.

We arrive at the cautious conclusion that registration procedures for sole proprietorships does not constitute an obstacle to small

business development in Bujumbura. Virtually all the businesses surveyed, moreover, are registered in their zones. At the micro-enterprise level, such registry seems to confer sufficient legality to permit visible, continuous commerce from a fixed place of work. Two important steps in the passage to liberalization of the small business sector have been at least partially realized; simplification of procedures and administrative decentralization.[2]

The perceived advantages to full compliance with registration, on the other hand, are very few and largely negative. While owners of food stores with some forward linkages to formal wholesalers say that the "carte de commercant" allows them access to certain controlled commodities in times of shortage, others view the permit as little more than a shield to minor harassment by the authorities. Over a third of the respondents perceive no advantage whatsoever in possessing the license.

The unattractiveness of and consequent indifference towards full legal status is a sure indication of a weakness in the larger system. Economic theory has demonstrated that voluntary compliance with formal legality occurs naturally when that system confers greater efficiency than an extralegal system (see De Soto, "Other Path ", p.245) There is neither efficiency nor prestige to be gained in Burundi at the present time by acquiring the status of full legality through payment of dues to the Chamber of Commerce and through registration with the business court. While this has been done to eliminate regulatory obstacles, much clearly remains to be done to create a facilitative legal system.

A facilitative legal system would assure the businessman of protection from unfair or discriminatory treatment by the authorities, it would help protect him from losses through the enforcement of contractual law, it would give him access to services and agencies that grant real assistance to businesses, and it would ease his access to formal credit. Ultimately, by working through and cooperating with the government, the business community should expect to see the sorts of improvements in zoning and infrastructure that enhance economic activity.

At the present time in Burundi there is an enlightened attitude of laissez-faire towards the informal sector; at the same time, there is a desire to regulate the sector's activities through a "code de l'artisanat" as well as to enforce payment of dues to the Chamber of Commerce and Industry. In the absence of positive attractions, such codification and enforcement are likely to compromise further the low level of productivity of the sector. Perceiving increased visibility as a threat, informal entrepreneurs will be tempted to recede from the sorts of activities that lead to growth in sales and employment. They are probably right in believing that there is no agency in the country capable of truly helping them or of accurately perceiving their needs.

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[2] The regulatory situation for corporate and other limited liability forms of business may be markedly different.

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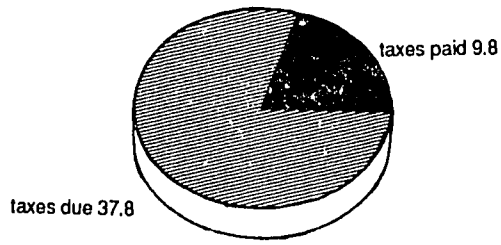
While no government can long afford to ignore whole economic segments of society, the next step in Burundi may be the depoliticization of business activity and the creation of truly positive legal structures as a framework for that activity. This would represent the third phase in the liberalization of private business and could well hold the key to the stimulation and organization of the informal sector into business for profit, rather than just for survival. While this process occurs, it may be wise to forebear imposing controls upon the informal sector, except such as genuinely must be created for protection of the commonweal.

Fiscal Policy

Since it was virtually impossible to measure the informal service sector's fiscal contribution through indirect taxation, the survey initially concentrated on direct taxes through income tax payments and through payments of municipal taxes, which are excise taxes on commercial activity. The contribution through income tax payments is exceedingly low. This is hardly surprising. First of all, the Department of Internal Revenue at the Ministry of Finance finds that the cost-benefit ratio of pursuing income tax payments in the informal sector is negative; secondly, as there is no way fairly to calculate profits, only minimal forfeit taxes are assessed of those businesses which give evidence of prosperity.

The contribution through municipal taxes is significantly higher, although still low in absolute terms. What is particularly striking, however, is the extremely low proportion of taxes paid to taxes theoretically due, as the following figure illustrates.



In millions of FBu

Three possibilities, or a combination thereof, explain this minimal level of tax revenue to the local authorities: (1) non-assessment through forgiveness (exoneration) or lack of manpower; (2) evasion on the part of owners; (3) corruption from nepotism, bribes, or the diversion of funds.

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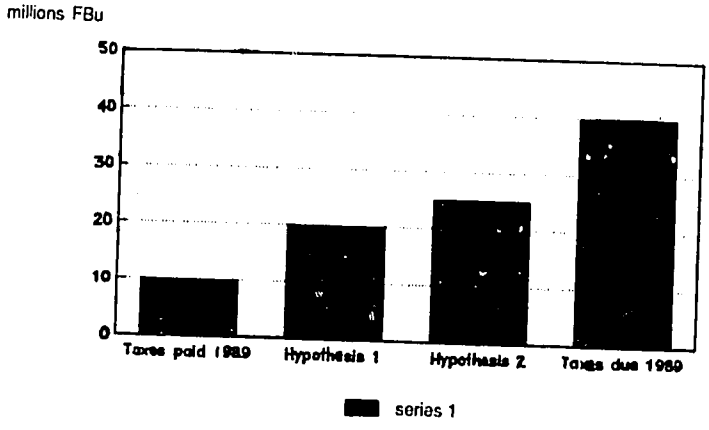
None of these scenarios can be rendered clear. Given the fact that official municipal census lists were as much as 40 percent short of the real numbers of enterprises, one may infer the incidence of some diversion; at the very least, the opportunity for diversion exists. Some evasion is likely, especially among the less stable of the businesses, which can transfer physical location without excessive disruption of activity. Finally, we know from the local authorities that exoneration occurs frequently. What percentage of this exoneration derives from enlightened benevolence, what from payoffs to collectors is again impossible to determine. Certainly forgiveness of taxes is often accorded to start-up and obviously unprofitable enterprises.

In contemplating the significance of the loss of municipal revenue through non-collection of taxes due, we must recall that tax deficits from the informal sector appear to be lower on a relative basis (and vastly lower in absolute terms) than those from the modern sector. It would therefore be an intemperate conclusion from the data presented to recommend a far more rigorous application of the rules to the informal sector alone. Such a conclusion would compound unfairness with counterproductive fiscal policy, since a militant tactic of tax collection on the informal sector would likely encourage informal entrepreneurs to adopt unproductive strategies of concealment and camouflage.

Wiser options may lie in (1) considering varying hypotheses of reduced assessment and higher recovery and (2) in assuring that the informal businessmen perceive direct benefits from their taxes.

The following graph illustrates the 1989 payments of municipal taxes and two hypothetical totals. The first of the hypotheses supposes a lowering of tax rates by 50 percent with 100 percent collection; the second supposes raising taxes by 25 percent and collecting only from the businesses above the median figure for weekly net income of 3,000 FBu.



The foregoing hypotheses are not to be regarded as specific recommendations; they are meant as unsophisticated demonstrations

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of ways of looking at alternatives. But a more perfect tax strategy is only a beginning. Economic analysts the world over have discovered that voluntary payment of taxes increases in proportion to the perceived fairness of the assessments and to the visible benefits that accrue to the community from tax revenues. Greater revenues to the municipality should ultimately translate into community betterment that encourage business development and stability: improved roads, housing, sanitary conditions, and education are but a few of the pre-eminent examples. Other possibilities are the allocation of a percentage of revenues for specific projects requested by the business owners and the negotiation of matching funds from donors interested in contributing to local advancement.

Employment

The informal service sector of Bujumbura boasts none of the larger enterprises or substantial equity investments that Hernando de Soto found in Lima. Nearly 90% of the businesses surveyed have fewer than four workers, including family members, and none has over 10. Among the owners only 40 percent had ever worked in a formal business, where their average length of stay was six years. As a majority of these individuals had been employed as skilled workers, we may reasonably assume that the percentage of informal employees having held formal jobs is significantly lower especially since higher wage earnings are generally not an attraction of the informal service sector to employees.

The informal service sector looks more like the ILO's classic description as employer of last resort than it does de Soto's hotbed of entrepreneurial capitalism. Moreover, since only, 22% percent of the owners were born in Bujumbura, it also clearly absorbs some amount of rural to urban migration.

The informal service sector in Bujumbura employs about 3,600 people, inclusive of owners and family members; 2,196 of these are salaried workers, who, with owners, represent 13 percent of all salaried workers in the formal private sector of Bujumbura province (Revue de Statistiques de Travail, 1989). While the absolute numbers again are very low, the percentage shows the importance of the sub-sector to the labor market and warns against any policy measures which could result in decreased employment.

Over an average of four years, total employment in the sector has increased by 6 percent (1.5 percent per year), much slower than the economy in general and slower than the overall labor market; but the number of salaried employees has stagnated or even decreased. The labor market for Burundi grew by 5 percent from 1986-87 but suffered a reduction of 2 percent in permanent jobs.(idem.)

Unemployment is growing in Burundi for many reasons, and the trend is unlikely to see a reversal in the short-term. Clearly, any sector capable of absorbing some of the estimated 60,000 new yearly entrants to the job market should be supported. In regard

to the informal service sector the question is, What sort of development assistance is likely to produce compensatory results?

We have calculated the cost of job creation in the informal service sector as equivalent to US$1,200, as opposed to US$57,000 for the Novotel. Since this calculation is based upon the figure of 2,196 salaried employees, the break-even point for a 1$million employment creation project would be 833 jobs. This would represent an employment growth rate of 38 percent, a clearly unrealistic target. Given the restraints on development of the sector imposed by the overall economy, the elementary education, and the low interest expressed in skills training, it is uncertain whether traditional employment generation projects could have much effect. Certainly a cost-benefit analysis, such as suggested in the rudimentary figures above, should be performed in the earliest stages of planning, well before a final determination is made on the investment.

Credit

Two thirds of the owners interviewed indicated lack of capital to be a major obstacle to development/expansion of their businesses. Between "capital" over "credit," over 80 percent responded that money was the form of assistance they most desired. Only one percent said that they would request training in the form of assistance (although to other questions a majority recognized the need for training). This negligible interest in additional training is ominous and suggests the need for a closer look at alleged demand for capital.

TYPES OF ASSISTANCE

	All sectors (326)	Restau rants (51)	Food stores (100)	Beer bars (83)	Repair shops (13)	Mills (25)	Photo studio (8)	Hair salons (46)
Capital	58%	61%	60%	66%	54%	40%	38%	50%
Vehicle	3%	4%	5%	5%	0	0	0	0
Credit	24%	22%	31%	22%	0	44%	25%	11%
Training	1%	0	1%	1%	0	0	13%	2%
Accounting	1%	2%	0	0	0	4%	0	0
Tools	4%	0	0	0	8%	0	13%	22%

Only 35 percent of owners reported having borrowed money. Eighty percent of them had paid all start-up costs out of personal savings, and over 70 percent of these had succeeded in accumulating the necessary capital in three years or less. This raises the obvious question as to how the respondents were able to save enough in under three years to establish a business but are unable to realize sufficient savings in business operation to improve their enterprises. If we take their answers at face value, we must conclude that businesses in the sector are not prospering. One third of the owners, nonetheless, possess another business.

The picture that emerges is one of a relatively stagnant sector in which entrepreneurs who prosper opt for economic diversification rather than vertical development of a single business. A very high density of micro-enterprises in Bujumbura provokes intense competition at the lowest level of business and compresses profit margins. It may be that little room exists for realizing economies of scale through the establishment of larger businesses. But prudence may also dictate diversification, as a large single investment is usually perceived as being at greater risk than various small investments in a climate of political and economic instability. Although lack of investor confidence is likely to reach down into the informal sector, it is improbable that it would be a major constraint on business growth. Once again, low consumer purchasing power is the shadow behind the anaemic sectoral growth. The net worth of the sample has increased, in 1986 currency, only 2 percent.

Despite the owner's assertions, the picture of the sector which emerges from the survey data fails to corroborate their view of lack of capital/credit as a major obstacle. Moreover, credit seems to be available to the entrepreneurs in the amounts actually needed. Twenty percent had at one time or another requested formal loans from the banks and, of these, two thirds of the applicants were accepted. The fact that only 25 percent of the bank loans were used for business development is another indicator of lack of interest in the expansion of the informal enterprises. Only 5 percent of the respondents said that they had received loans from the money lenders, from which we can infer the absence of any significant informal money market. Interest rates in Burundi have not been high, and informal lending at high interest would almost certainly have occurred in the face of sufficient demand.

The implication of the above analysis is that project efforts to facilitate access to credit at the level of the informal service sector are unlikely to bear much results. Small enterprise credit projects address neither policy nor macroeconomic issues, and the existence of the informal sector is in some measure a function of these areas. Credit projects will benefit a few entrepreneurs at high subsidies and disproportionate costs. This does imply, however, that any related development effort is doomed to be fruitless. While the self-financing characteristic of the sector is commonly found in studies (Hammon), the absence of savings associations in Bujumbura is unusual. As the success of the COOPEC project has demonstrated, Burundians do save and are wiling to deposit savings with an organisation when confidence warrants. The "tontines" and "susu" clubs of West Africa are well known to students of informal financial circuits. It will be interesting and instructive to follow the efforts currently under way in Bujumbura to promote the formation of associations in some of the neighborhoods most rife with informal business. If available credit to informal entrepreneurs is to increase, the source of funding should come from the entrepreneurs themselves. Any subsidized source would be likely to perpetuate informality in the shape it currently takes and discourage entry into the formal market economy.

Conclusion

The informal service sector is a significant but not predominant force in the economy of Bujumbura. Moreover, the sector is not just a problematic reaction to lack of opportunity in the formal sector: it is a response to consumer demand. In addition to its more easily quantifiable contributions to value added and to job creation, it serves the daily needs of the urban poor. It is the indigence of this clientele that creates the raison d'etre as well as the confining circumstances of the sector.

Public intervention in the informal sector can take two forms: enforcement and assistance. Enforcement may serve as protection of the citizenry, in which case it can be viewed as positive intervention, even though it may harm some businesses. Such activity could involve regulations on the sale of food, medicines, and cosmetic services in the interest of public health; it could be control of noise, pollution, or fire hazard.

Enforcement can also entail mandatory registration of business to coerce payment of income taxes, association fees, or compliance with minimum wages. The consequence of this kind of enforcement would probably be regressive informalization of business, at the cost of jobs and affordable products and services for the impoverished population the sector predominately serves. Given its marginal profitability and the failure of its enterprises to achieve significant growth in equity, the informal service sector of Bujumbura could probably not withstand much increase in enforcement.

The issue of public assistance is less clear and returns us to the definitional question through the back door. For whereas it is easy to identify an unregistered enterprise or one in arrears of tax payments, it is not at all obvious to distinguish between informal and formal small businesses. To create an assistance project for the informal sector requires first identification of the sector. In practice such projects usually identify micro-enterprises or particular neighborhoods where informal businesses predominate. Either approach begs the question of informality and thus confounds efforts to establish a coherent assistance policy.

To abdicate the definitional question, however, ultimately betrays the sector by admitting forms of intervention ill-suited to the long-term welfare of the beneficiaries. Vocational training projects, for example, far too often fail to study the market requirements for the trades proposed and do a disservice to the local economy as well as to the students, who find no remuneration for their skills. Entrepreneurial development projects flounder because training needs assessments are too often presumptive and wilfully blind to the overwhelming economic constraints surrounding the informal sector.

Only two practical and logical responses to this dilemma arise: a hands-off approach and a responsible cost-benefit approach to assistance. The results of the present survey suggest that the former approach, a watchful laissez-faire, is the wiser choice at present. This approach would enjoin wariness towards any effort to codify or organize the informal sector. It would prefer

the concentration of human and material resources on the causes of excessive informality.

The informal service sector of Bujumbura does not need policy reform to free it of shackles. It would probably benefit very little from vocational or entrepreneurial training. While it certainly lacks capital, it is not manifest that capital should come in the guise of direct credit. Capital coming in the form of consumer strength will indeed transform the sector, promote its growth, and make it ripe for absorption into a modern commercial sector. The present course of Burundi's structural adjustment program is, in the long run, the most helpful of all alternatives to the entrepreneurs and employees in the informal sector: economic growth, administrative simplicity, and the gradual depoliticization of commerce are policies that induce businesses to become the building blocks of society.

PRIVATE FINANCE OF LOW COST SHELTER AND INFRASTRUCTURE THE ZIMBABWE CASE

W.M.P. BERESFORD

The views expressed in this paper are my own but I would like to believe they are broadly representative of thinking in the Building Society movement in Zimbabwe.

Fortunately, and perhaps uniquely in Africa, Zimbabwe possessed three vigorous, private sector building societies at the time of independence in 1980. I say 'fortunately', because this gave the country a head start when the Societies became directly involved in low income housing in 1986. It also ensured healthy competition between them.

Since the early fifties the Zimbabwean Building Societies have provided the mainspring for low-density, high income housing in the country. For a number of reasons, however, they did not participate in low income housing. Resources were limited, security of tenure was lacking, lower building standards were permitted in high density areas which did not meet Building Society requirements and the Societies were concerned at the high cost of administering a large number of small loans. They were also worried that low income mortgagors would not be able to maintain their repayments which would result in an increasing default rate. The Societies did make bulk loans to Government and Local Authorities, but this was the extent of their participation. Low income housing remained, almost exclusively, the preserve of Government and Local Authorities.

The advent of independence placed the Societies in a potentially awkward situation. The new Government placed a high priority on housing for the majority while the Societies were geared to serving the needs of a comparatively narrow band in the upper income brackets. We were well aware of this imbalance and sensitive to accusations that we were borrowers from the poor and lenders to the rich. We were anxious to participate more directly in the low-income housing sphere but there were a number of important constraints. Firstly, high taxation, negative investment returns and substantial inflation limited resources. Secondly, and perhaps more important, we were not competitive with the Government Post Office Savings Bank which offered tax-free investment opportunities to the public. In fact, it was very clear to all concerned that if Building Societies were to contribute to low income housing, on any meaningful scale, they would have to be able to attract new money investments.

For the first three years after independence, Government seemed content to "go it alone". Inevitably, however, competing demands for education, defence and rural rehabilitation began to erode the resources available to Government for housing. External loans were obtained and several large housing projects implemented. This form of assistance, and the consequential repayments in foreign exchange, had its disadvantages and could not form the basis of a sustainable low income housing policy. It was essential to look inward and harness internal resources

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more effectively from the people, employers, property developers and the private sector housing finance institutions. It was hardly surprising that Building Societies fell under the spotlight.

The negotiations which followed provide an object lesson in how Government can facilitate, or enable, the release of substantial resources from the private sector at very little cost to the taxpayer. In November, 1986, Regulations were gazetted permitting the Societies to offer c, Class, Paid Up Permanent Shares (or PUPS) at a tax free dividend rate of 9%. We could now operate at something like parity with the Post Office Savings Bank and, at last, we were competitive in the market place. The tax-free dividend rate was lower than the previous 11,25% on offer. This reduced the cost of procurement and, to some extent, offset the high administrative costs of small mortgage advances. It was a condition of the regulations that a minimum of 25% of the total investment in tax-free PUPS should be channelled into low income housing.

The popularity of the new shares, which attracted a real interest rate of 23%, to those in the top tax bracket, was immediate. The Societies began making home loans to individual, low income clients in January 1987. The extent to which we have succeeded is best judged in terms of results:

	Number of Loans	Amount $Z millions		Average Loan	
1987	3	861	24.7	6	399
1988	4	916	39.2	7	974
1989	5	579	54.6	9	799
1990	5	441	78.4	14	410
Total	19	796	196.9	9	948

The statutory requirement to support low income hooking to the extent of 25% of the inflow of funds has been consistently exceeded and, in respect of my own Society, it stood at 49% at the 30th June 1990. It should be noted that the figures I have given you relate only to mortgage loans to individuals and exclude bulk loans which we continue to make to Government and Local Authorities. The results could have even more spectacular had all the funds available to the Societies been disbursed. Unfortunately the number of loans we could make were limited by the inability of Local Authorities to produce sufficient serviced plots. The small drop in the number of loans made in 1990 is no indication that demand has declined or that we are reducing the housing backlog. The rapid increase in the average loans is evidence of escalating development and building costs and does not mean that houses are getting bigger and better. To put this matter in perspective, low income loans accounted for about 16% of my own Society's total mortgage portfolio for the year ended 30th June 1990.

In several respects, the scale of Building Society participation has revolutionised high density housing policy in Zimbabwe. Local Authorities no longer need to provide shelter or

construction loans to beneficiaries. They may expect a quick roll-over of development capital by obtaining full payment for serviced plots at the time of sale. Theoretically, this enhances their capacity or servicing further plots. They have been relieved of much of the burden of cost recovery and this should be reflected in reduced staff establishments. In broad terms, Local Authorities need not concern themselves with the provision of shelter and may focus their attention on the servicing of land.

In order to achieve these results Building Societies have had to adapt their traditional procedures and policies to meet the particular needs of the low income target group. Here I would emphasise that we are in competition, so not all Societies offer exactly the same facilities. Some examples:

- Our building standards were reduced to conform with those applied by Local Authorities.

- A special low interest rate of 11.5% for loans of under $Z 12 000 has been introduced. Loans over this amount attract interest at 13.75%.

- A low-start mortgage scheme is available which allows a lower initial affordability threshold for clients.

- In anticipation that a client will take in lodgers once his house has been completed, a notional lodger allowance is added to the client's declared income to enable him to obtain a larger loan.

- Conventionally, advances from a mortgage loan are made only after the client has reached certain stages in construction. This process failed with low income clients because they did not have the resources to make a start. The Societies therefore provide the client with an up-front, 25% advance on the premise that the increased risk will be off-set by faster construction.

- Most of the low income group are able to obtain Government Guarantees on the strength of which, Building Societies will advance 90% loans. However, the need to find 10% of the total cost still imposes a severe burden on the low income borrower. In the case of self-builders, therefore, the Societies have accepted that the client's input in managing his own construction equates to 10% of the total cost. Effectively, this means that self-builders can obtain 100% loans.

What are the main problems encountered and lessons learned from our experience:

- The low income group has not proved to have a high default rate. Housing is such a prized commodity that clients will make extraordinary sacrifices to maintain payments. In the very rare cases where it has been

necessary to re-possess, buoyant re-sale prices have assured full-cost recovery.

- The predominant mode of low-income housing development has been based on the allocation of serviced plots to beneficiaries by Local Authorities. Beneficiaries then obtain loans from Building Societies covering the purchase price of the plot and the cost of constructing a house. For the most part, beneficiaries hire informal contractors to build their homes. While the self-builder system has certainly produced results, beneficiaries encounter many problems which form the hidden costs of the process. In particular, a serious shortage of building materials is having an adverse impact on the speed and cost of construction. I Re rate at which loan proceeds are drawn down is slowing, leading to an unhealthy build-up of mortgage commitment within the Societies.

- The failure of Local Authorities to provide sufficient serviced plots stems from a loss of implementation skills, coupled with unwieldy bureaucratic procedures and a lack of delegated decision making powers from Central to Local Government. As a result, Building Societies are under growing pressure to assume a mare direct developmental role. In other words, in addition to our traditional function as financiers of development by others, we should actually service land, build houses and provide housing loans to individuals.

- In an attempt to ensure that low cost housing opportunities are not ni-jacked by the higher income groups, beneficiary income ceilings are frequently applied to new housing projects by Local Authorities. The intention is to be applauded but there are adverse spin-offs in this policy. Firstly income ceilings limit the amount that a client can borrow from a Building Society, sometimes to an unrealistic level which is insufficient to purchase the plot and build a minimum house. Secondly, the policy encourages under the-counter deals where the low income beneficiary becomes a front man for someone who can really afford the property. Thirdly, the middle income group is becoming frustrated at being left out in the cold. if the prime objective is to increase the housing stock we should, perhaps, ensure that more allocations are made to those who are best equipped to develop quickly and with the least risk of over-loading themselves.

- As servicing and building costs escalate, the affordability threshold is rising and an increasing segment of the lower income group is unable to afford the cheapest housing opportunities on offer. The need to review current minimum plot sizes and standards of planning, servicing and building is becoming crucial.

A sub-theme of this Workshop relates to the harnessing of small-scale or informal businesses in national housing efforts. Building Societies are formal housing finance institutions and cannot be classified within this sector. Nevertheless, the Societies can and do make a contribution in support of the small, informal entrepreneur. In Zimbabwe many thousands of informal building contractors make-their living from Building Society loans. We are able to finance cooperative housing development. We are able to assist property developers venturing into the low income- housing field. Although NGOs have yet to make a significant impact in housing in my country, there is no reason why they should not become indirect beneficiaries of Building Society finance. The trickle-down effect of Building Society loans is certainly felt over a far wider circle than the immediate beneficiary.

The extent to which Building Societies have been able to contribute to low income housing in Zimbabwe has given rise to a spreading body of opinion which perceives them as the key to the entire housing problem. There is a danger in such thinking that could lead to the sort of tunnel vision which, a few years ago, saw the public sector as the exclusive producer of shelter. It is important to see Building Societies for what they are and to recognise their limitations. They have a prime responsibility for protecting the investments of their clients and shareholders. By law they require solid security for loans advanced in the form of title deeds or hypothecated long leases. Buildings must be of sufficient quality to last for, at least, the period of the loan. In terms of viability, there is a lower limit below which loans become uneconomic. In the case of CABS, this limit has been calculated at $Z6 686 at 30th June, 1990 and it is escalating rapidly.

In these circumstances, it must be accepted that Building Societies are not the appropriate agencies for reaching the very poor or those living on land with no security of tenure. By the same token, they could not directly assist those in need of subsidised social shelter or individuals in squatter upgrading schemes. The funding of temporary shelter would also fall outside the scope of a Building Society.

The point I am trying to make is that, while Building Societies can make a major contribution to the national, low income housing programmes, they cannot be all things to all men. They are creatures of their environment and susceptible to many influences outside their own control; changes in interest rates, national liquidity levels and political stability are examples of such influences. We have already seen how Government action on investment rates in Zimbabwe enabled the Societies to mobilise additional, private sector resources for low income housing. We have also seen how the full potential of Building Societies is being frustrated by the shortage of building materials and the inadequate supply of serviced land. We are most effective acting within the context of a holistic housing policy and in close collaboration with other actors in this sphere. A multi-disciplinary approach is essential if we are to reconcile such issues as affordability, cost recovery, long

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term credit, security of land, availability of materials and harnessing the capacity of the individual to help himself. There is no single road to the housing heaven.

Mr. Chairman, I would like to conclude, somewhat dangerously, by taking a brief look at the future:

- Unless we see a greater emergence of the private sector property developer in the low income housing sphere, Building Societies will probably have to assume a more direct developmental role, particularly as regards the servicing of land. Certain changes to Building Society legislation will be necessary but we are already participating in joint venture projects with Local Authorities, employers, property developers and housing co-operatives.

- There will always be a place for self-builders and we will continue to support them. However there is likely to be a swing towards turn-key, mass housing projects where economies of scale can be achieved in construction and through the bulk handling of clients and documentation.

- If we are to step up our participation in low income housing we must ensure that our service is geared to the needs of our clients and that our savings and investment opportunities are attractive to the public. This means expanding our network of branches and our computer system or on-line transactions throughout the country. I have often heard it said of Building Societies that once they stop growing they start dying. That may or may not be correct, but it is certainly true that unless you can attract money in the first instance, there is little point in having an effective system for disbursing it in the form of home loans.

Mr. Chairman, I believe we have every reason to be proud of the contribution made to low income housing by the Building Societies over the past three and a half years. Of course we have encountered problems, but the experience we have gained will be invaluable in charting our course for the future. We are in this field to stay, but I must repeat that our participation will be most effective as part of national housing policy in which the public and private sectors play complementary roles.

THE PRIVATIZATION OF THE MAURITIUS HOUSING CORPORATION (M.H.C.)

J.R.D. VALADON

Background

The Mauritius Housing Corporation was created by an Act of Parliament at the end of 1962 and started to operate in January 1963 as an independent body.

In fact we had a Bank in Mauritius called the Mauritius Agricultural Bank which government had instituted in the late 1930s to provide funds to sugar industries and sugar cane planters.

After 1945 when Mauritius received three uninvited guests bearing the dreadful name of cyclones the Agricultural Bank was entrusted the task of granting and managing loans in favour of the cyclone victims for the reconstruction or repair of their houses.

This exercise encouraged the Bank to embark into a new activity of providing normal mortgage loans to any prospective homeowner no doubt believing that: "prevention is better than cure".

Therefore as from 1951 the Bank started its housing loans portfolio which not only proved lucrative to the Bank but quite beneficial to Mauritians.

At the end of the 1950s the question was asked as to whether the Mauritius Agricultural Bank should not be restructured into a new Bank with a name like "The Mauritius Agricultural, Industrial and Housing Bank".

After a study sponsored by Overseas Development Authority (ODA) and Commonwealth Development Corporation (CDC) it was decided that instead we should have two separate institutions.

The Agricultural Bank gave birth to MHC in 1962 and to the "Development Bank of Mauritius" in 1963.

In fact the decision proved beneficial to the country in spite of higher administration costs, because MHC was able as a separate entity to obtain 50% of its seed capital from the Commonwealth Development Corporation while the development Bank was helped financially by the World Bank.

When MHC took over the housing portfolio of the Mauritius Agricultural Bank, MHC obtained assets of the order of fourteen million rupees representing some two thousand housing units.

For quite a long time MHC remained a housing Bank catering mainly for the middle and higher income groups. Its loans did not exceed 60% of the value of the property (House plus land) nor 75% of the estimated value of the house to be constructed.

To become a homeowner with the help of MHC it was necessary to possess the plot of land whether freehold or leasehold and to have a quarter of the costs to build the house to be constructed.

Gradually however in 1967, with the introduction of a mortgage insurance Policy that guaranteed any difference above 75% of the value of properties (Houses plus plots of land) MHC's loan contribution was increased upto the present day possibility of it representing 100% of the total value of the property to be mortgaged.

Another Cyclone in 1975 again influenced decisions. The cyclone had badly hit the houses occupied by the lower income groups mainly because they were not strong enough nor properly maintained.

At the request of the Minister of Finance MNC reviewed its policies and decided in 1977 to give priority of consideration to applications for loans from the lower income groups of Mauritians.

This Fundamental change qualified MHC for loans from institutions like USAID, World Bank and European Development Fund who all together with CDC had agreed to respond to our government's appeal for financial help with a view to launch a programme of urban reconstruction.

Another cyclone hit Mauritius in 1979 and the situation worsened. Government asked the abovenamed institutions to accelerate the processing of its loan request and in the early 1980s Mauritius embarked on an island wide reconstruction programme. Apart from certain loans to the local authorities and Central Electricity Board the best part of the programme was entrusted to MHC.

During that period MHC was able to help about one third of new home-owners reconstruct their houses inasmuch as the average number of houses built over the island was about 3000 per year and MHC was making an average 1000 new loans per year.

The expansion of MHC was (and is still) spectacular. Our assets which in December 1963 totalled 15.2 million of rupees and had increased to 109.5 million in June 1977 now exceed 500 million rupees.

Similarly our retained net profits which were climbing the steps of a staircase from half a million in 1963 upto 15 million rupees as at 30th June 1977 suddenly took the lift up to reach over 70 million in June 1988. Our net self-revolving funds now exceed 25 million rupees and we can without borrowing finance the construction of more than 100 houses or flats.

The lesson to learn from this experience is that the abrupt increase of our self-revolving funds and of retained profits is a result of two main changes which our Board was guided to make.

First I had succeeded in obtaining from the Board that MHC should make an adequate margin on all its borrowings. Presently we aim at least at a 2.5% p.a. spread in order to meet administration

costs and make provisions and reserves whereas before 1977 Board was proud of being able to maintain low interest rates on its lending in spite of increasing borrowing rates.

Second there came the decision at the end of 1977 of opening our services to all Mauritians with special attention to the housing needs of the lower income groups. It is not from these latter groups that we can claim a margin of 2.5% profit. We have kept our clientele of middle and higher income earners and have adopted a cross-subsidy system whereby we make more profits in transacting with these income groups and claim less from the lower income groups.

At present Government is willing to consider housing as a top priority. It has launched the slogan "un toit pour chaque famille" - a roof for each family. Again MHC is being called to play a major role and as MHC's present structure as a parastatal organization would hamper progress in such a direction it requires drastic structural adjustments in a competitive environment, hence the need to privatize.

Government's Economic Policy

This decision of privatizing MHC is in line with our government's general outlook. Government in fact has moved away from a policy of trying to direct and control every single activity and is instead doing its best to encourage the Private Sector to play its role towards the development of the country. Government offers incentives such as tax rebates or no tax at all and does its best to create an atmosphere of security which entice both local and foreign investments in the industries which have helped to resolve our unemployment problem.

Even certain services are now provided by the private sector. It is a company which has taken over our telecommunications department and another compnay the cable and wireless or overseas telecommunications.

The cleaning of our beaches and of the roads and public buildings in Port-Louis our capital is entrusted to a private company called "Securiclean".

In the housing sector Government is offering the private sector an attractive package of incentives to obtain its contributions towards Government's aim of helping each family own its own home

Companies who agree to cater for the housing needs of the lower and middle income groups will pay only 15% Corporate tax. They will obtain remission of a great part of import duty especially on equipment required to build high and middle rise buildings. The dividends they will pay to their shareholders will be income tax free for 8 years from the date of their registration.

They must however operate within certain criteria which inter alia, aim at maximization of the use of land which is available for housing construction and the production of housing units which are affordable by the lower and middle income-groups.

By such a package Government also tries to obtain from property developers and building contractors to slow down their activities in favour of the higher income and the rich and to help provide for the middle and lower income groups.

Steps towards Privatization

As a first step towards privatizing MHC a new Company was incorporated on 12th December 1989 under the name of MHC Limited. Its objectives which include the taking over of MHC business have been clearly defined in its Memorandum and Articles of Association in order that the Company may perform as well as the Corporation and so that it may even be more efficient.

In parallel to the incorporation of the company a Bill was passed by the Legislative Assembly to provide for the transfer of assets, liabilities, rights and interests of the Corporation to the Company.

As the Bill was approved and passed in December there remains to be fixed an appointed day on which the taking over will be effected.

As a start the new company's capital structure has been determied as follows:

> Authorized Capital of 1,000,000 only of which 45% to be provided by Government, 30% by 3 Companies owned mainly by Government and the remaining 25% to be offered to the public.

This sharing of the capital is made in order to prevent a block minority that can be controlled by a rival group because a company must obtain a majority of 75% at general assemblies to modify its objectives and widen the scope of its activities.

Before the actual transfer of undertaking can be effected, MHC must proceed with the revaluation of all its assets. We have already done so in so far as our fixed assets are concerned.

Currently a firm of Accountants is reviewing our accounts with a view to produce our final accounts and Balance Sheets that will form the basis of the deed of Transfer of Undertaking.

Simultaneously our Board is studying and modifying a report made by the Management Audit Bureau with the aim of providing a new staff structure.

We will be calling for tenders regarding certain services such as the drawing up of our corporate plan, the prospectus and the study of our needs in computerization. In October we will be receiving the visit of an expert in Building Societies business who will study our needs in staff training and will draw up a revised plan of staff studies and training.

As soon as our accounts will be completed a date will be fixed for the transfer of Undertaking but during the four months that will follow, both institutions MHC Ltd and MHC Board will

continue to exist so that the taking over be as smooth as possible.

Negotiations with staff have started. The Staff Association has already submitted a memorandum specifying the staff's aspirations. It will be the Company's duty to consider the staff's requests and to negotiate with them the terms of their transfer from MHC to the new company.

It is to be noted however that those who are not satisfied after negotiations will be allowed either to retire on condition that they have reached a certain age or acquired a certain number of years of service. For the majority who are young it they do not agree to join the new company they will only be entitled to a normal compensation calculated on the basis of half a month salary per year of service.

It is however convenient to note here that according to the act which has been passed in parliament all the staff's rights and privileges including pensions are to be preserved.

The Advantages of Privatization

Certain important advantages and privileges which the corporation enjoys as a parastatal have been preserved.

However, as a parastatal MHC must presently follow certain patterns that apply in government services. We cannot for instance grant a contract without having first called for tenders and generally through public notices in the press.

For the recruitment of staff we must also call for applications by public press notices. Recently we have completed the exercise of recruiting some 20 new clerical officers after having had to screen and pre-select among just below 3,000 candidates who had responded to our notices published more than one year ago.

As a company we will perhaps continue to recruit certain staff especially for top and middle management level by means of notices in the press. For the recruitment of clerical officers however we will surely be able to limit our choice to unsolicited applications, by sponsoring school leavers or even through an employment exchange Bureau. Overall a much quicker hiring procedure.

Disciplinary and firing procedures in cases of staff who fail in their duties will also be quicker within a private company concept than within a parastatal organization which must follow the same procedures as apply in government civil service establishment. From our own experience it took us more than a year to terminate contracts of non performing personnel and in the meantime bear the brunt of not being legally able to replace them.

Further all the precautions we have to take within a parastatal or government organization by following step by step the lengthly procedures prescribed by the rules and regulations do not guarantee us against the possibility of the officers to appeal

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to the supreme court for either revision of their cases or for claims for damages.

On the positive side as far as staff is concerned a company can reward its staff according to merit rather than according to time of service.

At present with our salary structures which are copied by force of law on those of the Government services we are unable to attract a good and qualified personnel especially for top and middle management levels because the private sector can offer better salaries and fringe benefits.

For one thing I hope with privatization to be able to recruit and retain a good accountant a thing we have failed to achieve for the past two years. I also hope we will be able to attract well qualified computer personnel and good calibre managers for the departments which the Board is considering to create within the new structure that we propose for our staff.

Financially we will be able to raise funds from the public not only by calling for loans or by offering them the 25% shares in the Capital but also by the issue of Debentures and Bonds.

At the beginning of September 1990 "the Mauritius Leasing Company Ltd" launched a public offer of debenture stock for 75 million rupees. On 6th September the Company, which is owned mainly by Government, published a notice that the whole amount had been fully subscribed.

As MHC has over the years proved to be an efficient organization able to make a reasonable profit every year I have no doubt that when MHC becomes private we will also be able to attract funds from the public.

It is a fact that the issue of shares, Bonds and Debentures offers an additional advantage over the raising of loans and the running of Savings Schemes in that holders of shares, Bonds and Debentures can negotiate these instruments to raise funds when required through the stock exchange, the Banks and Brokers without affecting the Company's liquidity.

Of course we will have to be competitive and even more efficient than we are at present in order to attract not only those who want to invest but also those who want to borrow for house construction or purchase.

As Borrowers require land to construct we shall be in a position as soon as the needs arise to create subsidiary companies to deal in property purchase and development as well as to launch joint ventures with other private developers and contractors.

Inevitably we shall have to be more concious of profitability but with the experience which we have already acquired within MHC we are confident that we will be able to compete in the world of private enterprise. It is a fact that although a parastatal, MHC already functions on a sound commercial basis. We have already

become a Building Society able to offer an interesting Savings Scheme which brings in about 2 million rupees per month.

We also do know how to effect cross-subsidization which help to cater for the housing needs of the lower income groups as well as for the higher income groups. We know how to charge higher rates that are still competitive from the higher incomes and the rich, a middle rate from middle income earners and a modest rate from the lower income earners.

Therefore I believe we stand more chances of expanding further for the benefit of our country as a whole as a private company rather than as a parastatal organization.

PUBLIC SECTOR IMPACT ON PRIVATE SECTOR DEVELOPMENT

GILES CLARKE

1. INADEQUACIES IN TRADITIONAL PUBLIC SECTOR INTERVENTIONS TO SUPPORT CITY DEVELOPMENT

a) Introduction

Until the 1960s, the scale of city growth was such that technical resources, development policies and budgeting were either within the capacities of municipalities and/or central government departments, or city needs as a whole were ignored. As cities in developing countries began to grow rapidly, as reception areas for the rural landless, as a result of modern agriculture and as a result of industrial development requirements, so the gaps grew between city development needs and resources. We may summarise these inadequacies under four main headings: the failure of master planning, shortfalls in finance, institutional shortcomings and hostility between the public and private sector.

b) The Failure of Master Planning

The failure of master planning has been well documented. Comprehensive approaches, based on the traditional paradigm "survey-analysis-evaluation-plan-implement', were evolved in developed countries during a period when technocratic solutions, assisted by the advent of computerisation and other tools, led to a highly analytical form of planning which was time-consuming, over-rigid and geared to a single long-range outcome. Typically, it was believed that a city's investment programme should simply be "derived from" its comprehensive physical development plan. Through maps and text, an urban master plan was to describe the proposed future land-use and infrastructure patterns for a city, fifteen to twenty years in the future. City-wide master plans were to be backed up by detailed sub-area plans that specified allowable land-uses on a lot-by-lot basis. The analogy to an architect's blueprint for a building was often stressed. Once the plan was legally adopted: a) government agencies were to install infrastructure as called for in the plan; and b) regulations were to force the private sector to build consistent with planned specifications. As to infrastructure, the master plan concept generally recognised the need for translating the plan into multiyear Capital Investment Programmes (CIPs); these would produce the infrastructure network visualised in the master plan. Annual Capital Budgets (ACBs) were to be adopted consistent with the CIP which itself typically had a five-year planning period.

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While there are still adherents to this approach, the dominant view in the international policy community by the 1980s was that the master plan approach had failed. Worse, it had often acted to frustrate development. The most basic criticisms were:

1. Master plans were too static in nature, took too long to prepare, and were extremely costly.
2. Master plans seldom offered guidance on the phasing or techniques of implementation
3. Master plans seldom evaluated the costs of the development they proposed, or how they would be financed
4. Master plans were seldom based on realistic appraisals of the city's economic potential or likely population growth.
5. Master plans seldom provided a compelling rationale for detailed land-use controls.
6. Community leaders and implementation agency executives were seldom meaningfully involved in the master planning process.
7. Master plans were infrequently updated.

The net effect of such inadequacies is that the majority of urban growth in developing countries is now taking place outside the ,official, control systems. Thus, informal residential and business development increasingly dominates new urban areas and is forced to rely on self-help techniques. These techniques range from the illegal squatting and tapping of urban services by lowincome households to the provision of their own electricity, water and sewerage supply by high-income developers. Increasingly, therefore, 'traditional planning activities are restricted to trying to document unplanned growth and where possible to bring some development coordination and services to the settlements. In such areas, the new paradigm of urban expansion is - occupationbuilding-servicing-planning. This is the situation in which the much-debated question of 'public participation in the planning process' does not arise. It is the public that does the planning and the development; it is the planner who is not allowed to participate.

c) Shortfalls in Finance

In nearly every developing country's cities there is a major shortfall of financial resources for the provision and maintenance of urban services, land for urban expansion, provision of employment opportunities, etc. The problems stem from revenue shortfalls, lack of coordination between investment agencies, and lack of coordination between those agencies and the 'traditional, planning process. These problems manifest themselves in the three main budget constraints underlying a capital programme for urban development. First, the need to formulate and prioritise capital projects within projected financial revenues (including local revenues, central government transfers, external grants and loans, etc.); second, the need to recover operating and debt service charges through a combination of customer charges and direct and indirect taxes; and third, the

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need to allow proper budgets for the operations and maintenance of investments.

While, therefore, financial shortfalls are common, there is in theory an almost universal capacity to generate additional resources by innovative charging mechanisms, particularly related to the commercial and industrial sectors. While the affordability of individuals is limited, that of the business sector (or at least its formal component) clearly exceeds what it is generally required to pay. The problem lies in the fact that it is often this formal business sector which is the power base for politicians who may be judged on how little they sanction by way of charges or how lenient they are in enforcement of those charges.

Although the discipline introduced by revenue constraints is the key to productive capital planning and budgeting, most municipal capital budgets in practice avoid acknowledging even the capital finance constraint. The capital budget remains a list of desired projects, most of whose financing sources are either unidentified or optimistically listed as donations from national government agencies or external support agencies. The capital budget thus becomes a lobbying document. Local politicians take these lists to petition for funds at the national level, or, depending upon the size of the city, in international donor meetings.

One consequence is that despite the ostensible rigour of the budget process, the capital budget remains an undifferentiated list of 'desired, projects, unshaped by local taxpayers' or politicians, unwillingness to pay, and unranked as regards their priority for local development.

The failure to take budget constraints seriously is probably the greatest single failure of the capital planning process, for it implies that there is no need to prioritise projects to fit within resource limitations. Project wishes are merely articulated in the capital budget, in the hope that some external donor will provide the resources to make them come true.

d) Institutional Shortcomings

Institutional shortcomings include the general problems of staffing, particularly at local government level, and the particular problems of institutional coordination in development planning and management. The ratio of technical/professional staff to population often varies dramatically even within one country. Particularly in medium and small cities, there may be only one or two trained engineers responsible for a multitude of tasks required to deliver urban services. Staff competences are frequently characterised by a handful of dedicated and knowledgeable heads of departments overlying a majority of unmotivated and junior-and medium-level staff.

These problems of staff shortages may be compounded by the absence of clear guidelines for staff on what their job is, their responsibilities, and their delegated decision-making powers. There may be a total absence of instruction manuals on how things are to be done. As a result, coordination between policy-making, professional, technical and construction 6r implementation level staff is ineffective. The filtering-down process works poorly and there is failure in decision-making horizontally at lower levels. While coordination should be a two-way process, in fact is frequently one way, with the result that there is inadequate feedback and control systems available to senior management.

A conundrum exists: while government jobs are often viewed as jobs for life in economies where there is often very little certainty of employment and career structure, pay, incentives, training opportunities, etc. are often uninviting to ambitious individuals. Consequently, the issue of motivation will colour almost every attempt to innovate. When confronted with institutional change and new programmes, city officials, both civil servants and politicians, do not always react in the ways desired. Personal, financial and ideological motivations contribute to a reality which is very different from the reality perceived by central government and external support agencies.

A few examples will suffice: financial and other remuneration of officials who play key roles in a new programme may be nowhere near commensurate with the new responsibilities and required dynamism. Consequently, their commitment to the programme success is nil. Better budgeting and programming procedures may be strongly resisted by officials who see attempts at such systematic approaches as the end of their personal control of services delivery, through which they maintain their constituency support. Streamlining urban licensing and approval procedures, and reducing standards, may directly threaten the extra income of some officials, for whom bribes are an accepted and necessary form of business. Again, improved land management techniques (e.g. improved land information systems), may be resisted by officials under pressure from vested interests who rely on chaotic land management and non-information to maintain their dominance in land markets.

No complaint is more commonly found in development planning that that the different agencies charged with capital planning, implementation and financing fail to coordinate with one another.

In many cases, investment planning is carried out both by the local authority (as mandated by legislation governing planning or local government) and the relevant national sectoral agencies (who do so because they have responsibility for actually carrying out works in their sectors). These conflicts can lead to costly duplication of effort and incoherency between local and central government plans. However, planning at every level can be overridden by budget agencies, reacting to the financial constraint. A further problem may arise when national agencies

set up "one-off" project implementation units which are outside the general organisation of local government departments, often insisted upon by foreign donors. Such agencies may have little interest in coordination with departments and may act as a drain on scarce staff resources in those departments. The advantages of efficient project construction may be offset by subsequent problems of confusion in responsibilities for operation and maintenance of the project.

e) Hostility Between the Public and Private Sectors

It has already been noted that, in the heyday of comprehensive planning in the 1960s, it was expected that land use regulations, often based on "imported" high standards, would force the private sector to build consistent with plan specifications, backed up by compulsory purchase legislation and mandatory enforcement powers. such confidence was part of a wider attitude that the public sector could control city development, allied with a common attitude that private sector development motives were somehow suspect.

As the accelerating rate of urban growth began to overtake government's abilities to provide adequate urban services and guide urban expansion, as urban unemployment or under-employment increased and central government was unwilling to increase the powers and resources for cities to manage themselves, so the public sector became increasingly defensive and the private sector increasingly antagonistic. A common refusal to modify land use standards to make them affordable and relevant to city residents and businesses contributed to the downfall of traditional planning control, hastened the time when demand far exceeded resources and signaled a major differential characteristic of formal and informal settlement. The private sector was increasingly unable to rely on the public sector to provide infrastructure and services and saw only the negative, regulatory aspects of government.

So, by the 1980s, some 60-80% of urban households in many cities were part of the informal shelter and employment sector, and indeed informal settlements are now the main mode of urban expansion in many countries. Slowly, governments are coming to terms with the fact that the "project" approach is only one of the many tools for orienting urban development for coping with urban growth and that with limited resources available to cities, it is only realistic to shift government's role from direct public sector interventions such as land use controls towards indirect support and guidance to the private sector (i.e. an "enabling" role).

Such a shift in emphasis makes new demands on the public sector. Technically, the city needs to learn from the community about how informal land markets operate, how to utilise the latent resources of the community to manage facilities, how informal

employment is generated and sustained, how to reduce negative land use controls to the minimum required for maintenance of public health and environmental safeguarding, and so forth, in order to meet the needs of all its "customers". Psychologically, the changes may be more difficult. The entrenched attitudes of civil servants towards the informal sector may be more of a constraint that any real or imagined social breakdown resulting from such developmental trends.

2. THE LESSONS LEARNT

What are the lessons to be learnt from these and other experiences in public sector interventions and how do such lessons help to justify an integrated approach? Seven critical points emerge.

a) The increasing complexities of urban areas require a re-evaluation of the traditional roles of the public sector.

Interdependent issues will typically include: economic and social objectives, urban growth dynamics, inter-sectoral choice mechanisms, financial resources, the comparative advantages of the public and private sectors in each stage of the development cycle and the institutional framework for action. Such growing interdependencies require (a) better assembly, analysis and use of data (e.g. concerning the workings of the land market); (b) more sophisticated tools for measuring the benefits and costs of alternative actions to meet city-wide development objectives such as employment generation; and (c) more emphasis on the coordinated roles of public and private organisations at central government, local government and neighbourhood levels.

b) Urban sector interventions characterised by a "project", approach based on capital expenditure as the prime means of achieving urban objectives cannot hope to meet the massive demand for improved urban services and shelter in many cities, let alone contribute significantly to economic growth.

Interventions will need to put much more emphasis on policy measures, e.g. tariff systems for urban services, changes in regulations and other controls on access to land, traffic management systems, inclusion of community organisations in the design, operation and maintenance of certain services, and so forth.

Since the potential positive and negative impacts of such policies will extend into many aspects of city activities, there is an increased need for a coordinating framework which is positioned so as to assess such multiple impacts of policy measured against city development objectives. The crucial issue of operations and maintenance costs tends to be ignored in land

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use and infrastructure planning. Cost recovery schemes, where they exist, are often limited to the capital expenditure component. Rarely is provision made for maintenance, repairs, replacement or future upgrading of equipment. Project planning often tends to minimise the initial investment requirement at the expense of subsequent higher operations and maintenance charges.

The shortcomings of the "project", approach as a tool for influencing urban growth are leading to a greater emphasis on an enabling approach whereby the public sector's main efforts are to support and guide the private sector's role in urban development, i.e. to help capitalise on the energies and resources of individual households, community groups and commercial enterprises. Following from this new paradigm, many changes will bee needed in the concepts of and responsibilities for land management, urban services, community development, resource mobilisation, environmental protection, etc.

C) As economic conditions have deteriorated in many developing countries, economic objectives for urban areas, particularly employment creation, have become more critical, which in turn require a more integrated approach to urban development strategies.

Thus there is a growing understanding that urban employment should be considered within the broader objective of urban productivity, and that productivity is being held back by inadequacies in the production of services, economic distortions caused by incorrect pricing policies, and over-restrictive legal and regulatory frameworks. Assuming, therefore, that governments wish to improve the productivity of cities, the areas of action are potentially very broad; including macro-economic policies, the allocation of responsibilities between the public and private sector, infrastructure strategies, particularly operations and maintenance practices, land, legal and regulatory measures, and resource mobilisation. While there may an overall emphasis on productivity, governments need to consider the equity impact of such actions on the urban poor and on the environment. If economic objectives are to be met, therefore, there is a strong requirement for institutional mechanisms which can integrate the various elements of policies and programmes necessary and which can allow for the interactions and mutual complementarities of productivity measures and equity and environmental considerations.

d) Traditional master planning is often ineffective because too much emphasis is put on plan-making and too little on implementation.

There is a need for the planning system to be much more involved in the process and management of urban development; e.g. the real working of land markets, the role of interest groups, and the interactions of economic and physical planning. A shift in emphasis in the typical plan process is needed whereby the first

question is: what tools are actually available to implement the plan in the next three to five years? plans that recognise the limitations of implementation tools, at least in the short term, are much more likely to be effective policy instruments. Given the fast rate of urban growth and fluctuating economic conditions in most developing countries, most planning information is rapidly outdated in any case.

The planning system needs to focus more on shorter term "action planning" rather than on the elaboration. of detailed long-term plans. In addition, spatial planning objectives and policies need to reflect the priorities, resource constraints and programmes of line departments and agencies in government.

A "clearing-house" mechanism is required therefore, preferably at the city level, which is empowered to coordinate the work of spatial, sectoral and financial departments and agencies from both central and local government levels which have interests in the particular city.

e) Traditional master planning has paid little or no attention to the necessary resource allocation needs and financial feasibility of policies and programmes.

Even where plans attempt to coordinate the proposals of other departments/agencies, there are often problems because of the way "horizontal" planning systems relate poorly to "vertical" systems of resource allocation. In dealing with other branches of government, planners are at a disadvantage in having few or no resources to negotiate with, but instead having to rely largely on persuasion to get cooperation and support for the spatial plan.

Plan evaluations should show whether proposals are fundable (there are sufficient resources to undertake actions), affordable (to the beneficiaries of the action), sustainable (current expenditures can be met) and synchronised with budgeting and programming cycles of the local government, central government and external support agencies.

f) Urban development policies, plans and programmes should be vehicles for institutional development and strengthening of technical, managerial, financial and administrative capacities for continuing operations.

Hence plans should not be prepared in an "institutional vacuum" but in close collaboration with those who will responsible for implementation. At the same time, those preparing plans, policies and programmes should recognise that beyond the strict institutional boundaries of the technical agencies lie the crucial networks of formal political support and the beneficiaries in the community. Both to allow a suitable internal framework for developing capacity and allocating responsibility for action, and to allow the external audience to

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judge the worth of such actions, an integrated urban development approach is very desirable.

Environmental planning and management should not be seen just as remedial actions to minimise urban-related environmental problems but should include strategies to help avoid or forestall the environmental costs of urbanisation.

It is fundamental to sustainable urban development that environmental planning and management is incorporated at the formative stages in city-wide planning and investment strategies, i.e. it should be used as a continuous routine, particularly at the city level. Thus integrating procedures and motivations are needed so that environmental planning and management is incorporated into information collection/dissemination, policy formulation across space, between sectors and over time, in municipal programming/budgeting and in project monitoring and evaluation.

3. THE NEED FOR AN IMPROVED DEFINITION OF URBAN MANAGEMENT

It is critical for governments experiencing rapid urbanisation to define their particular needs for an urban management framework, take stock of their current resources and now begin to undertake institution-building practices which in the medium to long term will reform management. For simplicity, the required urban management functions may be grouped under the following headings:

Governance, comprising the basic relations between national, provincial and local governments with regard to the allocation of responsibilities and resources as well as the internal structure of management responsibilities;

Development Policy and Improvement Coordination, comprising short, medium and long term general policies and strategies for city development and planning within defined budgets across and within investment sectors, with agreed responsibilities for public and private sector implementation agencies;

Management of Assets and Services, comprising the implementation, operations and maintenance of the city's physical and social services, their pricing, the collection of charges and revenues on these services and their assigned responsibilities to public or private sector agencies;

Collective Functions, comprising the assessment and collection of taxes and general revenues, the provision of regulatory frameworks for public services and private activities such as transport, communications, land development and building, business licensing, etc.

4. PRIORITY AREAS FOR IMPROVED URBAN MANAGEMENT

a) Land Management

The potential benefits of improved land policies and land management on urban economic efficiency and income distribution are enormous. Poor land tenure and land registration systems prevent collection of potentially valuable property taxes, encourage inefficient settlement patterns and are a major obstacle to the mobilisation of local resources for development. City governments need to respond creatively to the massive growth of informal settlements by recognising their legitimacy, identifying areas capable of improvement and incorporating such settlements into improved city-wide cadastral/registration systems. Land use regulations are commonly ignored because standards and codes have often been borrowed unthinkingly from developed countries, do not allow for the use of local materials or address local lifestyles, are not affordable by low and sometimes middle income groups and are too administratively demanding to be enforced by short-staffed city governments. The resolution of land tenure problems is critical if the housing needs of low income groups are to be met on a large scale.

Rapid urban growth requires the provision and management of serviced land, but up to now, in most developing countries, poor administrative capacity and legal frameworks have often caused delays in land, transfer, forced up land prices unnecessarily, caused the urban poor to resort to unauthorised development, placed question marks on the validity of land titles and inhibited the efficient operation of land markets. The absence of up-to-date and appropriate land information systems is also a major stumbling block for rapid and efficient urban development. There is often an urgent need for better information on the workings of land markets, particularly informal markets. City governments will need to know how transactions take place, why land prices rise in certain areas, (through the effects of regulations for example), how price increases affect availability of shelter for various income groups and how government land development policies affect the operations of land markets in general. Improved funding of land and urban service development is needed, with an emphasis on appropriate cost recovery and cross-subsidy mechanisms.

Many of these land management issues are particularly critical in the fringe areas of cities, where the combined effects of rapid urban growth and speculative land markets expose existing inadequacies in land management most clearly. An important aspect of improved land policies will be to reoriented the roles of the public and private sector, particularly for such fast growth urban fringe areas. The public sector direct intervention

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may be restructured, for example, to the provision of very basic infrastructure and, in consultation with local communities, making reservations for future community land uses and "rights of way", for footpaths and access roads. Techniques of land readjustment and similar exchanges may be used. The public sector's indirect intervention may be to operate flexible land regulations -for new residents, using for example, minimum planning/building standards which can be upgraded over time, or reorganising "self-regulatory" informal settlement areas and/or informal/traditional land transfer and tenure transactions, to reduce the costs of and simplify land transactions, and other enabling functions.

In summary, therefore, more effective approaches to land management are being analysed under the following main topic areas:

- improved cadastral and titling systems
- improved land information systems
- appropriate and incremental land tenure systems
- city-wide and area-specific options for increasing the supply of land and the improvement of access to existing and new urban land by low income groups
- appropriate incorporation of informal settlements into formal systems of land management
- improved funding mechanisms for land development
- realistic policies and techniques for regulation of land use and systems of development control
- techniques for analysing land markets
- appropriate roles for the public and private sector in the administration of land development.

b) Infrastructure

Policies concerning the provision and improvement of urban infrastructure should place high priority on making better use of existing assets through reliable and effective operations, maintenance and rehabilitation programmes. These resources should be attended to before new capital investments are undertaken.

In many cases, inadequate infrastructure may indirectly cause reduced labour productivity, loss of amenity and loss of attraction to industry. When individual firms and households are obliged to make their own investments in infrastructure there

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are resulting higher production costs, excessive use of foreign exchange for imports and reduced industrial competitiveness. Small and/or informal sector enterprises may be forced to close down temporarily or permanently.

Infrastructure policies should also address the question of appropriate standards. The rate of expansion of public services has often been limited by the unrealistic standards set, leading to inadequate financial performance on the part of the institution supplying the service, the infusion of large public funds into these institutions, and severely limiting the number of low income households who can obtain access to facilities and services. It has to be realised that the development of most large, fast-growing urban centres in developing countries cannot possibly follow the traditional standards used in western cities. In cases of shelter provision, transportation and solid waste management, the limitations of the public sector suggest the need to find new ways of delivery and maintenance using the private sector to achieve lower costs and better services. However, there are major political and psychological resistances to overcome to make a large private sector role in some sectors acceptable.

While local government often has an essential role to play in the efficient operations and maintenance of secondary roads, drains, markets, primary schools and other services, a frequent tendency towards centralised authority has left local government a weak instrument of local growth and development. As a consequence, central government has tended to assume, de facto, some maintenance functions while leaving others to local authorities. This ad hoc approach has left responsibilities unclear and, in addition, problems such as lack of basic data on assets, over-bureaucratic approval procedures and inappropriate budget allocations can often lead to a @management by crisis, situation. Moreover, where resources have grown tighter, many countries have moved to introduce municipal reform legislation, which, while well-meaning, calls for shifting the bulk of maintenance responsibilities to local authorities while withholding the fiscal authority to permit them to maintain their assets effectively, and frequently ignoring the absence of local technical capacity.

The typical pattern of illegal squatting/informal settlements on urban fringes that characterises urbanisation in many developing countries is a principal culprit in this situation, leading to the need for extending water supply drainage and roads over great distances. The length and dispersal of such networks imposes a heavy financial and technical burden on an already weak capacity to maintain existing networks.

In summary, therefore, more effective approaches are being analysed in the following areas:

- short-term actions in the development of infrastructure

services which will have the most immediate, positive impact on economic growth, productivity and efficiency and on improving shelter conditions for the lowest income groups;

- improved allocation of resources to achieve better inter-sectoral balance in investment and efficient procedures for operations and maintenance of existing assets;

- realistic approaches to affordable standards which may be upgraded over time;

- clarification of the respective roles of central and local government as well as public and private sector agencies in the provision and maintenance of urban services;

- better integration of urban services planning, operations and maintenance within government line agencies rather than reliance on specialised project implementation units;

- emphasis on technical training and general human resource development as a key element in the provision of maintenance;

- improvements to land information systems and utility maps as a precondition for the more systematic management of infrastructure assets.

c) Municipal Finance and Resource Management

The new emphasis expressed above on increased municipal level responsibility for the management of urban growth can only occur if cities and towns are able to build a sound fiscal base on which to provide and maintain urban services. This implies, naturally, that municipal authorities must receive the powers to raise and collect revenues and that central government must return to local government a significant share of the revenues which urban centres generate. As a corollary, decision-making on urban programmes should be carried out at the level of government where they are executed, i.e. at the city level. Although most directly accountable, municipalities cannot undertake this task alone; they often require external outlays for initial capital and other investments, as well as a national policy framework concerning statutory and fiscal authority which is conducive to the promotion of urban development.

There is a clear need for substantial policy reforms and long-term commitments to improved revenue collection and administration in municipal finance in most developing countries. currently, municipalities are often dependent on poorly-designed and/or administered taxes, or upon inter-governmental transfers that are unpredictable. Many municipal governments lack access to sources long-term credit and are instead dependent on ad-hoc

capital grants or direct provision of capital works by higher levels of government. A range of mechanisms is needed to remedy these problems. Better local tax assessment and collection is needed, and better cost recovery for services to individual users is desirable, with any subsidies carefully targeted to particular disadvantaged groups. Services need to be appropriately priced to permit sustainability and replicability of projects in the-sector. Central-local government transfer mechanisms need to be made, based on agreed objectives and responsibilities, using a unified local government lending institution where appropriate.

The internal operations of municipal finance departments will often require more efficient procedures. These may include, for example, clearer allocations of expenditures and revenues to capital and recurrent accounts, the introduction of two-to-three-year rolling investment programmes rather than @stop-start' annual budgeting time scales, as well as simple procedures for regular monitoring of expenditures and revenues.

In some countries, more fundamental changes are also required. It may be necessary to review the structure of relations between levels of government to ensure that there are appropriate incentives for effective financial performance at the local level. For example, it may be necessary to reallocate or clarify functional responsibilities among public sector agencies. Lines of responsibility must be clarified so as to strengthen local accountability. Central government interventions must be supportive and provide incentives to improve performance, rather than being merely negative and regulatory. In this aspect, improvements in municipal finance generally will have implications for the overall structure of relations between levels of government.

In summary, therefore, more effective approaches are being analysed in the following areas:

- new approaches to property taxes, dedicated taxes, e.g. on fuel, user charges, betterment taxes, capital gains taxes and other sources of municipal revenue;

- potential use of business taxes;

- improved systems of inter-governmental transfers, municipal development funds and other means for more effective mobilisation and allocation of resources for municipal governments;

- improved internal procedures for accounting and budgeting at the municipal level;

- improved incentives for more effective financial performance at the municipal level.

d) Environment

Dense urban living conditions, leading to air and water pollution, natural resource depletion, creation of new physical problems on ecologically fragile land (e.g. salt water intrusion in ground water supplies, subsidence, etc.), are becoming as familiar problems in developing countries as they have been in developed countries. Improved strategies are needed to deal with human and industrial liquid and solid wastes, a large proportion of which remain uncollected in many developing country cities. The capacity of municipal institutions to carry out improved services vis-a-vis the use of private/community-based organisations is a critical issue, involving policy questions of cost recovery, use of user charges versus taxes, subsidies and incentives. Similarly, improved strategies are needed for the planning, design, maintenance and financing of waste treatment, recovery and disposal, with careful analysis of the relative costs and environmental/health benefits of alternative systems. Problems arising from hazardous waste collection, treatment and disposal are not confined to developed countries, but may often be found in the operations of many smallscale, unregulated enterprises in developing country cities.

Developing countries in fact face particular problems of waste management: a typical shortage of resources to tackle the causes of pollution, a weak climate for enforcement of pollution controls, urgent demands for creation of jobs which will usually take precedence over environmental problems, and so forth.

Coordinated pollution control actions are needed so that responsibilities for legislation, regulation, monitoring and control between the public and private sectors are clear. It is particularly urgent to develop rapid assessment techniques for use in local government pollution control activities. There may also be an important catalytic function for local government in making small-scale manufacturers aware of low-cost waste technologies and general good environmental practices, through programmes of technical assistance.

The sustainable utilisation of resources is also critical for fast growth cities. A range of topics needs to be analysed here including: the protection of ecologically important natural resources; the impact of city growth on the wider region in terms of demand for rural produce, waste disposal, and uncontrolled urban expansion; the contribution of natural resources to city development and the role of such resources in enhancing the living/social environment; avoidance of hazardous areas of urban growth; identification of potential environmental impacts of development proposals; coastal zone protection; minimisation of water and energy consumption, and so forth.

Environmental functions in urban management should not be seen, as too often they are at present, as matters of minimising

impacts of urban activities "after the event". It is fundamental to sustainable urban development strategies that environmental planning and management is incorporated at the formative stage in city-wide planning and investment strategies, i.e. that it is used as a continuous routine at the city government level.

In summary, therefore, the incorporation of environmental factors into urban management is being analysed under the following main topic areas:

- improved municipal service coverage and efficiency;
- improved municipal waste treatment and disposal strategies;
- coordinated pollution control strategies;
- sustainable utilisation of natural resources in city development;
- incorporation of environmental planning and management into city-wide planning and development implementation.

ANNEX B

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