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Broadening the Base of the South African Economy

A Discussion Paper

Zunaid Moola

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Prof Ben Turok, MP
and the
Friedrich-Ebert-Stiftung

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South Africa Office
P.O. Box 412664 Craighall Park,
Dunkeld West 2196

Phone: 011-788-5995
Fax: 011-788-5840
E-mail: jurgen @fessa.co.za

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1. Introduction

At the heart of the transformation process in South Africa is the need to reduce, and eventually eliminate, the poverty and extreme inequalities in income, opportunity and access to resources that are characteristic of the country's economic and social landscape. This was the vision contained in the Freedom Charter and subsequently in the original RDP Document. In the four years since the elections of 1994, however, transformation of the economy has not proceeded as rapidly as many would have wished mainly because the structural nature of the problems confronting the new government are proving more intractable than previously assessed. In this paper we argue that such barriers can nevertheless be overcome through a creative policy mix that allows for the transfer of available resources to the most disadvantaged sections of the population.

For most of the 20th Century ownership of the economic resources of South Africa has been concentrated in the hands of a section of the population. During the apartheid era the state aided and abetted this concentration of ownership by its particular forms of intervention in the economy. The result is that contemporary South Africa is characterised by huge conglomerates that now dominate the commanding heights of the economy. One of the challenges then for policy makers in the post-apartheid phase is to diversify the economy - in ownership as well as in production. How this ought to be done though is a highly contested issue among economists because of differences in the degree of emphasis that should be placed on growth, development and redistribution.

Some economists believe that only when higher rates of growth are achieved does development and redistribution become feasible. Others say development and redistribution should be given priority, contending that this lays the basis for sustained growth in future years. These differences in approach and emphasis are not unique to South Africa as the literature on economic development over the past thirty years will attest. But the huge disparities in income and standards of living that were a creation of the apartheid system bring an urgency to the debate and attempts must be made to reach consensus on the shortest route (and most effective) to create a more equitable society. Large sections of the South African black population continue to be excluded from participating in the formal and developed parts of the economy as a result of the barriers to entry which were erected during the apartheid era. This paper considers some practical measures that can be adopted to re-structure the economy. It also aims to stimulate discussion around ways in which the base of the economy can be broadened.

The paper is premised on the supposition that growth, which is a critical component of any strategy to develop the economy, is not a sufficient condition by itself for broadening the base. The supposition is based on recent evidence that shows growth does not necessarily result in the creation of more jobs or leads to a fairer distribution of income.[1] Unlike some highly industrialized countries where jobless growth may be somewhat more tolerable and income distribution is more even, South Africa, with a current unemployment rate of 30 per cent and the worst income distribution in the world, can ill afford this kind of growth. Policy makers should instead begin to explore a range of policy options that would stimulate growth, foster development *and* meet the basic needs of the poorest sections of the population. This paper considers what some of those options

[1] See the *United Nations Human Development Report*, 1996. United Nations Development Program.

might be. It attempts to sketch the possible modalities of intervention that may be required of the state, the private sector and civil society. It also hopes to show that the implementation of such measures do not necessarily entail enormous fiscal resources, and where deficits are incurred, the paper argues that these would be offset by the benefits that would flow from increased employment and social stability.

The role of civil society deserves particular mention in this context. Economic development, however it may be implemented, would be an incomplete process if it did not involve local communities. The psychic benefits of "ownership" of the process have proven to be critical to long-term sustainability in development projects in many other parts of the world. Moreover, during the struggle against apartheid, civil society in South Africa demonstrated an admirable capacity to change the political order by mobilizing the collective intellectual, spiritual and material resources of its members. Such resources, if mobilized once again to bring about changes in the economic conditions of local communities, could make the partnership with the public and private sectors much more effective.

This paper does not review or appraise the government's existing economic policy. Readers may thus find that some of the recommendations made are already part of government policy or have been mentioned in one or another policy document. The coincidence is entirely accidental. The purpose of the paper is to present a set of ideas about how poverty can be eradicated and how incomes and jobs can be generated for the millions of South Africans who live a marginalised existence and are forced to eke out livelihoods from destitute conditions. Where relevant, reference is made to existing government policy towards promoting growth and development and the possible contribution such policies make to broadening the base. In the discussions that may follow from this paper, it may be pertinent to ask why some of these policies, if they are in place, are not working. This paper will have served part of its purpose if it does nothing more than prompt such questioning.

1. What does broadening the base of the economy mean?

Broadening the base of the economy could mean many things to many people and so it is important that we clarify our understanding of the term in ways that are intelligible to non-economists. The first point here is to stress that broadening the base is not some utopian concept which implies a redistributive strategy that simply takes from the rich to give to the poor. Such an idea would not only be unworkable it would be completely unsustainable beyond its initial phase. Our meaning of the term rather, is rooted in the actual and potential production capacity of South African society. It therefore requires a careful assessment of the South African economy and the inherent possibilities for expanding the productive powers of those engaged in the formal and informal sectors, but especially those who have no regular means of earning an income sufficient to lift them out of poverty. Broadening the base does not entail the destruction of existing enterprises in favour of new ones that would be owned and operated by the previously disadvantaged. It seeks instead to create opportunities in every sector of the economy so that participation in the chain of production is extended to those most in need of employment and income. It aims at combining survivalist activities with those in the formal economy. It concentrates as much on developing local economies, and integrating them with the regional and the national economy.

Why broaden the base of the economy? The obvious answer is that the present base of the South African economy is too narrow to support its population and meet the basic needs of its poorest citizens. One has only to think of the more developed economies to grasp the meaning of a broad versus a narrow base: a diverse and dynamic market of goods and services; a complex chain of production that links different sectors of the economy; a highly differentiated ownership structure that creates and sustains jobs for millions of people and whose incomes, in turn, create more opportunities for growth.

The narrowness of South Africa's economic base is due in large part to historical factors – colonial settlement followed by apartheid with its particular social structure and economic organization. The export of certain primary commodities such as gold and other minerals were important pillars of growth in the modern history of South Africa's economy. Later, both the manufacturing and financial sectors grew in tandem with mining, a development that mirrored the concentration of ownership in these core sectors. It is also through mining that South Africa developed the third largest electricity utility in the world. These sectors have been the main engines of growth in the country's economy for most of this century.

Given its rich endowment of natural resources, particularly minerals, these developments would have augured well for the population as a whole in terms of living conditions and rising incomes. Instead, apartheid produced a multitude of distortions in the form of income distribution, living conditions, fragmented markets, unequal educational systems and disarticulated political structures. Among the most striking features of the distortions in South Africa's political economy is its income inequality and concentrated ownership. We focus on each of these briefly to understand why broadening the base is of such importance.

In 1995, according to the Central Statistical Service, only 20% of the total estimated population of 41.5 million had employment in the formal sector with 4% finding employment in the informal sector. Only 25% of the black working age population had found employment in the formal sector, whereas 52.2% of the white population had found employment in this sector. The unemployment rate for blacks was 36.9% against 5.5% for the white population. The official unemployment rate in 1995 was estimated to be 29.3%.

When looked at in sectoral terms, out of total employment of 10 million persons, 81% were employed in the private sector and 19% in the public sector. Within
the private sector, the agricultural sector accounted for 13% of total employment with the non-agricultural sector recording 60% of total employment.

In 1993 the Project for Statistics on Living Standards and Development (PSLSD) surveyed 9,000 households on a wide range of social indicators including demography, household services, household expenditure, educational status, income and health status. The study defined the 'poor' as the poorest 40 % of the population and the 'ultra poor' as the poorest 20% of the population. According to this method the poor have an expenditure level of less than R300 per month while the ultra poor's expenditure level is less than R178 per month. Almost 53% of the population fall within the category 'poor' and almost 29% fall within the 'ultra poor' category. The lowest 40% of households, which is equivalent to more than half the total population of South Africa, consumes less than 10% of total consumption; at the other end of the scale, the top 10% of the population, which makes up less than 6% of the total population, consumes 40% of the total (RDP, 1995).

The National Institute for Economic Policy (NIEP) noted in its study on poverty that these figures confirm that South Africa is one of the most unequal societies in the world. (The Gini-coefficient for South Africa is 0.61, which is second only to Brazil, the world's most unequal society). "What is more is that this gap between rich and poor has remained relatively constant for the past three decades despite significant increases in wealth for a small minority of Africans, Coloureds and Indians. The conclusion that must be drawn from this is that while the economic position of some people from previously disadvantaged groups has improved, the majority of the population are now deeper in poverty than ever before." (NIEP, 1997)

In such a highly unequal society it is not surprising to also find economic resources being concentrated in a relatively small group of firms. Through an intricate web of holdings and interlocking directorships, control over the market for goods and services is exercised in a way that is likely to affect the nature and pace of transformation. Table 1 provides us with a glimpse of the concentrated ownership structure in the South African economy:

It is not possible to analyze in full here the relationship we see between high unemployment, income distribution and concentrated ownership in the economy but it is clear that we have a highly restricted ownership structure in the domestic economy. In 1982, the top 5 per cent of firms held more than 60 per cent of the market share in 14 industries. In the remaining 8 industries their market share was never less than 40 per cent.

There are a number of implications that such a concentrated ownership structure has for economic policy. Firstly, there is the threat of collusion and hence price setting. Secondly, highly concentrated industries tend to increase income inequality. Thirdly, there is the danger of a misallocation of resources, the consequences of which are inefficiency and waste. Fourthly, the barriers erected by high concentration tend to inhibit the formation of small and medium-sized enterprises which collectively create employment opportunities.

One of the objectives then of our economic policy should be to increase the number of producers of goods and services and thereby create more jobs, allow incomes to rise steadily and expand the domestic market. But each of these actions face significant challenges for their implementation: increasing the number of producers requires capital, skills and a vigorous competition policy; job creation requires investment of capital and rising incomes are dependent on increases in productivity. Important though these policy objectives may be they cannot be separated from the extremely urgent developmental goals which must be pursued as well if we are to sustain job creation and growth and attain higher levels of social well-being. What is an appropriate policy mix that would combine developmental goals with the restructuring of the economy? It is this question that interests us as we consider ways to broaden the base of the economy.

Table 1 Manufacturing factor concentration Index: Market share of top 5% of Firms

	Value of sales 1988	1972 % market share	1982 % market share
*MEC industries**			
Industrial chemicals	7.3	55.2	77.0
Other chemicals	15.3	51.7	76.0
Rubber	1.8	n.a	n.a
Plastic	2.2	37.2	55.8
Non-metalllic minerals	3.5	67.4	77.1
Iron & steel	10.8	71.3	78.3
Non-ferrous metals	3.2	46.7	51.3
	44.1		
Engineering Industries			
Fabricated metal	7.1	57.2	64.5
Machinery	5.4	51.5	62.4
Electrical machinery	6.0	59.0	66.5
Motor vehicles	12.2	79.0	82.4
Transport equipment	1.2	69.3	73.8
Professional and scientific	0.4	52.4	60.6
	32.3		
Non-MEC industries			
Food	17.4	56.4	66.4
Beverages	5.2	74.3	60.6
Tobacco	1.3	n.a.	n.a.
Textiles	4.6	44.9	55.1
Wearing apparel	2.6	46.3	48.3
Leather	0.7	34.1	48.2
Footwear	1.3	40.2	42.2
Wood & cork	1.9	43.1	58.2
Furniture	1.0	49.6	50.0
Paper	5.8	45.5	64.0
Printing & publishing	2.5	61.2	61.9
	44.3		
Total (all sectors)	120.7		

Sources: Central Statistical Service (1990); Fourie and Smit (1989), cited in Fine and Rustomjee, *The Political Economy of South Africa*. (1996)
Note: * MEC = Minerals-Energy Complex

In seeking to restructure the economy of South Africa it needs to be stressed that what is being aimed at is empowerment and not enrichment. The distinction is important for the one implies participation of the most marginalized elements in our society in a growth process so that they become productive citizens of society. Enrichment, on the other hand, promotes the accumulation of wealth of a few without adding to productive capital stock. The recent ‘unbundling’ of some of the large mining houses is an example of the latter since very little resources were actually transferred to poor communities. Also, there is nothing thus far to indicate that production will be changed to create more employment for the poor and ultra poor

2. How do we begin to broaden the base for poor communities?

To broaden the base of the economy entails many things, as we have just pointed out and we will touch upon many of them in the chapters that follow, but one essential ingredient is finding ways to add value to the economy.

What is it that adds value to the economy? The question has concerned many of the eminent economists of industrial societies when they began their enquiry into the ‘wealth of nations’ in the 18^{th} Century. There is general agreement today as there was then that value is added each time when human labour is an input into some part of the production process. The point is well illustrated by comparing imported consumption goods with domestically produced items. Imported consumption goods have much less local labour involved save for that in handling and internal transport, marketing, distribution and sales. If the goods are not used to produce other commodities their consumption by an end-user completes the circuit of buying and selling until the process is repeated again. If the same goods are domestically produced, however, labour will be required at every stage of that production process from processing of the raw material through to final production and thereafter to marketing, distribution and sales.

The Gross Domestic Product (GDP) of a country is the most commonly used measure of economic performance and it is what tells us whether value has been added to the economy or not. The GDP calculates all the goods produced and the services provided in a country in a year. This immediately gives us a basis for determining which sectors in the economy contribute the most and which the least, or allows us to see which sectors grew during particular periods while others declined and what tendencies, if any, this indicates in the economy.
The great merit of GDP as a tool is that it measures the change in total output of a country - enterprises in the formal and informal sector, government output in such areas as education and policing, domestic service - all these are included in GDP. It thus gives us a basis for comparing the economic performance of various countries, or enables us to assess which economies are in a boom or slump, or whether certain economic policies are working or not.

The common denominator here though is production, more precisely material production. A country that persistently consumes more than it produces, or produces less than the rate at which its population grows, or produces no more than the previous year is sure to register zero or negative growth. When this happens it can take decades for the productive potential of people to improve because much more time is required to satisfy basic needs. Table 2 illustrates this point by showing how many years it would take for GDP per capita (growth of GDP per person) to double given different rates of growth:

TABLE 2

GDP per capita growth	Years needed for GDP per capita to double
0.5% per year	140
1% per year	70
2% per year	35
4% per year	18
6% per year	12

The universal use of GDP as a means of assessing economies does not, however, make it the most accurate indicator of development or of a society's welfare. GDP does not, for example, tell us much about the impact growth has on our environment or our health or about the quality of our lives. Economists and other social scientists are now working on developing an index that measures economic growth, environmental impact, human rights and physical quality of life. The United Nations Human Development Index (HDI), first published in 1990, is one of the first attempts by the international community to incorporate most of these and other indicators to provide a more holistic picture of development in any particular country.

One of the big differences between conventional GDP and HDI is that the latter also gives us a sense of the level of human and social capital that a country has accumulated. This is an important aspect of development and plays a crucial role in broadening the base of the economy. **Human capital** includes the knowledge, skills, health and motivation that human beings possess and how this is used in the different forms of production in which society is engaged. **Social capital** is the embodiment of resources in human beings, institutions, organizations and the built environment. Europe in the seventeenth century, for example, had an extensive system of roads and canals; substantial numbers of professionally trained people in law, finance and administration; a highly developed civil service and municipal administration. It is worth noting that the development of this considerable 'infrastructure' preceded the spectacular growth in industry, which Europe experienced in the wake of its industrialization.

The UN Human Development Report, 1996, confirms the importance of human and social capital to development: "A World Bank study of 192 countries concluded that only 16% of growth is explained by physical capital (machinery, buildings and physical infrastructure) while 20% comes from natural capital. But no less than 64% can be attributed to human and social capital. An extensive analysis of earlier experience in the Asian industrializing tigers, including Japan, comes to similar conclusions."

How a society adds value to the economy is thus reflected in the levels of growth and sustainable development and the experience of other countries suggests that this can be brought about by:

1. generating income and employment opportunities for the poor and ultra poor and
2. promoting the development of human and social capital.

The challenge for policy-makers and practitioners is how this ought to be done.

In the case of South Africa, this challenge would not be that difficult to meet. The reason is that there already exists a highly developed formal sector of the economy where, with changes in industrial and competition policy, resources could be placed at the disposal of the informal sector. The situation might be very different if South Africa did not have this formal sector and was instead grouped with other low-income countries where productive capacity in the form of technology, skills and output is still poorly developed. But how is the ‘transfer’ of resources to take place?

One of the defining characteristics of the formal economy is that it creates conditions in which the formation and accumulation of capital can take place continuously. By contrast, in the informal economy capital continuously “leaks” out to other localities because the goods and services that people require have to be purchased elsewhere. Whatever financial resources flow into these communities, whether in the form of repatriated earnings from relatives, pensions or welfare payments from government, or proceeds from the sale of simple commodities, are soon spent in another area. In such a situation no profits are earned, no savings are made and hence no accumulation takes place. Economic policy should therefore aim to create employment in these communities in order to generate incomes, a portion of which could at least be spent on goods and services produced by the community itself. The idea is to set in motion a process of simple exchange that would allow communities to achieve levels of accumulation that make local economies self-sustaining after a while. If successfully executed, such projects would gradually lead to more complex forms of exchange such as occurs in the formal economy.

There are three possible options that could be considered for effecting simple exchange in poor communities: Firstly, contracting out work that is presently carried out in the formal sector; secondly, developing physical and social infrastructure in the area; thirdly, developing the linkages in the manufacturing-agriculture complex (MAC).

Contracting - out

Contracting-out involves moving parts of the production process in the formal sector to the informal sector where incomes are among the lowest and unemployment the highest. This is likely to immediately raise a number of concerns for it connotes

- loss of jobs in the formal sector and a simplistic view of how big business operates and impracticality of restructuring large enterprises;
- employment at a much lower level of wages; and
- greater inefficiency in production.

It is necessary for us to deal with each of these concerns to show that the disruptions and losses likely to occur are not as severe as might first appear.

On the loss of jobs: what is being proposed here is the transfer of certain functions of (particularly large) firms to locations where the incomes they would generate would make a substantial contribution towards sustaining the local population. In the chain of production in each industry inputs can be identified which could be supplied and/or assembled that do not require large capital investment and high levels of skill. Communities from surrounding areas could be asked to form production teams and ‘performance contracts’ could be negotiated with firms who require a particular input.

Part of this ‘social contract’ would require that firms who experience displacement of existing jobs attempt to re-absorb or re-deploy surplus labour in other functions such as transportation and handling. Such restructuring could be undertaken in consultation with labour unions, civic groups, government agencies and departments, and industry representatives.

On the lower level of wages: since 1994 South Africa has adopted some of the most progressive legislation in the world regarding conditions of work and wage remuneration. It would be difficult for any employer to circumvent these regulations especially if it involved a transfer of jobs from the formal to the informal sector. But there are also sound economic reasons that ought to dissuade employers from paying lower wages, the main ones being that it leads to a loss of morale and a cut in productivity. Another reason is that higher levels of nominal wages boosts consumption demand and so generates increased employment.

On the inefficiency that this would create in production: in the initial stages of transforming the production system some inefficiency should certainly be expected but with the appropriate training and incentives desirable levels of output can be achieved. The assumption here is that levels of motivation in poorer communities will rise once the benefits of production become evident to them and that, with the development of infrastructure, many of the causes of inefficiency will be eliminated.

A strong argument against contracting out is that the small and micro businesses that receive such contracts are often not reached by labour legislation and wage agreements that are a characteristic of the formal sector. As a consequence, the argument goes, contracting out destroys decently paid jobs in the formal economy and replaces them with so-called entrepreneurs who are in fact worse off than employees. The argument is a valid one and ways must be sought to make contracting out as socially beneficial as possible. One approach is to increase the social wage of poor communities by ensuring that access to basic and essential services is guaranteed and is made affordable if a user-fee is to be imposed. This is in line with the social investment which we see the state undertaking to eradicate poverty even if this involves a high level of expenditure initially. The emphasis here is on *investment* as contrasted with *cost.* Such investment not only reaps higher *social* rates of return, it has the effect of producing greater equity which results in higher *economic* rates of return. Alice Amsden, the American economist who has written extensively on the Asian Tigers, calls this the “social construction of competitive assets”.

Moreover, improvements in the spatial distribution of economic activity have the effect of expanding the formal economy which represents a broadening of the tax base and, hence, increased revenue for the state.

Developing social and physical infrastructure

There are compelling moral and health reasons for developing the social and physical infrastructure of a country but here we are interested in the contribution that infrastructure makes to the economy and its importance for broadening the base.

- The first point to make is that the building of roads, bridges, clinics, schools, etc. creates jobs that may otherwise not materialize for the vast number of unemployed in the underdeveloped regions.
- Secondly, large expenditures in infrastructure spurs economic growth as the demand for equipment and material is translated into new jobs the wages from which are likely to be spent on necessities and other household goods. This increases the likelihood of an improvement in the rate of savings, which some would argue is a condition for the lowering of interest rates and thereby stimulate a rise in investment. It is important to note, however, that this virtuous cycle is only of limited duration for once the infrastructure is in place the demand for labour would fall drastically as much fewer workers are required to maintain the facilities.
- Thirdly, once the infrastructure is in place it dramatically reduces the labour time necessary for the performance of household chores and the maintenance of the family. It is estimated, for example, that the installation of electricity in rural areas will reduce individual time spent on wood-fuel collection by as much as 16 hours per week, with a total saving of some 500 million person hours per annum. This illustrates our point made above regarding the elimination of inefficiencies in the economy as a whole.
- Fourthly, the development of infrastructure makes possible a string of other economic activities that add value to the economy and, most importantly, create new jobs, encourage skills and generate incomes. For example, the building of a clinic in a rural area and the construction of roads leading to it from different points not only serves the health needs of a rural community but it creates the possibility for the provision of food services by vendors, the establishment of a petrol station for the vehicles used in transporting inhabitants of the area and a shop where basic necessities can be purchased. The point here is that *the building of a clinic and the construction of roads leads to the creation of markets for other goods and services* and that other projects of an infrastructural nature such as schools, technicons, government depots, agricultural research stations, post offices and railway stations are likely to have a similar effect.

Developing Linkages in the Manufacturing-Agriculture Complex

In large urban centres the level of development of the formal economy creates conditions for the establishment of small enterprises to provide a multitude of services and products. These enterprises are made viable by the sheer size and mobility of the population and their “buying power” - the goods and services which are purchased from the collective incomes of working people and the relative ease with which people can move from one point to another. In rural areas the situation is quite different. Populations are spread over huge distances, incomes are lower, industry is less developed, communications are poor or non-existent and places are not always easily accessible by road or rail. For all these problems though, the development of rural communities holds great promise for broadening the base of the economy. To understand why, we need to look at the contribution of agriculture to the economy.

In 1993-94 the Gross Value of Output of the Agricultural sector amounted to more than R26 billion. In 1995 it rose to R39 billion. The total output of agriculture was comprised of the following:

- maize (R4,358 billion = 15.98%)
- poultry (R3,301 billion = 12.10%)
- cattle slaughtered (R2,898 billion = 10.63%)
- Decidious fruit (R1,641 billion = 6.02%)
- wheat (R1,481 billion = 5.43%)
- fresh milk (R1,250 billion = 4.58%)
- eggs (R1,217 billion = 4.46%)
- vegetables (R1,143 billion = 4.19%)
- sugar cane (R1,123 billion = 4.12%)
- hay (R1,078 billion = 3.95%)
- sheep & goats slaughtered (R 914 million = 3.35%)
- potatoes (R 780 million = 2.86%)
- viticulture (R 692 million = 2.54%)

Each of these products represents a substantial market on its own not just in terms of its respective output but also in so far as the inputs involved in their production. From seeds and fertilizer to irrigation systems, to the crates in which fruits are packed, to the trucks, trains and airplanes used in their delivery to wholesalers, retailers and overseas markets, agriculture has developed strong backward and forward linkages to the rest of the economy. Quoting from the Abstract of Agricultural Statistics of 1995, Adelzadeh and Mather (1997) point out that “farmers spent over R500 million on packing material, R1.6 billion on fuel, R1.8 billion on fertilizers and R1 billion on dips and sprays.” But like other sectors in the South African economy, ownership in every aspect of agricultural production and distribution is concentrated in the hands of a minority which has extremely deleterious consequences for disadvantaged rural communities who form the majority of the ultra poor. It is estimated that 55,000 white farmers produce the bulk of the commodities in agriculture.

While the contribution of agriculture to GDP has been declining over time the monetary value of the commodities listed above is nevertheless substantial enough to make a major difference to the lives of the ultra poor provided some structural reforms undertake. (Agricultural products made up 10.9% of the share of exports in 1994 - almost R10 billion in value terms). Agricultural production, it must be remembered, includes a wide range of products and processes each with its own set of market conditions. Thus it is not just the planting, harvesting and sale of some of the primary commodities listed above but a number of other production activities that are closely linked to agriculture. Together they form part of what has come to be known as the ‘manufacturing-agricultural complex’ (MAC), the growth of which has been steadily rising over the years as is evident by their increasing contribution to GDP. One economist has suggested a classification system that includes the following:

- food products, beverages, liquor, tobacco
- textiles, garments, leather products
- wood, wood products, furniture
- pulp, paper, printing, publishing
- fertilizer and pesticides

This MAC has special importance to broadening the base and promoting rural development for reasons that follow below.

Through a re-allocation of resources we should attempt to shift production of parts of these economic activities to those areas of greatest need. However remote the possibility of this may appear at first, it should be considered with utmost seriousness because the evidence gathered shows that the contribution of the MAC to GDP is more than double the contribution of agriculture to GDP, and that this contribution is larger and more stable than that made by other manufacturing activities. There are also other reasons why this strategy should be considered seriously:

firstly, an increase in agricultural production would result in the creation of relatively more jobs throughout the economy than could be achieved by an increase of the same order in any other sector. It has been estimated, for example, that for every additional unit of capital invested, agriculture ultimately yields a larger number of job opportunities than all other sectors, except construction;

secondly, a rise in the level of incomes of the rural population would mean that a higher proportion of their incomes could be devoted to the purchase of manufactured goods thus expanding demand in the domestic market for these goods. Since a large part of black household incomes is spent on basic food items this would also be beneficial to the agricultural processing industries and for employment in them;

thirdly, the increased output and incomes that would flow from such a shift in resource allocation should lower the real price of basic goods, resulting in lower food inflation for all population groups;

fourthly, increased output of agricultural products and those associated with agro-industry can make an important contribution to national food policy by bringing about low and stable food prices which, by minimizing the wage costs of the labour force, promotes the mass market for manufactured goods.

fifthly, investment in agriculture and agro-industry will have a positive effect on the balance of payments because of low import requirements and potential export revenues.

The potential income and employment that can be generated by small scale agriculture and agro-industries can give rise to the development of local economies that would later include banking, insurance, postal and telecommunications services, all of which entail the recruitment of higher levels of skilled personnel. These amenities and services improve the prospects for tourism among South Africa's urban population as well as people from abroad.

In certain areas the economic activities described above may not be able to provide full time employment for all its inhabitants. In such cases income from one source can supplement income from another source so as to provide an individual or family sufficient means to sustain themselves. This situation obtains even in advanced industrial countries where a small farmer, for example, earns a livelihood from the sale of eggs, chickens, fresh vegetables, processed foods like jams and pickles, and supplements this by working one day at the local supermarket and another at the post office. Or members of a family may hold regular full-time jobs in an agro-industry and devote their leisure and recreational time to growing and harvesting fresh produce from their small farm holdings. What we have tried to demonstrate here is that solutions to the problems of rural development will take a variety of forms but that there are clear alternatives to ending rural poverty and possibly stem the tide of migration of the rural population to the cities.

Adelzadeh and Mather also show that activities such as these, when combined with improvements in living and working conditions for farm workers, worker equity schemes and government support for small-scale farming, can go far in alleviating poverty in rural areas.

4. The role of the developmental state in broadening the base

South Africa possesses features of both the first world and the third world - there is a modern industrial economy with amenities and facilities that resemble any in the advanced industrial countries and alongside this are the shanty towns with poorly developed infrastructure similar to anything one might find in some of the poorest countries in the world. The question of what kind of a state South Africa should have, and the role it should play, given this duality, has been hotly debated for a number of years but gained new currency since the democratic elections of 1994.

Any approach which argues that the state should concentrate its resources on one and not the other part of this dual economy is dangerous and could adversely affect the desired rate and nature of growth. In the interests of growth *and* development the state has to strike a balance in the policies it pursues and not solely promote the modern, developed part of the economy while neglecting what is sometimes referred to as the periphery. In many developing countries this is often a source of tension as states try to produce for the global economy on the one hand while the basic needs of the poor remain unsatisfied.

In South Africa there is a strong obligation on the part of the state to effect a redistribution of income, wealth and economic power as well as meet basic needs and to do this requires a set of institutions and skills that are capable of accomplishing this task. This has led many in the democratic movement to call for the creation of a 'developmental state', which would take the lead in meeting basic needs and create institutional mechanisms of support to achieve its redistributive goals. A developmental state is differentiated from a state in the advanced industrial economies by the priority it gives to investment in those areas of the economy that are not immediately and directly profitable but which are nevertheless crucial to human development and hence, to long-term sustainability of economic growth. Unfortunately, South Africa suffers from a serious lack of capacity in its public service and attention would first have to be given to transforming a number of departments to undertake the developmental challenges posed in the post-apartheid era. This is a matter that should be treated with some concern for, unless the state assumes a dominant role in economic development, the aspirations of many for a better society could be thwarted and South Africa's already notorious socio-economic inequalities could become worse as those without resources become even more marginalized.

The areas which a developmental state targets for investment have already been mentioned above (social and physical infrastructure, meeting basic needs, etc.) but there are other measures which such a state needs to adopt to make a broadening of the base possible. In chapter one, employment, income and output were identified as the central objectives of a strategy to broaden the base and activities that promote the expansion of all three should clearly be favoured over others. The experience of many countries in economic development over the past two generations suggests that there are only limited possibilities for employment in the modern, industrial sector of the economy despite its impressive growth in the early part of this century and the rapid urbanisation to which it gave rise. The reasons for this have mainly to do with competition in a profit-driven economy: maintain low unit costs of production by constantly introducing new technologies that increasingly displace workers. In countries with high unemployment and where labour is abundant and the costs of capital high, solutions often have to be sought in other sectors and localities where output can be increased without investing in large-scale, capital intensive production. The following data on livelihoods of the poor and ultra poor may assist us in choosing an investment strategy that the state could employ to help broaden the base:

Table 3: Percent of households engaged in income generating activities

Activity	**Percent**
Agricultural production	36.4
Distribution, Small, Medium and Micro Enterprises (SMME)	5.3
Petty commodity production (SMME)	4.0
Niche Service (SMME)	1.1
Employment in primary labour market	22.1
Employment in secondary labour market	37.4
Unpaid domestic labour	100
Claims against household members*	39.4
Claims against the state*	32.4

Source: May et al, 1995

Notes: * Claims against household members and the state do not constitute economic activity as such but are more a transfer of resources. They are nevertheless included here to show the extent to which they make up the incomes of a large number of households.

Table 4: Income generated from different activities

Activity	Rand per month
Agricultural production	90.81
Distribution, Small, Medium and Micro Enterprises (SMME)	328.88
Petty commodity production (SMME)	322.14
Niche Service (SMME)	895.12
Employment in primary labour market	1447.63
Employment in secondary labour market	450.08
Unpaid domestic labour	Not valued
Claims against household members	267.27
Claims against the state	430.55

Source: May et al, 1995.

The nine income generating activities identified here are defined as follows:

- **agricultural production** includes growing food and fibre for exchange as well as for sale;
- **distribution networks** refers to the sale of food and manufactured products;
- **commodity production** ranges from the manufacture of clothing and other commodities to the construction of houses;
- **niche service markets** are services with a competitive advantage like backyard mechanics, child minders, traditional healers, taxi drivers and so on;
- **wage labourers** which is divided into work in the **primary** and **secondary** markets where the former refers to well paid and secure jobs which offer career advancement and the latter are poorly paid and offer little career advancement;
- **claims against the state** take the form of pensions, disability grants and child support;
- **claims against households** refers to remittances and other claims against relatives and community members; and
- **domestic unpaid labour** is the unremunerated work performed mostly by women and plays an important role in the livelihood strategies of the poor.

This survey reveals that the activity generating the most income for rural households is claims against household members followed by employment in the secondary market and agricultural production. In comparative terms though, these activities provide much less than employment in the primary labour market or niche SMME activities. But even here the survey shows that there are large differentials in income between the niche service SMME's (R895) and distribution SMME's (R328) and petty commodity production SMME's (R322).

Small, Medium and Micro Enterprises

It is easy to interpret this data as confirming what some development economists have said about SMME's in the informal sector in most developing countries - that they are reservoirs of low-income workers, who live in degrading conditions, unprotected by legislation, the state or trade unions, and unable to modernise, develop or make technical improvements because their owners lack education and resources. There is, however, another view that portrays SMME's in a much more positive light. By virtue of their labour intensive methods of production, SMME's create employment, save and invest their earnings to expand sales and, hence, output, and become the route through which many entrepreneurs make their way into the modern economy. There are signs that this is starting to happen in South Africa. The tabling of the government's White Paper on National Strategy for the Development and Promotion of Small Business in South Africa and the subsequent establishment of the National Small Business Support Network has set in motion a process that is designed to create an enabling environment for small enterprises. The support strategy is intended to stimulate economic growth, facilitate greater equalization of income, wealth and economic opportunities, create long-term jobs and strengthen the cohesion between small enterprises. The Department of Trade and Industry has also identified the areas and/or target groups as most deserving of support, with added emphasis on entrepreneurs from formerly disadvantaged communities. They are:

- agro-business and small-scale farming and fishing
- small manufacturers - with focus on clothing, furniture/carpentry, metal works, arts and crafts, etc.
- small builders/contractors
- transport-sector operators (taxis, freight carriers, tour operators)
- start-up and expanding enterprises owned by women and, in particular, women with children
- small exporters revealing comparative advantages
- small-scale tourism-industry operators
- youth self-employment (with the focus on school leavers and unemployed youth)
- self-employment start-up efforts by retrenched people and those in resettlement areas
- rural business start-ups and expanding firms including the retail sector
- physically disabled people involved in self-employment
- small-scale mining
- small enterprises in disaster areas
- SMME's in ecologically sensitive activities
- small-scale hi-tech ventures with a strong catalytic role

The National Small Business Support Network which is comprised of the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Ltd. and includes other components such as Local Business Service Centres, Tender Advice Centres, Funded Service Providers and Retail Financial Intermediaries, has been set up to provide a full range of services to SMME's. The government also recognizes that commercial banks are often reluctant to lend to the small-enterprise sector and has accordingly identified specialized SMME-focused financing institutions to fill part of the vacuum in SMME funding while additional mechanisms are being devised.

This augurs well for the emerging small-enterprise sector and for broadening the base and if properly administered these support programs should yield encouraging results in terms of labour absorption, lower average capital costs per job created and improved technical innovation which has become a feature of successful SMME’s in other parts of the world. But the achievements of this enabling environment could easily be thwarted if the promotion of SMME’s is not coupled with a robust competition policy. The regulatory framework of the past favoured larger companies and had never sought to give legislative thrust to the promotion of small enterprises except for a minority group within the general population. The present government is considering ways to streamline the regulatory conditions affecting small enterprises but is being cautious about the degree of regulation and deregulation, noting that unduly strict regulations can often harm emergent enterprises whereas less regulation may lead to the neglect of worker interests or to health hazards and environmental destruction. Based on this approach, the DTI, in co-operation with the Competition Board, has promised to closely monitor the regulatory reform process with a view to making it more suitable for small enterprises. The areas that have been earmarked for special attention are:

- taxation
- labour
- zoning and building controls
- tendering procedures
- training requirements
- health and occupational conditions

The Competition Board has also been asked to investigate possible small business constraints inherent in the present competitive structure and how these could be overcome. Other reform measures that are being considered include legal assistance for small businesses to defend their interests; changing the current small-claims-court system; establishing a user-friendly environment such as the simplification and standardisation of documents including business registration and licensing, financial and loan applications, simplified tax return forms for small businesses and registration of contracts at fair-trading boards.

On the issue of access to marketing and procurement the government has committed itself to facilitating the process in a number of ways:

- It will encourage the Competition Board to take the necessary reform steps to prevent restrictive practices vis-a-vis small enterprises and to make the Competition Board more accessible to SMME’s;
- it will consider steps that could include tax incentives, procurement quotas, voluntary commitments, etc., to *motivate the big business sector* to systematically expand its links with small enterprises. In this respect, the government argues, sector specific and localised efforts are likely to bear better results and minimize confrontation, compared to national rules or guidelines;
- it will propagate and encourage the simplification of tender procedures among all public sector and parastatal tender authorities, in order to make it easier for small enterprises to compete and eliminate gender bias; and
- adjust public procurement practices at central, provincial and local government levels, as well as by parastatals, in order to facilitate granting of some proportion of contracts to black-owned or -controlled enterprises, and encourage small-businesses tendering for such contracts.

Closely linked to marketing and supply problems of SMME's are issues related to reasonable access to raw materials and quality services at affordable prices. Government believes there are many ways of addressing these problems, including bulk purchases by clusters of firms or through sector associations, assistance to individual firms via extension networks and the discouragement of supplier monopolies. It favours a diversity of approaches, adapted to sector as well as regional needs.

This kind of regulatory intent could lay the basis for a broadening of the base and provide the leverage for further growth of SMME's, which even at the survivalist level are showing promising signs of becoming a strong link in the distributional chain of the country's internal trading system. According to one market research company CEO, spaza shops in the Cape Town area alone have a combined purchasing power of more than R2 billion.

The success of a fair competition policy involving SMME's is perhaps nowhere more poignantly demonstrated than in Japan where they have been fully integrated into the national economy through institutional forms which linked large and small firms together in complementary ways.

In her analysis of small businesses in Japan, Penelope Francks, author of *Japanese Economic Development - Theory and Practice*, pointed out the employment potential of small businesses in Japan, noting that "[I]n 1982, two-thirds of Japanese private-sector employees worked in enterprises employing fewer than 100 people; 30 per cent of the labour force worked in businesses with one to four workers and a similar percentage were owners of, or family members working in, family businesses." Francks also cites the part played by Japanese small business in meeting demand for consumer goods in the domestic market, in its earlier period of industrialization as well as the present, and observes that many well-known entrepreneurs and inventors began their careers in the informal sector. Japanese government leaders and economic bureaucrats were aware of the import-substitution potential of the small-scale sector from the mid-nineteenth century onwards and made it deliberate policy to promote this sector. On the question of big companies versus small businesses Francks has this to say:

> *"…the persistent ability of small firms to carve out a changing and complementary role for themselves, alongside large firms, within the industrial structure suggests that the trend towards bigness may not be as inevitable as once thought and that the demand for the variety and products which small businesses can meet may not be something that necessarily disappears over the course of development."*

Co-operatives in Development

Another area in which the state can play a facilitative role in broadening the base is the establishment of co-operatives, which have had an equally impressive record in economic development and growth. A co-operative is essentially an organization owned by those who use its services and in which control rests equally with all members who also share in any surplus earnings in proportion to the use they make of the service. The objective of a co-operative is the social and economic betterment of its members by means of the creation of an enterprise based on mutual aid.

According to the International Co-operative Alliance (ICA) there were 674,697 co-operative societies in existence worldwide in 1988. They are generally found to operate in three economic sectors - agricultural production and marketing, consumer retailing and financial services, and the activities they cover are extensive. The following examples will illustrate this:

- More than 70 percent of of the marketing of dairy products in Denmark, rice in Japan and grain in Canada is done by co-operatives;
- co-operative banking systems in France, Japan, West Germany and the Netherlands are among the 50 largest banks in the world;
- consumers' co-operatives dominate retail sales markets in Finland and Switzerland; and
- co-operatives dominate the marketing of coffee in Kenya and sugar in India.

World individual membership of co-operatives in 1988 stood at 596, 346,251. In developing countries membership was 287, 638, 856 and covered 9 sectors of their respective economies. With these kinds of numbers each sector has been able to establish overall co-operative organizations to represent their common interests and the national movements have in turn created a number of international organizations which enable them to increase trade among themselves and boost their bargaining and marketing power.

In 1966 the International Co-operative Alliance adopted six principles as guidelines for co-operatives. They are:

- Open and voluntary membership
- Democratic control
- Limited interest on shares
- Return of surplus to members
- Co-operative education
- Co-operation among co-operatives

The three major types of co-operatives are:

- **Large-scale marketing co-operatives** - they dominate the processing and/or marketing of many commodities such as sugar (India), coffee (Kenya), groundnuts (Senegal), fish (South Korea) and rice (Indonesia);
- **Multi-purpose co-operatives** - they provide short- and medium-term credit to farmers, supply agricultural inputs, process crops, and organize storage and marketing facilities; and
- **Grass-root co-operatives** - these co-operatives operate at the local level and concern themselves with small-scale activities such as food production, simple processing, artisinal production, consumer shops, fisheries, housing and services (which includes the provision of electricity and medical services).

The North-South Institute in Canada has listed a number of benefits that successful co-operatives can contribute to national development the most important of which are:

- **Economies of scale** - by grouping people together, co-operatives can provide services to their members or produce revenues that would otherwise not be possible without their scale;
- **Permanence** - because they are usually commercial entities and self-help organizations, they can potentially generate sufficient revenues to ensure continuity of growth;
- **New Services –** co-operatives have usually evolved to meet a need for services that were not being provided (such as credit in rural areas) or were not available to everyone (such as income-generating activities for women);
- **Skills development –** co-operatives help to build human resources and open new avenues for both employees and members by virtue of the opportunities they offer in training in management skills, literacy and numeracy;
- **Democracy** – co-operatives help nurture a culture of democracy through the democratic methods of planning, decision making and implementation that they use in their daily, weekly or monthly activities;
- **Market competition** – co-operatives provide alternatives to intermediaries, moneylenders, private companies or the state sector who may otherwise constitute monopolistic or oligopolistic markets. Members benefit through lower costs, higher returns, or increased quality and accessibility of goods and services; and
- **Expanded returns** - members of co-operatives share in the returns of the co-operative business over and above their direct participation in income generating activities.

SMME's, co-operatives, village enterprises and NGO's, either separately or in partnership, thus hold out the promise of being able to tackle some of the problems of poverty facing South Africa while at the same time contributing significantly to a broadening of the base. As a developmental tool, these organizations can be instrumental in creating employment and incomes for the ultra poor and establishing distribution and marketing channels for goods and services they could produce. But, in a country without a strong historical tradition of co-operatives and SMME's among the general population, state assistance is crucial to their success, especially during the formative period. The Department of Trade and Industry (DTI) has already gone some way to supporting small business development but consideration needs to be given to how the developmental state should structure programs of support for the establishment and maintenance of co-operatives, village enterprises and NGO's involved in production and/or distribution.

A first step in this direction would be to create specialized units within departments such as Land Affairs, DTI, Housing and Environmental Affairs and Tourism, with the specific task of making available technical and financial support for the creation of co-operatives and village enterprises. Programs in these units should deal with legislation, promotion, education, auditing and training. It would be useful for these units to set up contact with the International Cooperative Alliance, the International Labour Organization (ILO) and the Food and Agriculture Organization (FAO) all of which have sections with experienced staff members whose specific function is to provide assistance to governments and others in setting up such programs.

Another way in which the developmental state can promote the allocation of resources in economically depressed areas is through public procurement policies. The provision of infrastructure and public works programs will, of necessity, engage private companies in the construction industry. The state can offer incentives to such companies to participate in training and employment programs by restricting the eligibility to bid for construction contracts to those who agree to employ and train a specified number of males and females from the local unemployed population.

Development Banks

Access to capital and other financial resources for the poor and ultra poor has long been recognized as one of the critical success factors in development. Yet in most developing countries the poor and women continue to make up a very small percentage of those who actually obtain credit even though they constitute the majority in most cases. The United Nations Human Development report of 1996 shows that in 1991 small enterprises in the Philippines received just less than 8% of institutional credit. Informal enterprises in Costa Rica get less than 15% of formal credit while in Kenya they got barely 5%. In many African countries women account for more than 60% of the agricultural labour force and contribute up to 80% of total small-scale food production - yet receive less than 10% of the credit to small farmers and only 1% of total credit to agriculture. In 1990 multilateral banks allocated about $6 billion for rural credit to developing countries, but only 5% reached rural women.

The reasons for excluding the poor and the informal sector from access to capital are manifold and can range from the sheer cost of capital in a country, to poorly developed domestic capital markets, to insufficient retail banking outlets, to the political power of feudal landowning classes and to the perceived high risk of repayment that the poor represent. But whatever the reasons, the effect of such exclusion and discrimination is that an enormous amount of production capacity is left idle.

Issues of access to credit can be dealt with at two levels. The first level concerns the way in which the state mobilizes funds for development projects of a social and physical infrastructural nature. The second is the way in which the commercial banking sector extends credit especially to previously excluded groups like the poor, women and rural communities. There is growing recognition in South Africa of the state's role in mobilizing finance and several development funding institutions have already been formed to undertake this task. The most prominent of these are the Development Bank of South Africa (DBSA), the Independent Development Trust (IDT), the Industrial Development Corporation (IDC), the Transitional National Development Trust (TNDT), Khula Enterprise Development Agency, National Housing Finance Corporation and the Land and Agricultural Bank of South Africa. A National Development Agency (NDA) is being proposed to replace the TNDT in June, 1998, and will be located in the Deputy President's office.

It is beyond the scope of this paper to assess the degree of coordination, if any, that exists between these specialized agencies and whether broadly defined criteria have been formulated that allows them to complement their respective development activities. In the case of the DBSA it is evident that strict adherence to commercial banking criteria has replaced the previous system of government guaranteed financing. Infrastructural development projects which have an indirect revenue-generating potential, such as street lighting and road construction, are financed at a "soft rate" of 14% while projects with direct revenue-generating capability, such as water reticulation, are charged at slightly higher rates. Public works projects such as these have enormous developmental value and over a period of time yield high social and economic rates of return for poor communities. They recover their costs many times over once installed through longer working hours, enhanced safety for residents, and improved health status of the community. To provide financing of these projects at such exorbitant rates thus seems wholly inappropriate for South Africa at this stage in its development, and alternative financing strategies and mechanisms should be explored as a matter of urgency to realize the full potential for employment creation in these projects.

One option that has not received due attention is that of prescribed assets which would require long-term capital institutions such as pension funds and life assurance companies to increase the ratio of assets they hold in public sector bonds and incrementally reduce the ratio of assets held in equities. A development bank like DBSA can be the major instrument through which these bonds are sold on a project-by-project basis with a guaranteed rate of return and minimum risk for investors.

There are several benefits of this method of raising finance. Firstly, it will reduce the public sector borrowing requirement, since the bonds will be purchased by private companies or individuals but guaranteed by the government; secondly, it will reduce government borrowing from abroad; thirdly, the government will be able to raise funds for necessary public works programs at relatively low levels of interest.

In contrast to this method of raising much-needed development finance, some economists envisage a very different role for development banks and point to the achievements of the Grameen Bank in Bangladesh as the example that developing economies should emulate. The Grameen Bank was started in 1976 by a 37-year old economics professor, Muhammad Yunus, at Chittagong University. Yunus' objectives were to extend banking facilities to the poor, to create opportunities for self-employment for the vast under-utilised human resources in the area in which he lived and to bring the poor into an organization they could understand and operate, and in which they could find mutual support and socio-political and economic strength. By 1980 seven nationalised banks were involved in running 25 branches of the Grameen Bank Project in about 300 villages. By the end of 1983 the number of branches stood at 86 in 1,249 villages with 58,000 borrowers and a cumulative total of US$5.5 million in loans. In October, 1983, the Grameen Bank Project was formally inaugurated as the Grameen Bank. Since then it has gone through spectacular growth. By September, 1990 there were 754 banks in over 18,500 villages in more than half of the country’s districts, with 800,000 borrowers taking loans of US$5.6 million each month for 400 different economic activities. Grameen also gives housing loans, paid back in 10-15 years in weekly instalments. By September 1990, 85,500 houses had been constructed with these loans, and US$22.7 million lent. Yunus stresses that the bank is self-sustaining at any given size, due to its 98 per cent repayment rate.

The most important reasons for the Grameen Bank’s success are:

- group organization and group responsibility for the performance of the loans;
- meticulous staff training - GB currently employs 12,000 people training 200 more in 50-75 batches each year;

- strict financial discipline using conventional banking procedures; and
- a total commitment to and faith in the villages they are serving.

Grameen specifically targets the landless poor and especially the women among these: about 90 per cent of its borrowers are female. Groups are encouraged to accept a sixteen-point programme for social justice, group solidarity and women's emancipation. Very importantly, the bank is 75 per cent owned by its borrowers and 25 per cent by the government. Only borrowers may own shares; no one may own more than one share; female shares may not be sold to men.

The benefits brought by Grameen to its borrowers are immense in both a material and non-material sense. The villagers and their children don't starve any more (many did so frequently before); their houses keep out the monsoon rains; the women have more than one sari and some undergarments; and some have started schools with their savings. In addition to credit, GB provides seeds, saplings and oral rehydration kits (for infant diarrhoea) at cost.

The activities of the Grameen Bank and other similar institutions contrast sharply with the role played by commercial banks in South Africa. Here commercial banks appear to have served the formal sectors of the economy well for the early years of the country's industrialization but there is concern that they are not meeting the developmental needs of the country's poor. Some economists suggest that one reason why South Africa's commercial banks are not ideally suited for economic transformation is that they are modelled along the lines of the British banking system which emphasises short-term loans, non-involvement in the borrower's management of business and a separation between commercial and investment banking.

This approach to banking has a number of negative aspects, the main one being that banks are mainly concerned with recovering their loans through sale of the collateral assets rather than reducing the risk of failure of the enterprise. In contrast to this system, economists point to banks in Germany and other countries as being much more progressive in facilitating development because there is a strong emphasis on long-term finance and greater integration into the supervision and monitoring of corporate borrowers. Some countries have started experimenting with banking systems in which banks and other financial institutions provide funds to industry by becoming a partner in the investment project or by buying shares of the company. According to a Pakistani economist, Waqar Masood Khan, this method of financing can be extended to agriculture as well. He advocates the participation of banks by:

- supplying inputs to farmers
- financing the purchase of inputs
- providing liquidity at the crucial stage of harvesting and
- extending facilities which help in achieving efficient marketing of farm output.

But so far we have dealt with investment loans. What about consumer credit?

Loans for housing, motor cars and other consumer durables make up a big part of bank credit in all consumer societies and have a marked effect on aggregate demand and, hence, the economy at large. Housing has a particularly strong effect on growth in the economy because of the demand it gives rise to in consumer durables and it is crucial that mechanisms be in place to facilitate housing loans. The existing system of housing finance in South Africa automatically excludes the vast majority of people from becoming homeowners by virtue of the conditions that have to be satisfied in terms of income and area of residence. Yet there are examples of banks that have introduced innovative solutions to providing housing finance for the poor.

The formation of mutual societies in which members purchase shares on the basis of what they can afford in monthly payments is one solution that has been successfully tried already. Each share purchased is the equivalent of a certain amount in loan money which the member qualifies for through a draw or ballot that is held two or three times a year. Upon receipt of a loan the member proceeds to pay back on a monthly basis an amount that includes the subscription fees and the actual repayment of the loan. It is this continuous inflow of funds which keeps the society afloat and ensures that every member receives a loan within a period of about 10-12 years. The loans are completely interest free and at the end of the term each member is paid back the full amount of subscriptions plus any dividends which the society might have earned through the investment of its funds.

Such mutual societies could be formed to provide credit for a host of consumer durables as well. The Grameen Bank in Bangladesh and the South Shore Bank in Chicago are among the most outstanding examples of how banks convert ordinary bank deposits into development credit. One commentator, writing in 1989 on the South Shore Bank, had this to say: "[T]hrough its non-bank development affiliates, the regulated depository can invest equity capital in businesses owned by others, rehabilitate residential and commercial real estate, operate social development programs, attract other private and public investors and, generally, link residents, local government and financial resources into a coherent renewal effort." (J. Shapiro, 1989, 'Shorebank Corporation', paper presented at a conference in Hamburg).

The innovations in banking and development finance cited here have been the initiative of individuals or groups in the private sector. Given their record of performance and the positive effect they have had on broadening the base, government needs to consider ways in which it could encourage their formation through either legislation or a social compact.

5. Guiding the market

Having looked at the role of the developmental state we now turn our attention to the role of the market. Much has already been written about the respective roles of the state and the market in the economy and it is not our intention to enter that debate here. For our purposes it is sufficient to summarise the two contrasting views that characterise this debate.

The first is that of the unfettered market that confers benefits to all and sundry by virtue of the 'invisible hand'. This view has been gaining ascendancy over the past few decades and its most vociferous advocates were Ronald Reagan and Margaret Thatcher. The experience of the Asian tigers, however, offers a challenge to this view by drawing attention to the contribution of the state to economic growth through education, health care, housing, human resource development and the support rendered to firms in the marketing of their goods abroad. The point here is not to choose one view over the other but to recognize the strengths, weaknesses and limitations of the market and the state in the economy. The market allocates resources and in the process creates wealth but this wealth often accrues to those who are already advantaged through some historical circumstance. There is now a growing perception that the market left to itself fails in many respects. Among its failures are:

- that it does not possess a sense of social responsibility about how wealth should be distributed among the different classes of society;
- that it has no regard for the social dislocation it may cause through the actions it pursues; and
- that it does not factor environmental considerations into the decisions that it makes.

The state, on the other hand, as representative of all the people has a moral and, to some extent a legal, obligation to redistribute wealth according to universally accepted principles of equity. It has an equally strong obligation to protect the most vulnerable members of its society such as the aged, children, the poor, women and the unemployed. It is then not a question of the state versus the market, or the state dominating the market but rather how relations between the state and the market can be re-structured to achieve optimum social and economic ends. This entails, among other things, a strong and dynamic state that works through markets, directing investment to areas of greatest need and intervening where necessary, through regulation and other means, to improve and expand markets, and maximise the benefits that flow from them. What are the areas in which the state can guide the market as part of a strategy to broaden the base?

In the preceding chapters we made reference to the size of the domestic market as one of the major constraints we face in broadening the base. But the South African market is also extremely fragmented, with groups of industrialists seeking to promote the interests of the particular sectors they represent, paying scant attention to the ways in which their activities could benefit other parts of the economy. Thus even though South Africa is considered to have achieved a high level of industrialization over this century, the pattern of this industrialization poses special problems for the shift that is required to meet the development needs of the country. In other words, more gains could have been realized had industrial development been planned so as to link the activities of one industry (or sector) with those of other industries. This takes us into the realm of industrial strategy and the relationship it has to a broadening of the base. In what follows, we discuss some of the options that need to be considered.

Encouraging Backward and Forward Linkages in Production

As a medium technology country South Africa relies very heavily on imports of intermediate goods - machines and equipment that it does not produce but which are important inputs in the production of other goods. This places it in a vulnerable position with respect to a fall in the value of the Rand, because of the implications for the trade balance on the current account, inflation and foreign reserves. In the second half of this century many newly industrializing countries, facing a similar situation, chose to manufacture some of these inputs themselves which gradually led to the development of their domestic capital goods industry. In economic literature this is referred to as backward linkages since investment flows from the finished article back towards the raw materials from which it is made or the machines which help make it. Where the stimulus for investment flows in the other direction it is called a forward linkage.

A simple way of illustrating a backward linkage might be that of bicycles. Instead of continuing to import bicycles a country decides to produce them domestically. To do so, however, it must be sure that it can mine and process the steel for the frames and produce or obtain the rubber for the tyres. An example of a forward linkage, on the other hand, can be seen in the discovery of a new mineral which can be used to produce article A, which in turn is used to produce article B which then becomes an input into article C and so on.

Research by a group of economists who worked with the Macro Economic Research Group (MERG), shows that South African industry has developed at two extreme ends of a range of sectoral activities - mining and energy, and consumer goods. The result they say is an absence of capability in capital and many intermediate goods. Mining and energy gave rise to substantial downstream activities such as iron and steel, mineral beneficiation and chemicals while consumer goods developed largely in response to protection. They argue that in both cases, the degree of further integration, in forward linkages from mining and energy, and in backward linkages from consumer goods, has been extremely limited. Manufacturing, as a result, has been dependent on a very narrow base.

For this to be corrected, the restructuring of South African industry should be made a priority so that other sub-sectors in manufacturing are developed with strong backward and forward linkages built in. The experience of other newly industrialized countries show that there is a strong consumption linkage associated with agricultural and mining exports. As incomes in these sectors increase they result in a rise in the demand of imported consumer items which, when it reaches a high enough volume, makes their domestic manufacture economically attractive.

Restructuring by itself, however, can only partially achieve the aims of broadening the base. Combining it with a new competition policy would give it greater effect. This would improve the possibilities for new enterprises to enter previously restricted spheres of production. The removal of barriers to entry, the unbundling of conglomerates and restricting the power of monopolies will have to be undertaken in tandem with restructuring to ensure that the current dominant firms do not stake control of the newly created sub-sectors of manufacturing. If successfully implemented, there would likely be a number of positive knock-on effects in several industries that would lead to a creation of employment and income opportunities that stimulate aggregate demand.

Other options in industrial policy that can assist in broadening the base are:

- tariff reform (to end the protection of uncompetitive firms but in a way that limits the number of job losses)
- a system of export taxes (to be gradually introduced to tap the flow of income accruing to successful exporters for use in financing public investment projects – what is known as a fiscal linkage).

Human Resource Development

It is widely acknowledged that South Africa has lagged behind other industrial countries in developing its human resources. The evidence for this is to be seen in the number of apprenticeships contracts registered or the number of people qualifying for artisan status. Between 1982 and 1986, for example the number of apprenticeship contracts for blacks decreased from 26% to 17% of the total. Further evidence is to be found in a mean education level of only seven years of the work-force and the very high proportion of economically active black people who are not literate or numerate. This abject condition of South Africa's skills status is attributable to policies and practices of both the state and the private sector. Private sector expenditure on training has been shown to be extremely low by international standards.

Without a coherent plan for the development of human resources industrial policies are bound to flounder. Even in so-called low-skills occupations the level of education of workers and entrepreneurs are said to make all the difference. The UN Human Development Report of 1996 notes that in Nepal the completion of at least seven years of schooling increased production in wheat by more than a quarter and in rice by 13%. The report goes on to say that "[E]ducation helps farmers not so much because it provides them with more information - but because it enhances their ability to learn from their experience and from others." In industrial production new technologies - which boosts productivity and makes firms more competitive - depend critically on an educated and versatile workforce.

Planning human resource development will require the participation of several agencies for it involves the formal educational system, vocational schools, on and off-the-job training facilities and a comprehensive knowledge of the needs and trends of the labour market in the short and the long term. Moreover, human resource planning not only encompasses the formal sector of the economy but also the informal sector, the unemployed, and special groups like youth, women and the disabled.

In line with industrial policy a logical first step then would be to identify those sectors with the most potential for job creation and the skills that would be required to develop the full potential of each of the sectors selected. Here it is important to recognise that sectors differ according to the technology used in production and in work organization which, in large part, is determined by that technology. Mining and manufacturing, for example, both use large numbers of unskilled workers but the higher rate of technological change in manufacturing necessitates the continuous upgrading of skills in numeracy, literacy and technical knowledge in this sector.

In industrial production vocational training has become the most widely used method for transferring knowledge and skills to new and incumbent employees. This is generally acknowledged by employers in South Africa but one of the failings of industry here is that it has not developed clearly defined career paths that are allied to an employee's vocational training. The reasons for this lie mainly in the apartheid past in which race, hierarchy, skill and remuneration were strongly correlated to severely limit the mobility of black workers. In a new, democratic South Africa it becomes doubly important to link vocational training to career development because it is not only a way of overcoming the barriers erected by apartheid but also boosts productivity as workers begin to feel more secure in their employment. This might also be the place to incorporate the Japanese practice of the "quality circle" and thereby inculcate a training culture that places a high value on quality and service.

Training for SMME's and the informal sector is likely to prove more difficult because of the weak association at present between this sector, the formal sector and the state. A system of incentives therefore needs to be created which would encourage people in this sector to set aside the required hours per day or days per week to attend training sessions. Training modules have proved successful in some countries and it is worth experimenting with them here. This would allow trainees to progress at their own pace and choose those modules that are most relevant to their occupation. This system can be improved upon as production becomes more streamlined and as the association between SMME's, the large companies and the state is strengthened. Prior Learning Assessment (PLA) can be adopted as a method of making potential trainees aware of their personal "human capital" and to have this accredited towards the acquisition of more formally obtained skills. A number of industrial countries have been gradually incorporating PLA into their formal education systems and have succeeded in giving it a degree of respectability.

Entrepreneurial mentorship programmes are also an option worth exploring in which established firms "adopt" groups of persons from SMME's and impart to them core skills in purchasing, production design, work organization, choice of technology, business administration, distribution and marketing, etc.

Lastly, strong linkages need to be developed between science councils involved in Research and Development (R&D), universities and technicons, and the business sector. Technological capability has a direct bearing on the formation of skills and the competitive advantage of firms, especially as far as manufactured exports are concerned. South Africa's technological capability has been showing signs of decline since the decade of the eighties. R & D expenditure in South Africa was 1.04% of GDP in 1991 which was higher than most developing countries and even New Zealand and Ireland but until recently has been directed towards defence and energy. Steps need to be taken to reverse this trend and to spur innovation in civilian products. There are a number of ways in which this can be done:

- set expenditure targets in R & D for each sector with due regard for the special attributes of the respective sectors;
- set R & D targets at the level of firms by getting them to either commit a percentage of turnover or profits towards technological research or employing an appropriate number of scientists, engineers or researchers per size of work-force;
- allocate larger amounts of funds in the national budget to support R & D;
- develop a range of incentives via taxes to get firms to innovate; and
- introduce legislation that would discourage or prevent firms from entering licensing agreements that retard South Africa's technological capability or allows the transfer of funds out of the country through exorbitant licensing fees.

No discussion on human resource development can be complete without reference being made to how much it would cost and how it is to be financed. These questions, in turn, raise other issues such as priorities in government expenditure, what the appropriate level of funding should be, when the expected benefits would be reaped, etc. The evidence from countries which have committed vast resources to the promotion of training and skills development may provide some answers. Wherever successful development and growth have been recorded it appears to have one common factor - huge investment in human capability. The Republic of Korea invests $160 per person a year in education and health and Malaysia $150. By contrast, India invests only $14, Pakistan $10 and Bangladesh $5. The lesson that appears to have been learned is that without basic literacy and numeracy skills, adequate nutrition and attention to well-being, people's ability to adapt to changing production methods and technologies is severely constrained. Apart from the marked improvements in productivity which have been recorded in investment in human capability there is also evidence of more jobs being created and of management and supervision costs being reduced as workers at the production front take on more responsibility. The conclusion that must be drawn from this is that training and skills development should be seen as an investment and not a cost and, since the benefits accrue to society as a whole, the financing of it should be spread across the spectrum of institutions and individuals which have a direct interest in the matter - employers, employees, the state, trade unions and organizations representing the interests of the unemployed and SMME's. Getting government, business and organized labour to commit themselves to allocating resources to establish training and skills development programs would not only help broaden the base but also meet the country's needs for industrial growth in the 21st Century.

To illustrate the importance that some multi-national companies attach to training and education it is worth noting that in 1990 the Matsushita Electric Company of Japan spent almost $40 million and the U.S. giant Motorola Corporation $60 million (2.7% of payroll) on these areas. There are signs that South Africa is beginning to move in the right direction in training. In the Green Paper released by Tito Mboweni, the former Minister of Labour, the government proposed a levy on all employers in the form of a payroll tax of between 1% and 1.5%.

It is generally accepted that the state will bear the bulk of these costs mainly through the line items in the Education budget and in programs in the Departments of Trade and Industry, Labour and Public Works. In some countries, most notably Japan and Germany, the training and education of management and employees is provided for by the large companies. This is supported by a public education system that provides ongoing financial and other support for continuous skill development in firms. The task of setting up the institutional framework in which the three major partners - government, business and labour - collaborate on training and skills development appears to be now underway in South Africa with the Department of Labour's Green Paper. A National Skills Authority, as proposed in the Green Paper, is to advise the Minister on national skills priorities and strategies, identifying new strategic growth areas now and in the future. Sector Education and Training Organizations (SETOs) will set training priorities, standards for qualification and accredit training providers.

It is not clear yet whether the Department makes a distinction between large and small business or between newly formed and well-established enterprises. Informal enterprises also do not appear to have been singled out as a group with special needs. We suggest that the following issues be included in the discussions on the Green Paper :

- The imposition of variable or fixed training levies on all employers.
- "Clustering" arrangements for firms in an industry or between industries that would allow them to share costs and certain overheads;
- targeting industries for an assortment of financial support programs;
- a nominal contribution by members of trade unions towards a national training fund as a way of increasing their bargaining power in negotiations on training;
- a similar arrangement with SMME's in which they register with a national organization and contribute a nominal monthly fee which can then be supported by the government and the private sector on a matching formula basis for the provision of training; and
- tax relief for companies that attain or exceed their training targets either in terms of the percentage of payroll devoted to training or the number of person hours that employees spend in training sessions.

The positioning of public enterprises

Government policy on public enterprises in the recent past has been focused on privatization but in this section we consider an alternative role for public enterprises - that of guiding and promoting the development of the market. Privatization in a number of countries has been undertaken for a mixture of ideological and financial reasons but in South Africa the latter appears to have been the main rationale, with the government arguing that the proceeds from privatization be used to fund the RDP and reduce the public debt. Since public enterprises in South Africa straddle several sectors that are of strategic importance to the economy and have the potential for increasing growth and broadening the base at the same time, we look at what could be done if they are not privatized.

The economic clout of public enterprises in South Africa is incontrovertible. The total combined assets of Eskom, Transnet, Denel, SAFCOL and Aventura amount to R98,194 billion and they employ some 173,980 workers. Their turnover for 1995/96 was R40, 613 billion while profits were posted at R5, 037 billion. Interestingly, the sectors that are presently dominated by three public enterprises are poised for high growth if infrastructural provision is made a central plank of economic policy and, should this happen, we can expect higher rates of capital investment by them, regardless of the status of their ownership. This expectation is premised on the provision of the following infrastructure that not only contributes to economic growth but is a precondition for further investment by the private sector:

- the building of new roads and the repair of those that have physically deteriorated ;
- the improvement of road links with airports and sea ports and the linking of road and rail transport systems;
- the extension of rail transport to facilitate movement of passengers and freight;
- modernization of sea ports and the facilities that go with them;
- building of new airports and expansion and modernisation of existing ones;
- installation of a national transmission grid and ensuring that sufficient electricity is generated to meet the needs of all households and businesses within South Africa's borders;

- installation of sewerage systems and water treatment plants to keep pace with population growth and migration patterns; and
- extension and modernization of the telecommunications network to make telephone service accessible to all South Africans.

When combined with the infrastructural programs of the Departments of Health and Public Works to build clinics, hospitals, prisons, police stations and courts, this amounts to a substantial amount of capital expenditure with the potential to create employment for hundreds of thousands of workers directly and indirectly. What is more, these are all labour intensive programs which means very little expenditure on imported machinery and sophisticated technologies, and hence no pressure on the current account of the balance of payments. But how can this strategic role of public enterprises in the economy be harnessed to guide the market and broaden the base?

- Establishing strong links with SMME's is a necessary first step for this would open up channels to conduct business with the various divisions of public enterprises;
- a system of selection of SMME's should then be developed which would take into account such factors as geographical location, socio-economic status of the community in which it operates, training and skill levels of management and staff and the ability of the SMME to deliver according to established standards of quality and quantity;
- public enterprises should facilitate the granting of credit to those SMME's that have secured contracts to provide goods and/or services, by guaranteeing small loans with financial institutions;
- public enterprises should negotiate performance contracts with SMME's which can also be linked to access to credit and to make them eligible to bid for future contracts;
- explore the possibility of providing premises to several SMME's who are at the embryonic stage of their development so that they could share certain overhead expenses, among other things; and
- sponsor entrepreneurial mentorship programs and technical skills development programs to SMME's.

Some public enterprises have already started implementing changes along these lines. Eskom was among the first to contract out work to SMME's and Transnet recently announced that some R2.7 billion worth of contracts were processed through the Tender Board during the 1996/97 financial year. The Department of Trade and Industry has also recognised the importance of the linkages between government departments and SMME's and to this end inserted a clause in the National Small Business Bill of 1996 granting the Minister the right to "publish guidelines for organs of state in national, provincial and local spheres of government to promote small business and the National Small Business Support Strategy."

It is too early to assess the strengths and weaknesses of these programs but the clear advantages for the government in promoting the linkage between public enterprises and SMME's are:

- that it can create employment without additional financial outlays and
- it can generate tax revenue by making the payment of taxes a condition for becoming eligible to bid for contracts.

6. Macroeconomic policies that promote the broadening of the base

In the previous chapters we looked at specific prompts for broadening the base of the economy. In this final chapter we examine the wider mix of economic policies that would be needed to support the particular prompts that were discussed above. It is difficult to cover these policies in any depth here because of their complexity and the controversy they generate. What we attempt instead is to present a summary of the salient points of these policies, beginning with labour market and trade and industrial policy and touching on areas of fiscal, monetary and transport policy. The reason for combining labour market with trade and industrial policy is the close interdependency they share in employment creation.

Labour market and trade and industrial policy

Economists Lighthelm and Kritzinger -van Niekerk found that the labour absorption capacity of the formal economy fell from 73.6% in the late 1960's to about 12.5% in the late 1980's. Every year during the 1980's at least 350,000 persons entered the labour market while an average of only 50,000 job opportunities were created per annum. The employment prospects deteriorated further so that fewer people were employed in the private economy in 1995 than in 1980. Between 1985 and 1995 the only sector which registered a net increase in employment was government with some 340,000 additional people finding jobs in the public sector. Out of a total of 22 industries in the manufacturing sector 7 industries showed an increase in employment with 12 registering declines and 3 had negligible changes. What these statistics illustrate is that the sheer number of unemployed and the rate at which unemployment increases outstrips the capacity of any of the sectors in the economy to provide employment.

Government and business economists have attributed this decline in jobs mainly to the high unit labour costs in South Africa. (A unit labour cost is the earnings per employee divided by the output per employee, otherwise known as labour productivity). This has led to demands for deregulation and labour market flexibility which entails hiring workers at lower rates of pay than they currently receive. High unit labour costs, according to organized business, lead to greater capital intensity (as wages go up employers are more likely to switch to machines to get the work done and this leads to lower levels of employment). It is true that increases in earnings per employee increased more rapidly than productivity between 1970 and 1995 but the nominal increases which workers received were eroded by the accelerating rate of inflation during this period, making it barely possible for them to improve their standard of living. It is also misleading to think of increases in production workers wages as being the sole cause of increases in unit labour costs. Unit labour costs are also affected by other factors such as investment in machines and equipment, skill levels and how well they are adapted to the technology being used, the quality of management and increases in the wages and salaries of management and supervisory staff. Moreover, studies on cross-country comparisons of labour productivity show that, despite this gap between wage increases and productivity, South Africa's labour productivity growth rate of 2.5% per annum between 1990 and

1995 was higher than the rates of some developed countries but lower than the rates of the newly industrialised economies.

What are the policy implications of these findings?

Strategies to increase productivity can lead to jobs being lost and this is precisely what happened in South Africa during the 1985-95 period: more than 18,000 people lost their jobs in 7 out of 22 manufacturing industries alone. This trend has to be reversed if we want to broaden the base in a country with an already high level of unemployment. But gains in productivity do not have to come at the expense of jobs, as Malaysia has shown. The comparison with Malaysia is apt because the two countries achieved the same level of labour productivity in 1995. Malaysia, however, outperformed South Africa in its manufacturing sector with a real output growth rate of nearly 15% compared with South Africa's 2.5%. More noteworthy though, this growth rate in output was accompanied by strong increases in employment. All sectors in the Malaysian economy, except agriculture, experienced growth in employment whereas South Africa lost jobs in almost all sectors.

While there are many factors which are responsible for this impressive record, the Malaysian's success in boosting productivity as well as creating jobs appears to be attributable to the strong linkages it has made between labour market policy and trade and industrial policy within an overall macroeconomic framework to promote employment. Here are some of the lessons we could learn from Malaysia and other high growth countries: (The recommendations and data in this section are taken from the South African Competitiveness Monitor, 1996. Published by the WEFA Group).

- Formulate policies that aim for a **higher employment coefficient**. The employment coefficient is an indication of the extent to which employment will change as a result of changes in production. If the coefficient is relatively high, economic growth will be accompanied by a relatively high increase in employment. The lower the coefficient, the higher the economic growth rate needed to alleviate the country's unemployment.

- Target those **sectors with high labour coefficients**. The labour coefficient measures the share of labour to value added in production. In the case of South Africa, the labour coefficient is highest in construction (79%) and trade (63%) and lowest in finance (35%) and electricity (27%). Not surprisingly, the sectors with high labour coefficients correspond with the more labour - intensive industries.

- Target those **manufacturing industries with the highest labour coefficients**. In South Africa machinery, electrical machinery, transport other than motor vehicles, furniture, footwear and clothing have labour coefficients higher than 70% while beverages, leather products, paper products, industrial chemicals and non-ferrous metals have labour coefficients of 40% or less.

- Target those **manufacturing industries with the highest job creation coefficient (direct and indirect effects).** The job creation coefficient is a measure of the number of jobs created for every R1 million of final demand. The measure is extended to see the number of jobs that are created indirectly in that industry by the expenditure of R1 million. Research shows that the clothing industry in South Africa creates the most jobs (directly and indirectly), followed by wood products, furniture, and footwear (all in excess of 15 jobs per million rand spent). Food and tobacco create few direct jobs but they show many more jobs being created indirectly when investment in them expands.

- In each of the targeted sectors and industries government should follow through with a vigorous competition policy and the narrowing of wage differentials which can be composed of a mix of incentives and penalties for dominant firms, with disproportionate market share, to either unbundle, form partnerships with new companies from disadvantaged groups or sub-contract work to SMME's, co-ops and/or village enterprises.

Fiscal policy

Fiscal policy can be used to achieve a number of ends – poverty eradication, job creation, promotion of small business, greater equity, development of human capital, limiting imports and encouraging exports, stimulating domestic industry, encouraging savings, etc. With regard to broadening the base, it would be desirable if government could do all these things but political and economic circumstance can, and often do, militate against the implementation of such policies. There are, nevertheless, some aspects of fiscal policy that can play a crucial role in inducing a broadening of the base.

- South Africa's tax structure is considered to be particularly inefficient because it has an extremely narrow base and relies heavily on only a few sources for its revenue. Personal taxes are expected to make up 42% of total revenue in the 1997/98 fiscal year, followed by VAT (25%) and company taxes (17%), with taxes from international trade, excise duties and property making up the remaining 16%. This has placed constraints on the expenditure side of the budget and prompted the government to concentrate on reducing the deficit. But by concentrating on reducing the budget deficit the government is limiting the potential impact of its fiscal resources on precisely those areas where it can satisfy basic needs and foster a broadening of the base.

  There are, however, other options for raising revenue even within this narrow tax base without cutting back on expenditure for basic needs. One of these is the introduction of a capital gains tax on companies. South Africa is one of the only industrialized countries in the world that does not have a capital gains tax. Apart from the revenue that a capital gains tax will generate it will also prevent companies and individuals from switching their incomes into various forms of non-taxable capital gains. Company profits that are used to buy and sell shares, bonds and other assets and are "transformed" into other forms of capital gains are not subject to tax. One possible effect of an increase in revenue from capital gains is a lowering of the rate of personal income tax. This could increase the level of savings, stimulate demand for goods and services, and possibly stop people from cheating on their income tax. Savings can have a positive effect on investment while an increase in demand can lead to a rise in employment.

- The NIEP analysis on taxation in South Africa shows that the country is undertaxed by about 3% of GDP but the lower and middle-income groups bear a disproportionate share of the burden. This suggests that there is still room for increasing revenue without resorting to cuts in expenditure on infrastructure and social programs, both of which are important to broadening the base.

- Even if authorities choose not to increase tax rates for the wealthy there are other ways in which the tax structure could be changed which would either yield higher revenue or stimulate investment. The effective tax rate which companies pay (the rate of tax after various deductions) is considerably lower than the nominal tax rate. The tax system should provide incentives that will ensure the deductions being claimed result in profits being directed towards investment and job creation. Investments, for example, in new plant and machinery, special training schemes for workers, empowerment programs to integrate emerging SMME's into an industry, etc., should qualify for higher levels of deductions. In short, fiscal policy should be consistent with employment creation and the development of human capital.

Monetary policy

High interest rates are generally used in an economy to protect the value of the currency, to attract much-needed foreign investment or to lower the rate of inflation, or a combination of all three. Unfortunately, high interest rates can also have an inhibiting effect on growth and subsequently on broadening the base.

Housing and the formation of SMME's, two economic activities with huge potential for job creation and growth, are particularly sensitive to high interest rates. The economists associated with MERG in 1992 observed that

> *It is generally recognized that housing plays an important role in the economy. It is a significant sector itself in generating income and employment, and can act as a stimulus to growth in kick-start scenarios – with construction generating demand across sectors with high levels of employment-intensity, with limited demands on the balance of payments and with the potential, in South Africa, to be non-inflationary, since there is ample excess capacity.*

World Bank research also shows that, across different countries, housing investment typically accounts for 2 to 8 per cent of GNP, and the flow of housing services for a further 5 to 10 per cent.

The importance of housing and SMME's to broadening the base place an obligation on policy makers to develop options that would allow the government some flexibility in setting differential rates of interest for these and other sectors. The labour-intensive methods of production and the potentially strong multiplier effects associated with housing and the backward and forward linkages associated with SMME's means that there are several important benefits for poor communities in terms of jobs, incomes and the satisfaction of basic needs. A monetary policy that allows for differential interest rates would ensure that these benefits are not lost.

7. Some practical measures to broaden the base

In this paper we have tried to promote the idea that generating income and employment among the poorest is not the responsibility of government or the private sector alone although there is a vital role for each to play in the process. The recommendations made in this paper are meant to also provide development practitioners and civic organizations with a basis for discussion on options that are available to them for transforming the social and economic conditions of the communities in which they work. But to restrict these recommendations to the realm of discussion alone will not bring relief to impoverished communities. We need to consider some practical measures as well.

In the process of transformation each of these three macro institutions - the market, the state and the community - has a distinct role in moving people towards a socially desirable direction. According to Japanese economist, Yujiro Hayami, the market is an organization that co-ordinates profit-seeking individuals through competition under the signal of prices. The state is an organization that forces people to adjust their resource allocations by the command of government. On the other hand, the community is the organization that guides its members to voluntary co-operation based upon close personal ties and mutual trust. How we co-ordinate the activities of the three organizations in a division of labour with respect to transformation is what should form the focus of our discussion on practical measures.

In chapters 3 and 4 we looked at how the state and the market, through coercion and competition respectively, can broaden the base of the economy. But what of the role of communities in economic development? What specific actions can communities engage in to fuse co-operation with coercion and competition to achieve a socially optimum division of labour and thereby transform the economy and the lives of its members?

It may be something of a fiction to speak of community, state and market as separate entities when, in reality, they overlap. There is, however, a basis for considering these institutions as both analytically and functionally separate. Communities, for example, are characterised by personal relationships which may be based on tribal lines, locational affinity, religious affiliation, sport clubs or the workplace. It is with this in mind that we discuss some practical steps that can be taken to get communities involved in the process of broadening the base.

Developing a poverty profile

Communities would be greatly assisted in their attempts to end their poverty if they acquired a deeper understanding of their social and economic conditions. A sound and scientifically accurate assessment of the breadth and depth of poverty in a given community would not only enable residents to devise strategies to eradicate poverty but would raise their consciousness about the causal relationship between say, clean water and infant mortality.

There have been several reports and studies on poverty in South Africa of late, the most recent being “Poverty and Inequality in South Africa,” which was prepared for the Office of the Executive Deputy President. While this and other reports extensively document the deprivation experienced by many South Africans, they do not provide detailed poverty data on local communities (defined either by the jurisdiction of the local authority or a magisterial district). A first step then would be to involve communities in data collection. Working with teams of data analysts, they could be introduced to a "poverty profile" of their respective communities and asked to compare indicators of human and economic development in their jurisdiction with either a district, provincial or national average, or all three. The type of data that should be concentrated on are:

- Life expectancy at birth;
- infant mortality rate;
- population with access to safe drinking water and electricity;
- number of people living in formal vs. informal dwellings;
- underweight children under age five;
- adult literacy rate;
- gross enrolment ratio for all levels; and
- real GDP per capita.

With the aid of specialists, the data could provide the basis for devising an appropriate strategy could to deal with the most urgent problems confronting each community.

These statistics on poverty should be supplemented with an "economic profile" of the area – which industries are based there, the number of retail businesses, banks, insurance companies, post offices, government offices, etc. With a comprehensive database such as this communities would be in a position to assess the economic potential of the area and investigate the possible links and joint ventures that could be negotiated.

Formation of co-operatives

Once a needs assessment and poverty profile of the community has been completed co-operatives can be formed as a first step towards providing employment and income for some of the residents. A housing co-op, for example, could set about the task of determining the need for formal structures, mobilizing finance, sourcing or producing materials, developing skills and liaising with different tiers of government and the private sector. A food co-op, on the other hand, could start collecting seeds for cultivable crops, develop irrigation systems, install processing and preserving facilities, set up distribution and sales outlets, etc. Similar co-ops could be established for clothing, furniture and the provision of water and electricity.

A point that should be emphasised is that in a competitive market economy co-ops do not become a substitute for the market – to a lesser or greater extent they are a part of it and will survive only if they are able to sell a product or service in much the same way as other businesses do. The main difference between co-ops and other businesses, though, is the way in which profits and dividends are distributed. Members of a co-op earn a wage or salary for the work they perform but two or three times a year a portion of the profits they generate is shared among them. The remainder is either retained for re-investment or put into a fund from which the co-op could draw to finance future expansion of the business.

It could be argued that co-ops do not have much chance of success if the communities that they are composed of lack an entrepreneurial spirit or culture and the technical skills that are so essential in modern, profit-driven economies. Since this is more than likely to be a characteristic of many poor communities in South Africa, it may be helpful if we paused to consider how to overcome these weaknesses.

An entrepreneurial culture can take a considerable length of time before it takes root in societies that do not have a history of trade and commerce. Technical skills, on the other hand, can be acquired over shorter periods depending on their type and complexity and the level of technology in use at any given time. But the lack of these skills need not delay the formation of co-ops as many other developing countries have demonstrated. One way of overcoming the constraints is for government to establish ‘Technical Support Centres’. These centres could be located either in universities or technicons and draw on the professional and technical expertise from these institutions as well as the private sector and NGO’s. From basic bookkeeping and administration to town planning and electrical engineering, a data base of potential candidates can be collected and their services procured either on a retainer basis or as paid consultants.

The Support Centres could provide assistance with:

- the legal registration of co-ops;
- allocation of shares;
- issuing share certificates;
- drafting manuals on rules and regulations that will guide each co-op;
- identifying the technical skills a co-op may require and matching these with appropriate consultants;
- transferring skills by introducing mentorship and training programs; and
- establishing linkages with other co-ops.

A key objective for co-ops is to minimize the leakages that we referred to in Chapter 2. This makes it incumbent upon communities to study the range of products and services that have to be purchased from the “outside”, expenditure on which represents a net outflow of their financial resources. Would a co-op be able to offer some of these products and services for sale? What resources – equipment, raw materials, capital - are required to produce these goods? Do they share any common production techniques with other goods? How many people would be engaged in their production? How much income could the community generate by producing these goods? These are some of the questions that co-oops would have to ask when considering the question of leakage.

Joint production with other co-ops in adjoining areas is another important consideration. The linkages established in this way could give rise to ‘clusters’ around which local industries could develop, based on specialization. Production by each co-op becomes an input into a finished or semi-finished product, resulting in employment creation, an enhanced skills base and an accumulation of social and physical capital. The production of cloth and making of garments can illustrate the forward and backward linkages encompassed in clustering. Sheep shearing or cotton growing and picking, dyeing, designing, weaving, cutting and sewing – all form part of a chain of value-adding activity that ultimately results in a finished product to be marketed, distributed and sold. In cases where two or more communities pool their resources a division of labour can be negotiated so that the activities complement one another and each community benefits accordingly.

Forming Partnerships

Co-ops, government and the private sector working together make it possible to form "smart partnerships" – the pooling of their respective resources in productive enterprises that benefit each party. For government the benefits would be an increase in revenue from each additional income earned, either through direct or indirect taxes. For the private sector, there is the promise of larger markets and hence, increasing profits. For co-ops, it is the prospect of employment for their members and a way of valuing their 'sweat equity' – the ability to provide goods or services mainly through manual labour. Smart partnerships should therefore not be seen as the sole responsibility of any one of the organizations, but something that should be sought by all three.

A starting point for the formation of smart partnerships would be the creation of a division within the Department of Trade and Industry (DTI) where co-ops could be registered according to geographic distribution and the sector or industry in which they plan to operate. This information could then be made accessible to other co-ops, the private sector and other tiers of government. Local authorities, in particular, could benefit from this information by using it in conjunction with their programs on poverty eradication. The role of government as facilitator here is crucial. Where it is evident that a geographic area does not have any co-ops efforts should be made to encourage their formation. This should always be done with a view to promote those sectors or industries with high labour coefficients or by taking into account the resource endowments in the area that could benefit from downstream linkages.

A system of incentives should then be developed to encourage companies to form partnerships and contract-out some of their functions to co-ops in their area. Using foreign aid, state resources and private sector financing, arrangements could be made for the supply of raw materials, provision of transport and training of personnel.

A question that is likely to arise in discussions around partnerships and joint ventures is that of financing. The options that could be considered here are:

- Conventional financing through commercial banks
- Government financing through programs such as the SBDC, the Land Bank or the DBSA
- Equity participation

The current high interest rate in South Africa does not make the first option financially viable. Any enterprise set up by a co-op would have to have a high profit margin to sustain its payments to the banks each month at present rates and so this option should not be considered until such time as there is a dramatic fall in interest rates.

The second option is more attractive because of the 'soft loans' that are made available to emerging enterprises. But even here the rates charged could be onerous because they are linked to the prime rate charged by all financial institutions. It is possible, however, to negotiate a long-term repayment plan or delay the interest payments on the loan for say, the first 3 or 5 years. Such an agreement may allow emerging enterprises to survive the initial period that is usually a critical determinant for their long-run success.

The third option allows either the government, a company or a financial institution to acquire a stake in the new enterprise by purchasing shares in the latter. The buyer acquires these shares and as part owner makes resources available to the partner in the form of equipment, raw materials, managers or cash to pay for salaries and wages. The co-op can then buy back a portion of these shares at a small premium each year for the next 5-10 years until it either owns all the shares or the portion stipulated in the joint venture agreement. The buy back of the shares would be paid for out of the profits that the co-op earns.

The superiority of this method of financing is that it permits new enterprises to enter the formal economy without bearing the burden of servicing loans at exorbitant rates. Equally important though is that new enterprises enter into a relationship with the companies in the private sector in which the success of the one is also the success of the other. The established companies are able to place their vast expertise, resources and experience at the disposal of the emerging enterprise at little or no cost and guide its growth and development if only out of self-interest.

Co-ops could also group together and form holding companies which would substantially increase their sweat equity and thereby make them even more attractive to potential partners in the formal sector. An added advantage of creating holding companies is that they can significantly reduce the administrative burden and overhead costs of individual co-ops. Such holding companies also make it possible for groups of co-ops to engage in cross investments (that is, buy shares in each other’s business).

8. Conclusion

Economics is often thought of as an arcane and esoteric subject that makes little sense to those who have no more than a basic education. By presenting these ideas on how to broaden the base of the economy we have tried to show that the fundamentals of economics can be learned by anyone with an interest in the subject, including those who are involved in survivalist activities. By disseminating the ideas in this paper to those who do not ordinarily come into contact with the realm of economics, but are engaged in economic development, we hope to lift the veil of obscurity that makes this subject inaccessible to the vast majority of people.

To alter the structure of the South African economy is a formidable task because ownership of resources rests chiefly with a handful of powerful corporations who are intent on maintaining their dominant positions for some time to come. But it is precisely this situation that compels those in favour of a more equitable distribution of wealth and power to engage in a broadening of the base of the economy. A larger domestic market, a more egalitarian distribution of income and a system of social security is bound to reap economic benefits for the population as a whole and will also contribute substantially towards social and political cohesion. If, on the other hand, poverty, unemployment, homelessness and disease are not eradicated within a reasonable period, the violence that now manifests itself in an infinite variety of forms is sure to place our young democracy under threat.

Such a threat can be averted if we adopt some innovative and non-conventional approaches to employment creation and poverty alleviation. As pointed out in Chapter 1, in both industrialised and non-industrialised countries there are numerous examples of ordinary people who have successfully implemented such programmes. The Right Livelihood Award has been honouring individuals and organisations for almost 20 years for pioneering solutions to the problems that many South Africans face, among others. In 1989, the Seikatsu Club Consumers Cooperative of Japan was one of the recipients of the award for creating the most successful, sustainable model of production and consumption in the industrial world. The Club traces its foundation back to 1965 when a single Tokyo housewife organised 200 women to buy 300 bottles of milk to reduce their price!

The ideas explored in this paper are meant to motivate individuals, communities and organizations to try alternative approaches to dealing with unemployment and poverty instead of relying on conventional economic formulae to deliver the goods. If successfully implemented in one locale a project could easily inspire others living elsewhere to do the same. The result could be the birth of a “culture” of broadening the base, with government officials, the private sector and civil society making this a part of their vocabulary in their dialogue on economic and social policy. The stories contained in the appendix that follows illustrate that this is in fact possible.

9. Appendix: International case studies

The following excerpts are reproduced here with the permission of Paul Ekins, author of *A New World Order – Grassroots movements for global change*, published by Routledge, London & New York, 1992. The excerpts describe how poor communities in different parts of the world have, in varying circumstances, taken some bold initiatives to change their conditions of life. Readers should note, however, that since the information in the book dates from 1991, there is no guarantee that the descriptions of the work or organisations are still valid.

Case 1: Six S Association / NAAM Movement (Burkina Faso)

Both these organisations were founded by Bernard Ledea Ouedraogo, who was born in Haute Volta (Now Burkina Faso) in 1930. He completed his secondary education in Burkina Faso and gained many diplomas before studying in France, gaining a doctorate from the Sorbonne in 1977.

After finishing school in 1950, Ouedraogo became a teacher and school director and then turned to agriculture, where his talents as a trainer led him to the top echelons of the civil service, which he then abandoned in 1966 to found the NAAM movement. He explains why:

> *I was responsible for training of the rural extension workers, and young farmers who had some kind of formal schooling. It was also my responsibility to supervise the 'official' village groups organized by the government (and not by the farmers themselves). I did my best to help these groups, but I failed. So I tried to find out why I had not succeeded. What had happened?*
>
> *The rural extension workers would arrive in a village, and the only concern of the officially organised farmers was to take advantage of the donkeys, bullocks, carts, hoes, and other materials we would make available to them. But there was nothing else behind this demeaning form of assistance, no vision, no global conception of development or of the rural world, no droctrine or philosophy. There had been no prior efforts at consciousness raising. It was normal that in such a situation the farmers had but one concern: prime the State 'pump' for all it was worth and cheat the extension workers.*
>
> *So we asked ourselves: 'Is there anything in the organization of traditional Mossi society that resembles these village groups? We undertook a thorough study of village social organization; of the people's thinking, of their social and economic structures. We discovered that, of the village organizations we examined, it was the NAAM group – a traditional village body composed of young people which undertakes various activities – that had the most highly developed cooperative characteristics. We decided we would attempt to work with the NAAM structures.*
> (quoted in Pradervant 1989, p.36)

The result, according to Pradervand, was an 'adventure which is unique in the whole of Africa' (p.35). The NAAM groups prospered, despite all the usual problems and official opposition. By 1987 there were over 2,700 NAAM groups in the Yatenga area of Burkina Faso, with over 160,000 members.

> *The NAAMs represent a triumph of the idea of 'developing without harming' (Ouedraogo), of culturally appropriate development. The NAAM is a form of development adapted to local needs, created by the people themselves, which instead of destroying traditional structures from the outside, slowly, like leaven, transforms them from the inside.*
>
> *Many development specialists feel that the lack of authentic popular participation has been the main failure of development in the past thirty years. 'Development' has been something that has been done for people, to people, sometimes despite them and even against their will, rarely with them. The founder of the NAAM movement has shown that one can create a form of development 'of the people, by the people and for the people', hence his striking formula: 'letting oneself be mastered by the grass-roots'. The experience also shows that development is as much a way of travelling as a precise destination and that the destination will be determined to a great extent by the way one travels.*
> (Pradervand op. cit., pp. 39-40).

The transformation of the traditional NAAM groups into modern social structures was a masterpiece of practical sociology by Ouedraogo. He gives four reasons for their success; dynamic local leadership and activity; maintenance of traditional values; proscription of any sort of social, ethnic, political or religious discrimination; training and motivation coming from within the group based on the principle: action the basis of what people *are*, what they *know*, how they *live*, what they *do*, what they *know how to do* and what they *want.*

The activities of the NAAM groups are as broad as life itself: social, economic, cultural. They grow, build, manufacture, trade. A World Bank report in 1983 listed their 'major construction activities' as embodying ten warehouses, nine cereal banks, seven other workshop buildings, three dams and forty wells, with funding from French, Dutch and Canadian bilateral sources and other international sources, as well as generating their own income.

Unaided, the rate of growth of the NAAM movement was necessarily limited by the rate of mobilisation of the villagers' own resources. It was to accelerate this process by tapping external funds that Ouedraogo founded the Six S Association (Se Servir de la Saison Seche en Savane et au Sahel – the Association for Self-Help during the Dry Season in the Savannahs and the Sahel) with the French development expert Bernard Lecomte, in 1976. He became its Executive Director in 1978. While NAAM is a people's movement, Six S is an NGO dedicated to removing three obstacles to peasant mobilisation, as described by Bernard Lecomte:

> *The first obstacle was the lack of know-how. The farmers simply did not have the necessary knowledge to face the unprecedented challenges of the drought situation. The one was the lack of 'negotiators'. By that I mean farmers capable of negotiating projects with both the local administration and the village elders without whose consent nothing could be achieved. The third was the lack of funds*

> *to implement small projects. More and more villages were becoming active, starting as peasant groups, but once they started to organize on a regional basis, they were lacking in the funds both to support investments in organization and to initiate larger projects.* (quoted in Pradervand op.cit., p.154)

Six S is also intended to overcome the serious problem of under-employment in the region during the dry season, as its name suggests.

The structure of Six S is a federation of peasant organisations like (and including) NAAM, from nine countries in the region: Burkina Faso, Senegal, Benin, Mali, Togo, Niger, Mauritania, Guinea-Bissau and the Gambia. It is very tightly structured with especially strict control of financial disbursements, but that control is, and is perceived to be, firmly located in the farmers' groups themselves. To quote Pradervand again:

> *The General Assembly is composed almost entirely of peasant representatives who still cultivate their own fields. An aid organisation run by the farmers themselves is unique in the field of development aid, and one of the reasons that farmers identify so totally with Six-S and trust it.*

In early 1989 there were 4,000 village groups in Six S (2,600 of them NAAM groups) divided into eighty-nine zones, forty-six in Burkina Faso, thirty in Senegal, eight in Mali, two each in Togo and Niger and one in Mauritania. The other countries were just getting organised.

Six S employs 166 people. Its income in 1987-8 was over 700 million francs CFA (US$2.7 million). Part of this would be loaned to village groups, part granted. The system of 'flexible funding' which Six S has evolved is another distinctive feature. It is not 'project linked' but spent at the discretion of the recipient once the group has shown itself creative and responsible. This further cements the trust in the organisation. In Burkina Faso groups repaid 60 million francs CFA in 1986-7, compared with only 1.3 million francs CFA in 1980-1, which indicates greatly increased economic activity. Figures of output are scarce, but it seems that farmers invest their work to twice the value of the external funds they receive, and 62 per cent of their time in 1987-8 was spent on environmental protection.

The key question for Six S is whether it can achieve its goal of self-reliance. There is no doubt about its determination in this regard. Its detailed strategy specifically calls for the withdrawal of financial aid once the federations have sufficiently progressed, making them rely on normal channels of investment, while their emphasis on loans from the first income-generating stages reflects their stress on prudence and self-reliance. But undoubtedly the farmers' temptations to regard Six S as just another permanent donor of aid is great and the swift growth of Six S may not permit the 'Six S Spirit' of self-reliance to be adequately disseminated. For the present it is clear that Six S and the peasant federations which it links are probably the only sources of hope for the 3¾ million people of Burkina Faso (and others in the other countries) whom it has directly benefited, in a striking achievement in twelve years of operation.

Case 2 Bangladesh Rural Advancement Committee (BRAC) (Bangladesh)

BRAC was founded by F. H. Abed in 1972 following the Liberation War, initially as a relief project for refugees returning from India but thereafter a development organisation seeking:

> *to improve the plight of the rural poor … by developing their ability to mobilise, manage and control local and external resources themselves. It was felt that BRAC's programmes should not be determined by a rigid set of strategies, but rather they should respond flexibly to the needs identified by the people. The ultimate objective is to end the long-standing exploitative relationships that dominate rural life in Bangladesh.* (BRAC 1988, pp.1-2)

BRAC's growth has been phenomenal and it is now the largest development NGO in Bangladesh, employing as of September 1990 4,200 people with a budget of Tk800 million (US$22 million) and a membership of 350,000 (60 per cent women) covering 210,000 households in 3,200 villages, organised in 5,800 groups.

BRAC focuses exclusively on the landless, mobilising them into co-operative groups, who then plan, initiate, manage and control collective activities that lead to self-reliance. The activities cover a wide range of areas, reflecting BRAC's belief that the complexity of the problems demands a simultaneous search for solutions in many different fields, including:

- *Functional education*, the key process which villagers are required to complete before groups can be formed. In 1990 43,000 villagers were attending this course in 1,800 centres. The course itself consists of sixty lessons taught in two one-hour classes per day, six days a week for three-and-a-half months. It has also been used by other NGOs and the government.

- *Non-formal primary education,* for unenrolled children or dropouts, using a specially developed curriculum focussing on basic literacy, numeracy, health and environment. By the end of 1990 126,900 children, 70 per cent girls, were taking this course in 4,025 schools.

- *Training*, especially in the areas of human and occupational skills development, the former comprising consciousness raising, leadership development, project planning and management and functional education teacher training, the latter imparting skills in poultry keeping, agriculture and a variety of trades.

- *Meeting and workshops* – groups hold weekly meetings and inter-group meetings for a variety of purposes. Higher level committees of group delegates meet monthly to discuss issues that cannot be solved locally, e.g. wage bargaining, protest action, access to government services.

- *Health* – since 1980 BRAC has reached 12 million or 85 per cent of Bangladesh's rural households with its simple oral rehydration therapy for child diarrhoea (responsible for 33 per cent of Bangladesh's infant mortality). This has now developed into BRAC's Child Survival Programme, consisting of a primary health care programme, continuation of the oral rehydration work and assistance to the government in its immunisation and vitamin A distribution work.

- Para-legal service – since 1986 villagers chosen by their group are trained to act as para-legal counsellors in such matters as land conflicts and registration, civil rights and unfair practices.

- Generation of income and employment/credit support – agriculture, irrigation, fish culture, poultry, livestock, bees and other rural industries have all been promoted as income earners against which credit is given (only after one year of group conscientisation and mobilisation). So far Tk427 million has been lent with a repayment rate of 96 per cent.

On the direct production side, BRAC runs a sizeable Women's Production Centre, and has opened six shops called Aurong to market their products and those of 300 other producer groups. These are now self-supporting and directly employ ninety-eight people, turning over TK69 million in 1989, and expected to turn over Tk100 million in 1990.

BRAC also produces a monthly magazine and has three commercial projects, BRAC Printers, a Cold Storage Enterprise and Garments Industry to generate international income for the organisation.

BRAC's future plans include:

- *BRAC Bank*: BRAC is planning to formalise its credit aspect into a bank to make it separate from the awareness-raising and developmental work. Once this is operational it will be very interesting to compare it with the Grameen Bank.
- *Citizen's report on the environment*: BRAC has brought together a group of major Bangladesh NGOs to compile a report on the Indian model.
- *Tobacco to silk*: Concerned that smoking in Third World countries is on the increase, partly because of aggressive marketing by tobacco companies to compensate for declining sales in industrial countries, BRAC has carried out studies of the potential of transferring land under tobacco to silk production. The potential is excellent: there is a large untapped domestic and foreign market and sericulture is twice as labour intensive as tobacco. BRAC's next step is to establish a 1,000 acre pilot project with farmers who have been persuaded to switch.

Case 3 Working Women's Forum (WWF) (India)

WWF was started with 800 members in 1978 by Ms Jaya Arunachalam who had been prominent in the Congress (I) Party but had resigned the year before in disillusion about its effectiveness in reaching the poor. WWF was founded as a grassroots union of poor women workers in the informal sector. By the end of 1984 it had 36,000 members; three years later it had 60,000. By 1990 its members numbered over 150,000.

The initial need identified by its members on which WWF immediately began to act was for small loans at reasonable interest (the only alternative, money-lenders, charged interest at 10 per cent per month and more). WWF first acted as an intermediary between its members and a government loan scheme, administered through the nationalised banks, but the inflexibility and inappropriateness of the banks' procedures and attitudes caused WWF, with an initial seed-grant from Appropriate Technology International, to set up its own Working Women's Cooperative Societies (WWCS) to issue its own credit.

Only working poor women can become members of WWF, those who almost invariably suffer from the combined oppression of marginal work status, class, caste, gender, physical weakness and isolation. They (and their children) are usually ruthlessly ill-treated and exploited by moneylenders and their employers, as well as suffering the social gender bias against women. It is an extraordinary achievement for such women to have organised themselves in large numbers effectively to combat this oppression and materially improve their quality of life.

The success of WWF undoubtedly derives from the way it locates itself and springs from the lives of its members. Robert Chambers has identified its key organising characteristics as: putting poor women's priorities first; working only with the poor; promoting leadership from below; and exercising clout to get the poor their rights (Chambers 1985, p.17). The clout has come from both Jaya Arunachalam's high-level contacts and WWF's ability to get thousands of women out on the streets of Madras in pursuit of their rights. Such clout brings real practical results: only the most foolhardy policeman or petty official now harasses WWF members for bribes, which was a commonplace occurrence before.

An evaluation of WWF in May 1990 by the Dutch government (Netherlands 1990), drew attention to its record of leadership by working-class women members:

> *By any standard, national or international, the Working Women's Forum (India) is a remarkable and successful institution. In terms of numbers, the Forum has more women staff and members than probably any other non-government organization in India and all but a few non-government organizations in the World. Even more notably, almost all of the staff are from the same socio-economic class as the membership: that is, poor working class women.*
>
> *The organizational structure, which promotes leadership from the membership itself, is the unique and dominant feature of the Forum. The governing body or executive council of WWF, with the exception of its Founder-President, are all working class women.*
>
> *Also, all the WWF staff are working class women with the exception of a few administrative staff hired for their writing or accounting skills. This organizational structure, with the possibility of mobility from target group to staff positions is the main strength of the Forum.*

WWF now operates in eleven separate locations, having spread out from Madras to start groups elsewhere in Tamil Nadu and in Karnataka, Andhra Pradesh, and Uttar Pradesh. Recently WWF has started organising workers in the Lucknow city slums and to unionise migrant labour women and help their children in Kampur industrial area. Although the women in these locations are in different occupations, the WWF process has met with success in every case.

Credit remains the core WWF service to members, and by the end of 1990 113,000 WWF members had received loans totalling Rs39 million (US$16 million) through the WWCS, while 28,000 members had been lent Rs6.5 million through the nationalised banks. Undoubtedly its success across different occupational groups – fisher-women, traders and vendors, bidi-rollers [a bidi is a local cigarette], lace-makers, agricultural fieldworkers and embroidery workers – comes from its efficient, empowering delivery of this crucial input, but WWF is active in other areas too. It runs a Grassroot Health Care and Family Welfare Project, jointly now with ILO, UNFPA and the government of India, employing 400 slum and rural landless women among the 90,000 slum families of Madras and 60,000 rual landless families in 150 villages in the Tamil Nadu countryside. It organises mass inter-caste weddings to break down discriminatory prejudices. It organises large demonstrations on the problems of its members, and a measure of the political heat it can apply is that Rajiv Gandhi came twice in 1988 to meet different groups of WWF members and listen to their grievances. WWF also organises: child labour rehabilitation centres for working children who would otherwise get no education; training in such skills as needlecraft; advice and counselling on family planning and health care, with an emphasis on preventing infant and mother mortality. This is all part of WWF's objective of increasing consciousness and raising the awareness of its members.

1998 was WWF's tenth anniversary, to mark which it produced a report Decade of the Forum (WWF 1988), from which the following quotations are taken.

> *A decade of Working Women's Forum's success in three southern states can be analysed in development terms, as growth with equity and distribution, betterment in quality of life, increase in women workers' visibility and productivity (through process of credit, employment supportive services) and finally resulting in increased women's consciousness and workers' solidarity. In growth terms, the Forum has increased income/savings, provided cash capital to women workers, credit repayment rate of workers has been over 90%. Implementation of planned health services to the most neglected group of women workers, leads to an identification of a low cost/effective delivery mechanism to improve workers' health and provide women with ability to control reproduction.*
>
> *Benefits have been distributed to a large population of poor women and access to information/resources have been provided to non-elites. The issues of distributing with equity has been dealt with by conscientising women to confront local power hierarchies as well as exploitative elements such as the money lender, middlemen, exporters and employers. Extraordinary roles of leadership played by women had been the key element. Expanding from urban to rural, from individual workers to piece-rate labour, and from a small effort to mobilization of women, to a trade union for collective action, the Forum has successfully replicated its original urban model (with modification) in 9 different areas. Replication was also possible in different language/cultural contexts.*
>
> *Being a pioneering effort at the grassroots, its unique organizational structure, leadership roles, mobilization approach, class component of its members and its sheer size make Working Women's Forum today more a movement…*

A motivation behind the membership in WWF is a class centered ideology of a common background and common oppressions – such as ideology transcends barriers of caste, language, culture. The Forum therefore is not strictly an NGO or a union, but a movement marked by the voluntarism of its membership motivated through specific class objectives. The Forum stands for a political process of empowerment of poor women, and this empowerment in itself is greater substance to keep its members together, than credit, health or any other material programme. Hence the ideology explains the tremendous growth and continuity of the Forum.

The Forum understands its role to be a pressure group, relates itself to Government and other power structures. Two very different functions combined in the activities of the Forum are the flexibility of an NGO and the political character of the trade union. While the NGO character gives it the material support, the trade union character gives it political ideology to sustain its membership and fight for equal opportunities.

The Forum has collected significant experience in effectively re-structuring the living conditions of poor women which could be used by other organisations, particularly in the Asian and African continents. This could take place if WWF opts to train resource persons to start similar movements in other areas.
(WWF 1988, pp.1,12,13)

Case 4 Grameen Bank (Bangladesh)

In all the initiatives so far described an important element has been that of credit. The final example of people-centred development in the South given in this chapter is an organisation that exists to make loans, a ‘development bank’.

The Grameen Bank was started in 1976 by a 37-year-old economics professor at Chittagong University, Muhammad Yunus, who wanted to prove, contrary to conventional banking wisdom, that the poor were an eminently bankable social group and that consequently the almost universal demand of banks for collateral, which the poor couldn’t provide, was both unjust and bad banking. Initially, Yunus’ Grameen Bank Project operated in a village near the university campus as part of his Economics Department’s Rural Economics Programme, while the loans were provided and administered by the local branch of the Janata bank (one of Bangladesh’s nationalised banks). The objects of Yunus’ Project were:

1. To extend banking facilities to the poor;
2. To eliminate the exploitation of the money-lenders;
3. To create opportunities for self-employment for the vast un- and under-utilised person-power resources;
4. To bring the poor into an organisation they could understand and operate, and in which they could find mutual support and socio-political and economic strength.

GBP was successful and by 1980 seven nationalised banks were involved in running twenty-five branches of GBP in about 300 villages. By the end of 1983 the number of branches stood at eighty-six in 1,249 villages with 58,000 borrowers and a cumulative total loan of Tk195 million (approximately US$51/2 million). In October 1983 the GBP was formally inaugurated as the Grameen Bank (GB). Its subsequent growth has been enormous. By September 1990 there were 754 banks in over 18,500 villages (Bangladesh has 68,000 villages and a population of 110 million, over half of whom are landless) in more than half of the country's districts, with 800,000 borrowers taking loans of US$5.6 million each month for 400 different economic activities. Grameen also gives housing loans, paid back in 10-15 years in weekly instalments. Up to Septemebr 1990, 85,500 houses had been constructed with these loans, and US$22.7 million lent. Continuing rapid expansion of GB is planned. Funds for expanding GB to its present size have come from Bangladesh Bank (in association with the government), IFAD, SIDA, NORAD and the Ford Foundation. Yunus stresses that the bank is self-sustaining at any given size, due to its 98 per cent repayment rate.

The keys to the Grameen bank's success are:

1. group organisation and group responsibility for the perfomance of the loans;
2. meticulous staff training – GB currently employs 12,000 people, training 2,000 more in 50-75 batches each year;
3. strict financial discipline using conventional banking procedures;
4. a total commitment to and faith in the villages they are serving.

Grameen specifically targets the landless poor and especially the women among these: about 90 per cent of its borrowers are female. Some villages, with all-women Grameen groups, do not accept male members of the Bank, a locally autonomous decision rooted in the extremely oppressive power structure as far as poor women are concerned. Before loan-giving comes an intensive course of training, group discussions and conscientisation. Groups are encouraged to accept a sixteen-point programme for social justice, group solidarity and women's emancipation. Very importantly, the bank is 75 per cent owned its borrowers and 25 per cent by the government (though Yunus is seeking to transfer all but 5 per cent to the borrowers also). Only borrowers may own shares; no-one may own more than one share; female shares may not be sold to men.

The benefits brought by Grameen to its borrowers are immense in both a material and non-material sense. The villagers and their children don't starve any more (many did so frequently before); their houses keep out the monsoon; the women have more than one sari and some undergarments; some have started schools with their savings, etc. In addition to credit, GB provides seeds, saplings and oral rehydration kits (for infants diarrhoea) at cost. Yunus now wants GB to branch out into business management and has set up the Grameen Trust. He has his eye especially on the 'corpses' of old development projects which litter Bangladesh – one district has 1,055 broken-down tubewells alone. Grameen has already taken over a large defunct fisheries project originally funded by the UK Overseas Development Administration and rendered it productive in three months. Like the Bank itself, these projects will be jointly owned by the borrowers.

1989 saw the start of Grameen's four-year expansion plan, which is to cost US$125 million. Upon completion the Bank will have a network of 1,000 branches nationwide serving above one million landless poor out of whom 80 per cent are expected to be women. Notwithstanding its ambition, it is a target which on present trends should be amply achieved.

**Case 5		South Shore Bank (USA)**

Muhammad Yunus is not a man to keep his Grameen Bank experience to himself, and he is actively promoting similar initiatives in several parts of the world including Burkina Faso, Guinea, Mali, Malaysia (Grameen Trust 1989) and the US. In the US he has acted as a consultant on an adaption of his group lending programme, which is in turn one aspect of a ‘development bank’ (i.e. one that works for the economic betterment of poor people and communities) designed and established in Arkansas by another remarkable banking institution, the South Shore Bank of Chicago.

> *The Shorebank Corporation represents a conceptual break-through in the fight against poverty. (It) is among the first development vehicles ever created in this country…..truly appropriate to the needs…in poor communities….Shorebank does not exist to make a profit; (it) exists to solve social problems….(It) uses the methodology of the private sector to achieve public goals….It is the creative tension between (its) social goals and the bottom line that makes (it) so effective.*
> (Osborne 1988, quoted in Shapiro 1989, p.1)

> *Shorebank Corporation…was incorporated as a bank holding company in 1972 to foster permanent renewal in blighted neighborhoods…. In pursuit of this development agenda it must generate reasonable returns to shareholders and lasting benefits to residents of the communities in which it operates.*
> (Shapiro 1989, p.2. Joan Shapiro is Senior Vice-President of South Shore Bank)

> *In 1973 Shorebank took over the South Shore Bank of Chicago, a normal commercial bank in the South Shore area of Chicago, which in less than a decade had changed from being a diverse, white, middle-class and professional community to an essentially all-black, low to moderate income neighbourhood with all the indicators of irrevocable decline into a slum.*
> (ibid. p.5)

The founder of Shorebank Corporation was a banker, Ronald Grzywinski, who had pioneered the concept of the neighborhood development corporation based on a bank:

> *Of all the possible initiators of neighborhood renewal, none better combines financial and managerial resources than a regulated, diversified, deposit-taking financial institution. The depository, a commercial bank or savings association, is known, trusted, legitimate, well-capitalised and self-sustaining. If located within the community, it possesses unusual capacity to be continuously knowledgeable about the neighbourhood economy. Most significantly, it converts ordinary bank deposits into development credit. The availability of credit, combined with restored self-confidence, can precipitate the release of local energies, inducing residents to risk their own savings and become personal stakeholders in the future of the community. Through its non-bank development affiliates, the regulated depository can invest equity capital in businesses owned*

> *by others, rehabilitate residential and commercial real estate, operate social development programmes, attract other private and public investors and generally, link residents, local government and financial resources into a coherent renewal effort.* (quoted in Shapiro 1989, P.8)

Having defined the concept, Grzywinski and his colleagues set out to test it, raising US$3.2 million in equity and debt and incorporating Shorebank in 1972:

> *In its early years Shorebank had to reverse a dramatic outflow of deposits from the Bank and confidence from the community. It did that by simultaneously making the Bank's services competitive, organising community meetings, extending credit, inducing participation by private mortgage insurers, inviting public subsidies to development, retraining its staff….attracting a community-sensitive housing rehabilitation company, raising investment capital for community organisations and generally heralding the revival of South Shore….(As) an intelligent but inexperienced staff… (was) trained in banking and development…it began to make increasingly difficult loans for multi-family rental housing rehabilitation, small business start-ups and commercial district renewal.*
>
> *In 1978 Shorebank capitalised its non-bank subsidiaries…. To diversify the renewal process and engage in activities prohibited to regulate commercial banks in the United States – real estate development, venture capital, non-profit housing and jobs programmes.* (ibid. p.10)

Shorebank's success has been remarkable. By the end of 1989 it had total assets of US$184.8 million and a capital of US$11.4 million. The South Shore Bank has extended over US$130 million of market-rate, unsubsidised credit to over 7,000 local business people and residents, well over half of whom had never borrowed from a bank before with a repayment rate of over 98 per cent. Its real estate development subsidiary had rehabilitated 1,142 units of multi-family rental housing, and had broken ground on a US$10 million shopping plaza. Its non-profit subsidiary has trained 2,218 people and found jobs for 2,734, disbursedUS$1 million in low-interest energy conservation loans, and rehabilitated 376 units of housing for the lowest income residents. Housing units completed by all Shorebank companies – banks, real estate and no profit companies – totalled 8,898. Cumulative Shorebank development investment since 1974 had reached US$212 million by the end of 1989.

Shorebank firmly believes that its experience is replicable and has established an advisory subsidiary to deal with the increasing flow of inquiries as to how this might be done. It has itself expanded out of South Shore into four other Chicago neighbourhoods, has established a new bank holding company to promote rural economic development in Arkansas and in October 1990 began collaborating with the Polish American Enterprise Fund to help create a private banking system in Poland. Shapiro summarises its distinctive approach which has proved so rewarding:

> *Re-establishing a viable market economy is the most appropriate goal to ensure a neighbourhood's long-term revival; bank holding companies, organized for profit as community development corporations, represent an as yet underutilized opportunity for achieving that goal; credit can be organized and used as a*

poverty alleviation strategy; bank deposits can provide a predictable source of development capital; neighbourhood renewal requires 'patient' capital and is inconsistent with short-term profit maximization; at the same time, it is possible to generate financial and social return – profitability and development – over the long-term and with low and moderate income residents as the primary beneficiaries. (ibid/ p.1)

Case 6 Alternative trading organisations (ATOs)

Another manifestation of increasing consumer concern about where, by whom and with what impacts products are made is the growing ATOs movement. These organisations were set up as a reaction against perceived inequities in North-South trade, seeking particularly to give Southern products a better deal in their transactions with the North by working directly with them and by linking them to sympathetic Northern markets.

Since their humble and marginal beginnings in the 1960s, ATOs have come a long way. Many Northern ATOs now have multi-million dollar annual turnovers, handle a wide range of products and are reaching many hundreds of producing organisations worldwide. From Finland to New Zealand, there are over forty organisations that call themselves ATOs. In addition there are many individuals, groups, and cooperatives running independent shops, with cooperative networks and church organisations providing outlets for products. (Tiffen 1990 . 13)

ATOs differ markedly from normal commercial trading companies. While they clearly need to remain financially viable, their principal concern is not with their profitability but their ability to give their Southern producers a fair return and security of production. To achieve this ATOs need to work at both ends of the product chain. They give practical advice to producers on such matters as design, appropriate technological innovations and marketing, to help them cater for Northern tastes and markets; and they cultivate those markets, seeking to build long-term commitment among Northern consumers to fair trade, not least by helping them to understand who produces the goods being bought, how and under what conditions, and the difficulties and injustices for the South of the global trading system generally. They act therefore, as mediating organisations, injecting human sympathy and understanding into the otherwise impersonal world of trading relations.

Because ATOs are committed to working with smaller producers, often village-level co-operatives or other groups, the scope for economies of scale in production is obviously limited. But the possibilities for co-operation between them in terms of research, marketing, distribution and other intermediary functions are immense and should help them eliminate some of the waste inherent in market competition. An important step in this direction was the recent creation of the International Federation for Alternative Trade, aiming 'to increase the flow of information, speak out against specific injustices, improve market access and facilitate international partnership' (Tiffen 1990, p.15). Thus as the conventional market becomes in effect a globally integrated operation, so the progressive market is consolidating its international links. It needs to continue to do so with all vigour if it is to be perceived as a real alternative to a world trading system powered by unprincipled market forces.