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The implications of national-level policies on the development of small and intermediate urban centres

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1. Introduction

In the dichotomous world of centre–periphery theories, rural development, urban bias and rural–urban linkages, the small and intermediate urban centres (SIUC) tend to disappear. Urban studies have tended to focus on the capital or other large cities, whilst rural development projects often do not even mention the small rural towns or regional centres where the project administration and the services on which the rural areas depend are mostly located. One of the reasons for the invisibility of the SIUC is their complex and often unclear position in development. From an urban point of view, their development represents a decentralisation or deconcentration of activities; from a rural point of view, they represent a point of concentration and centralisation. This makes their position open to different interpretations, reflecting real or potential conflicts between rural and urban interests and between local/regional and national interests.

The importance of the development of SIUC lies, on the one hand, in their contribution to economic growth, by providing goods and services and a more efficient market access for their rural hinterlands, which can help increase rural productivity and the standard of living in their region; and their role in poverty reduction and rural development depends mainly on their ability to do so. On the other hand, SIUC also function as agents for urban, national or international public and private organisations and enterprises, and they play an important role in the distribution of goods and services from the urban economy. However, their ability to do the first often depends on their ability to do the second.

The SIUC are the seat of local trade, service and production activities serving the town and its rural hinterland, which are often established by people from the town itself or from the rural hinterland as private (formal or informal) enterprises, cooperatives or local government or non-governmental organisations. In small towns, they are mostly small but in larger towns they may be larger. SIUC are also the seat of branches of urban, national or international, organisational hierarchies, whether governmental or non-governmental organisations, parastatals or large private enterprises. Small towns in particular are often dominated by branches that depend on and are controlled by headquarters in the capital city or in foreign countries, and which often are headed by non-local people. This can result in a certain animosity between small town urban people, who look down on the rural population as poor illiterate peasants, and the rural population, who view the urban population as agents of exploitative bureaucrats and traders.

In the development literature, branch plants have had a bad image as contributing little to local development because they are unstable, they tap local resources and give little in return. However, the branches do give access to outside – national or global – resources, services and markets, which might otherwise be difficult to obtain. Whether or not the branches contribute to development depends to a large extent on national policies and their implementation, whose impact is often channelled through the branch offices.

Contributing to the invisibility of the SIUC is the fact that the trade and services which make up a large share of their activities have, following traditional economic thinking, often been seen as unproductive and superfluous to the economy. In addition, many of the private trade and service activities belong to the informal sector which, in itself, often makes them seem problematic. In the post-Independence years, it was often argued that social and agricultural services should be delivered directly to the rural population without the "unnecessary middlemen and bureaucrats" which people the SIUC. The strong anti-trader attitude in many African countries has often resulted in a very one-sided focus on manufacturing industries in the formal sector and on artisans in the informal sector, whilst trade is seen as unimportant. However, many of the problems with African manufacturing industries seem to stem from the lack of efficient distribution channels, with the result that most small industries and even large ones produce only for a very local marked. Recent literature on enterprise clusters and commodity chains documents the important role of trade in development; but, at the same time, export-oriented structural adjustment policies have moved the focus away from sub-national distribution problems (Gooneratne and Obudho 1997).

Although middlemen and bureaucrats may create inefficiencies, it is an illusion to think that one just can by-pass them, an illusion which, in African countries, has often led to a strong concentration of activities and poor rural services. Rural service delivery and market access beyond the local market almost always require some kind of hierarchical organisation with decentralised activities located in the SIUC. National sector policies, therefore, have a great impact, whether positive or negative, implicit or explicit, on the development of the urban hierarchy and thus of the SIUC.

The SIUC are part of both the local/regional economy and rural areas where they are located and the national or international urban hierarchy. Their development therefore depends both on national agricultural policies and agricultural development in their hinterland and on the development of industry and services, whether public or private, formal or informal, and the national policies that govern it. These policies have changed dramatically in the last 20 years, from the import substitution policies developed during the post-Independence period to the structural adjustment policies adopted during the 1980s and 1990s. The purpose of this paper is to investigate how this shift in national-level policies has influenced the development of production, trade and services in the SIUC. This shift in national economic policies has impacted on most sector policies and also on the development of SIUC; however, here we shall look specifically at the impact of agricultural policies, industrial policies, transport policies and government decentralisation and local government policies, which we expect are the most important for the development of SIUC.

Although there are considerable national differences in the formulation and implementation of policies, the different policy areas are highly interdependent and, under both import substitution and structural adjustment, they make up more or less integrated policy complexes which justify a generalised discussion. However, as a result of both historical/geographical specificities and differences in policies, the consequences for the development of SIUC still vary greatly. In addition to the generalised discussion, we shall therefore also look more specifically at the development of SIUC in Kenya, Tanzania and Zimbabwe.

The urbanisation literature traditionally perceives SIUC as being part of a national urban hierarchy, with the largest town – usually the capital – at the top, followed by five or more lower levels of town. Such hierarchies can also be identified in African countries but, for simplicity and because of a lack of data, in these discussions we shall distinguish between two levels only: *small rural towns*, which are dominated by trade and services and are closely related to the rural economy; and *intermediate towns*, which are larger and mostly have more manufacturing activities. However, there are wide variations within the two groups, and the distinction between them is not self-evident and often depends on public policies.

In Section 2, we shall look at the impact of import substitution polices on the development of SIUC and, in Section 3, at the impact of structural adjustment policies. Finally, in Section 4, we shall discuss possible policies for the development of SIUC.

2. The development of SIUC under import substitution policies

2.1 The import substitution policies

During the late 1960s and 1970s, most African countries introduced import substitution policies. This involved a wide-ranging complex of regulations, with the purpose of industrialising the countries:

- the development of an industrial sector based primarily on the existing home market, on the import of machinery and, often, the necessary production inputs;
- high customs barriers to protect the developing infant industries;
- an over-valued currency to reduce the costs of imported machinery and production inputs;
- agricultural policies which focused on export crops, to finance the imports necessary for the industrialisation process, and a stable food production to guarantee food security and the supply of cheap food for the growing urban industrial labour force;
- the development of agricultural services to support the development of agriculture; and
- the development of social services, primarily education and health, in both rural and urban areas.

On a detailed level, these import substitution policies were implemented differently in different countries, but on a more general level they were similar. Over time, the policies had a number of often unforeseen negative consequences for development in general and, more specifically, for the development of the SIUC. The negative consequences for the development of SIUC are mostly related to the so-called urban bias which, in reality, was a capital city bias.

2.2 Agricultural development under import substitution

The parastatal organisation

During the post-Independence period, most countries in sub-Saharan Africa developed a highly government-controlled agriculture, with roots dating back to the later colonial period. It was mainly the chief export and staple food crops, and sometimes large livestock, which were controlled, whilst other crops such as vegetables, fruit and small livestock generally were less controlled and were traded in the markets.

The major export and food crops were controlled by parastatal marketing boards. Most export crops were controlled by crop-specific marketing boards, whilst food crops were controlled by grain marketing boards, which controlled grain and oil seeds and sometimes also a number of other less important crops. In addition to the marketing boards, a number of other parastatals supported agricultural development, such as research and extension services and agricultural finance institutions. Farm input supplies were often also nationalised or highly controlled and, in some countries, heavily subsidised.

The purpose of the agricultural institutions and policies was, on the one hand, to support especially small-scale farming and rural development and, on the other, to expand the production of export crops – which, in most African countries, became a very important source of government taxation and foreign currency – and of food crops, in order to secure sufficient and cheap food supplies for the growing urban areas and the rural areas with a food deficit.

The marketing boards were responsible for the post-harvest trade, collection and processing of controlled crops. To reduce seasonal speculation in agricultural produce and encourage smallholder production for the market, the government together with the marketing boards fixed annual farm prices, often as a pan-seasonal and pan-territorial price, either at the farm gate (as in Tanzania) or at more or less dispersed marketing depots (as in Zimbabwe). The farm prices were often fixed at a very low level, partly because pan-territorial pricing, poor rural infrastructure, farm input subsidies and inefficient organisation led to high costs for the marketing board, partly because the export crops often were heavily taxed, while farm price for food crops often were kept low to secure low urban food prices. In the case of cotton, the ginneries (in e.g. Zimbabwe) were often required to deliver cotton to the domestic textile industry at prices below the world market price in order to support the industry (Larsen 2002; Pedersen 1997a).

Agricultural policies and extension services tended to focus on mono-cropping of the major export and staple food crops in order to secure government revenues and urban food supplies, but also because the limited resources and qualified personnel only allowed extension of standardised programmes.

In order to maintain low prices, the trade and transport of controlled crops became a monopoly of the marketing boards. Private trade was only allowed within the same rural district, and even here crop buying was usually only permitted to the parastatal or registered traders and at fixed prices and transport margins. The private rural traders who during the colonial period had sold farm inputs and consumer goods to farmers, bought their crops and provided credit (often at a high profit) were reduced to general stores or even closed. The marketing cooperatives, which had developed in many rural areas before independence and during the 1960s, became increasingly controlled by the marketing boards.

Instead, the parastatals set up farm credit schemes guaranteed by security in the crop. However, parallel trade made it increasingly difficult to secure loan repayments, and the parastatals often had difficulties paying farmers cash on delivery, which became a serious problem in the cash-strapped rural economies.

Organisation of agricultural transport
Transport which before independence had mostly been carried out by the private rural traders was taken over by the marketing boards. They either invested in their own fleets of trucks, or outsourced transport to state transport companies or sometimes to private trucking companies. This centralisation of transport was expected to increase the utilisation of the scarce transport capacity. However, in reality, efficiency was reduced at the same time as demand for transport increased because the production of staple crops - as a result of pan-territorial pricing, improved extension services and subsidised farm inputs - moved out into the peripheral areas where infrastructure was poor. The efficiency of rural transport is generally low because the seasonality of transport demand results in few return loads; however, the traditional rural traders, who both bought a range of crops and distributed consumer goods and farm inputs, had a better chance of getting return loads than the specialised crop parastatal. The result was that not only did the costs for the marketing boards increase but also they had increasing difficulties serving the farmers satisfactorily. The strong focus on mono-cropping tended to increase seasonality and thus reduce transport efficiency.

The strong concentration of the transport capacity in the specialised crop parastatals made it difficult to obtain transport for alternative crops. Thus, a major problem for many small-scale irrigation schemes was lack of transport to market their produce. As a result of the lack of motorised transport in the rural areas most rural transport in Africa was done by human porters, mostly women (see e.g. Barwell 1996; ILO 1997; Porter 2002).

Agricultural processing
The highly centralised parastatal organisations resulted in a narrow sector planning, often for individual crops. For export crops, this often led to a concentration of processing industries in the large towns, partly because the control function of the parastatals became more important than efficiency and partly because potential agglomeration economies at the local level were not taken into account. For food crops, it led to a dual system of processing, with large industrial mills and oil processors in the large towns serving the urban population and small service mills and oil presses in the rural areas serving the subsistence farmers for a fee.

Bagachwa (1991;1992), using Tanzanian data, showed that there are virtually no economies of scale in milling; and yet, large commercial mills have dominated the milling industry in most African countries while small commercial mills were rare. In Zimbabwe, there were a few examples of small commercial mills, but they were not profitable because the Grain Marketing Board sold grain to the mills at a pan-territorial selling price. The small commercial mills therefore had to pay the same price for grain as the large mills, although they only needed local supplies and therefore would have much smaller collection costs than the large mills, which needed supplies from most of the country. This indirect subsidy to the large mills made the small mills uncompetitive.

Due to differences in parastatal pricing policies, there are large differences in the structure of the milling industry in different African countries. Whilst Tanzania has a relatively centralised system of large mills, it was less centralised than in Zimbabwe; and in Uganda, small and medium-sized mills have played a much larger role because the large-scale parastatal sector largely broke down during the tumultuous years of the 1970s and 1980s (Nabuguzi 1994; Pedersen 1997b).

In Zimbabwe, the concentrated milling industry, combined with the prohibition of private inter-district trade in food crops, meant that not only the large urban centres but also the grain deficit rural areas were supplied by the large urban mills with expensive industrially milled maize. Similarly, the monopoly of the grain marketing board, which only sold oil seeds to the large urban oil processors, made it impossible for small oil processors to operate (Fold 1998).

This, combined with the high marketing margins of the marketing boards, resulted in large differences between the farmers' revenue from selling food crops through the boards and the costs of buying food. Food crops grown for subsistence or local sales were therefore much more profitable for the farmer than marketed food crops. Many households only grew enough to be self-sufficient in dry years. In good years, they would then have a surplus to sell. The amount of food crops marketed, therefore, became very sensitive to droughts which, again, increased the costs of operating the marketing boards.

On the other hand, the fact that many farmers were primarily subsistence farmers meant that marketed crops were produced at marginal costs, and they were therefore willing to accept lower prices than full-time commercial farmers. Thus, in Zimbabwe, commercial farmers stopped producing maize during the late 1980s when real maize prices started to drop, whereas communal farmers continued to produce for the market. This was not the case in Kenya, where large-scale farmers in the political élite have pressed continuously for high agricultural buying prices. This is probably an important reason for the high commercialisation in the Kenyan rural areas and the early development of a rural non-farm sector (see below).

One of the seldom mentioned consequences of pan-territorial pricing and strongly centralised processing of grain and oil seeds is that the by-products of processing are moved out of the rural areas at subsidised transport rates. These by-products make up 20–30 per cent of the weight of maize and 50–70 per cent of the weight of oil seeds. They are used for production of stock feed. However, as there was no transport subsidy on stock feed in Zimbabwe, it was too expensive to return it to the peripheral rural areas. Instead, it was used by large-scale dairy farmers in the rural areas near the large town (Pedersen 1997a), therefore constraining the development of livestock and economic diversification in the peripheral rural areas. It also increased the demand for scarce transport capacity.

Processing industries for other crops, such as dairies and slaughter houses, was generally also large scale, though there are both differences from crop to crop and national differences. More generally, the economies of the processing industries and the agricultural parastatals were often poor because, in many countries, the parastatals became sources of employment and the profits were used to fuel the political patronage system around the ruling party. There are a number of cases where farm prices were squeezed so much that farmers stopped producing (e.g. sugar in Kenya and cotton in Tanzania and Kenya) or where the processing plant had to close so farmers had nowhere to go with their crops.

2.3 Industrial development under import substitution

At Independence, the level of industrialisation in African countries was generally low. Most industrial products were imported from industrialised countries, mainly the former colonial powers. The idea behind the import substitution policies was to produce locally some of the goods which the country was now importing. This would save foreign currency and such goods would have a ready market. However, although in principle such a strategy might have saved foreign currency in the long run, it required foreign currency in the short term to buy machinery and production inputs and also, often, qualified labour not available locally. In reality, the new industries became highly import-dependent. This was supposed to be paid for by agricultural exports and donor support.

To reduce the costs of imports the currency was kept overvalued. However, this also reduced the incentive to export and resulted in scarcity of foreign currency. To encourage investments, formal interest rates were kept low but this increased the scarcity of capital. Access to both capital and foreign currency therefore became limited and prone to government control in the form of government allocations and import licences.

The technology and machinery that was imported was generally European Fordist-type technology, often older because it was simpler and required smaller markets than the newer. It was therefore expected to fit in better with the smaller African markets and lower labour qualifications. However, even this relatively simple technology required larger and more stable markets, and access to more reliable infrastructure and input supplies than were available in the African countries, especially outside the capital cities. Therefore, the new industries were difficult to maintain and mostly operated at low capacity levels. In order to utilise their excess capacity and make up for an environment which could not deliver, they also developed into self-sufficient, vertically integrated closed entities.

Many of the new industries were developed as parastatals or as joint ventures between national development corporations (controlled by the government or the ruling party) and multinational companies. Many received large amounts of donor support. In spite of the original desire to develop an indigenous manufacturing industry, it became dominated by multinational companies and non-indigenous nationals such as the Asians in East Africa, the Whites in Southern Africa and the Lebanese in West Africa. Most governments seem to have feared the development of an indigenous entrepreneurial class which could compete for power with the existing ruling class (Mkandawire 1999).

The goods produced by the import substitution industries were mainly consumed by the urban upper and middle classes, because the majority of the rural population consumed very few manufactured goods. The market for the new industries was therefore highly concentrated in the urban areas. At the same time, many industries operated in semi-monopolistic markets, where the level of production was constrained by the limited access to scarce resources. The industrial markets therefore remained a seller's market, where almost anything could be sold, often at the factory gate, and there was little incentive to develop effective marketing and distribution systems outside the capital city, let alone for the export market.

The expulsion of Asian traders from the rural areas and the establishment of parastatal distribution companies which never functioned efficiently became a hindrance for the development of efficient distribution in Tanzania, but less so in Kenya, where the Asians were in many areas replaced by Kikuyu traders. In Zimbabwe, prior to Independence there existed a well-developed privately operated distribution system covering the towns in the white settler areas, but very few trade and service activities in the African communal areas where the majority of the population lived. During the 1980s, this urban distribution system was extended to comprise the largest of the new district service centres in the African rural areas. Especially in Zimbabwe and Kenya, many industrial products were carried back to the rural areas by migrants as part of household-level rural–urban linkages.

There were few attempts to adapt production to the demands of the low-income rural or urban populations. An example of such an attempt is the famous Chinese hoe factory built in Tanzania as part of the basic needs strategy. It failed partly because the nationalised distribution system did not function (the regional trading companies which were supposed to buy and distribute the hoes had no money to do so) and partly because the demand for hoes was more differentiated than foreseen by the industry (Müller 2001).

2.4 Development of the informal sector under import substitution

Informal sector activities develop in an unserved market between the formal economy and small-scale agriculture. On the one hand, the informal sector absorbs surplus labour from both agriculture and the formal economy and, on the other, in both rural and urban areas it operates in a market for goods and services not satisfied by the formal economy, which is often inefficient and limited in scope. It comprises production as well as trade and services, but is often dominated by the retail trade of both agricultural and industrial goods.

The informal sector is not a homogeneous sector. It comprises different sub-sectors linking differently to agriculture and the formal economy. How the informal sector interacts with rest of the economy is not well understood, but there are large national differences in the size and structure of the informal sector which depend on the size, structure and efficiency of the formal economy as well as the gender, age and education of the labour force expelled from agriculture and the formal economy (for a more detailed discussion see Pedersen 2000; Liedholm and Mead 1999; Start 2001).

The informal sector came into focus after publication of the ILO (1972) report on the informal sector in Kenya. The informal sector was long assumed to be primarily urban but, in some countries, small-scale rural non-farm activities were already important in the 1970s. Thus, Freeman and Norcliffe (1986) showed that in Kenya during the 1970s, half of all rural households were involved in different manufacturing, trade or service activities, which also resulted in a rapid development of the small rural towns. However, in other countries, such private activities were constrained by the government. This was, for instance, the case in Tanzania (Lerise 1991) and Ethiopia (Gebre 1991) during the socialist period. In Zimbabwe, such activities also played a limited role before Independence, but grew rapidly during the 1980s (Bonnevie 1987, Helmsing 1987).

There is no universal definition of the informal sector. It consists of activities which are not part of the formal economy, and varies from country to country and over time. In countries with socialist governments, the formal economy was often limited to the state and parastatal sectors. In other countries, it also comprised privately owned large and medium-sized enterprises. The narrower the definition of the formal sector, the larger the informal sector has tended to be. Since the introduction of structural adjustment policies, the segment of enterprises accepted as part of the formal sector has tended to increase.

The informal small-enterprise sector has often been seen by governments as illegal and tax evading. Even in Kenya, where attitudes towards the informal sector have been relatively positive, suspicion and harassment have been the order of the day. However, in reality, small enterprises in most African countries are perfectly legal, although they operate under a different set of rules than the formal enterprises. Also, they pay licence fees to local government rather than company taxes to central government. There are of course small enterprises which try to evade the rules, but this is also true of the formal enterprises and there is, to my knowledge, no investigation showing that the large, formal enterprises are more law-abiding than the small informal ones.

Small informal enterprises generally have no access to the formal markets for credit and imported goods but rely on household savings and loans from family or friends. Capital is scarce and, although money is mostly borrowed without interest (although, often, with some expectation of profit sharing), the imputed interest is much higher than the formal interest rate. This is testified to by the profits of the small enterprises, which increase rapidly with the amount of capital invested. Although small enterprises are generally labour-intensive and seriously under-capitalised, together they represent a considerable capital, especially working capital, which plays an important role in economic circulation, especially in the urban low-income and rural areas. Thus, a large survey of small-scale enterprises in Kenya (Daniels, Mead and Musinga 1995) showed that the small enterprises together represented Ksh 3–5 billion in 1994, or about the same as all the outstanding formal agricultural credit in the country (Pedersen 2001a).

Most African countries have had small enterprise development organisations, dating back to the 1960s–1970s and sometimes from before Independence. They focused only on the development of small or medium-sized, formal manufacturing enterprises, although a major share of small enterprises is engaged in trade and distribution. The small enterprise development organisations have often been supported by donors, but have been met with limited enthusiasm by the governments and therefore also have had limited success (see Sverrison (1993) on SEDCO in Zimbabwe, Havnevik et al. (1985) on Sido in Tanzania and Burisch (1991) and Ikiara (1991) on KIE in Kenya).

2.5 The development of rural–urban household linkages

Strong concentration of services, poor infrastructure and an often inefficient formal economy have led not only to the development of a large informal economy but also to the development of intense rural–urban linkages at the household level. Food is carried from rural to urban areas and industrial goods the other way, and many rural households depend on remittances from migrants to the urban areas. In eastern and southern Africa, these intense rural–urban linkages have their origin in the pattern of work migration and divided households developed during the colonial period when only men were allowed to migrate to town, but has continued long after Independence (see e.g. Tacoli 1998) .

Today, these individualised rural–urban linkages play an important role in solving many of the problems for both rural and urban households caused by centralised development, poor access to services in the rural areas and expensive food in the large urban areas. However, as a long-term solution to development, individualised rural–urban linkages are an expensive substitute for an institutionalised system of service and commodity distribution, and a substitute which has primarily developed because the present institutionalised and marked-driven rural–urban distribution systems function poorly.

2.6 Development of transport under import substitution

Until the end of the 1960s, transport was often seen as the most important factor for regional development, and during the 1950s and 1960s, around independence, transport infrastructure was improved in many African countries. However, a number of studies in the 1960s showed that there was no direct link between improved transport and development. In fact improved transport might open up for imports which killed off the local industries. Transport development therefore was generally down-graded in the rural development programmes carried out during the 1970s and early 1980s. Plans for rural roads were sometimes included, but few new long-distance roads were built and due to lack of funds for maintenance they were often left to decay. By the mid-1980s they were often worse than they had been by the late 1960s (see e.g. Pedersen 2001b).

Where railways existed, the agricultural parastatals were generally required to use them. However, in most countries the railways deteriorated as rapidly as the road transport and led to very long transport times (Pedersen 2001c and d, 2002a). Thus in Tanzania it often took more than a month to ship goods by rail from western Tanzania to Dar es Salaam (Pedersen 2001d).

Due to lack of foreign currency, the truck fleet in most countries stagnated or even contracted. The trucks became increasingly concentrated in the state, parastatal organisations and other large enterprises and geared to collect the controlled crops and serve the large industries. Trucks were concentrated in the capital and large regional towns where most industries and parastatals were located. From here, crops could be collected and farm inputs distributed. Licences and import allocations to vehicles stationed in the rural areas, which would have supported an increased local and regional trade, generally were not given, partly because such trade was seen as undesirable and prohibited. This contributed to the lack of diversification of production and markets which made the rural areas very sensitive to climatic and other instabilities. An important exception to this is Kenya where *matatu* passenger transport and freight transport by small unlicensed vehicles was allowed in 1973 (Alila et al. 2002).

2.7 Decentralisation policies under import substitution

At independence, most African countries inherited highly centralised governments. Three- to five-year national and regional plans became the basis for allocating development projects funded by the government or increasingly by donors. In line with the trend of the time, most regional plans focused on developing the urban hierarchy as a market-led way of modernising the economies and diffusing development into the rural areas. However, by the end of the 1960s the trend shifted to basic-needs strategies for rural development based on bottom-up planning and popular participation. The goods and services necessary for rural development should be supplied directly from the capital without involvement of expensive middlemen in the rural towns. Contrary to intentions, this did not lead to decentralisation but to an increasing concentration of activities in the capital city. However, it harmonised well with the strong concentration of the new import substitution industries which meant that most inputs to the rural development programmes had to be supplied either from the largest towns or from imports (and often be donor funded).

The rural and regional towns disappeared from rural development plans and programmes. Local participation and the role of local government were stressed, but the role of the locally elected bodies was limited by their very small budgets and a staff employed by the national civil service commission and therefore out of the control of the elected body. As Thomas-Slayter (1994) writes: ‘Central government encourages local communities to take on responsibilities which the centre cannot manage. Should significant organisational strength emerge at the local level, however, central power often move expeditiously to destroy it’.

That decentralisation which occurred was in reality a deconcentration of central government ministries and parastatals. The regional or provincial level was often more important than the local level, and locally elected bodies were often headed by centrally appointed administrators. Thus in Tanzania large parts of the central government activities were deconcentrated to the 22 regional capitals in 1972, whilst village governments were left with very small budgets and little decision-making power. In Zimbabwe, after independence there was a considerable deconcentration of service delivery from the ministries and parastatals to the new district service centres, but most of the planning power remained in the provincial headquarters. In Kenya governmental planning powers have been highly concentrated. However, after independence the *harambee* movement gave room for local participation in local institutional development. Over the years, however, the *harambee* movement has been taken over by the national political establishment as part of the political patronage system, and today it can hardly be said to represent a local political voice. In the late 1970s Kenya introduced a plan to redirect development away from Nairobi and the Central Province towards the peripheral regions. However, this was geared primarily to restructure the political patronage system in the country, and the impact on the periphery has been very unequal. In 1983, Kenya introduced the so-called 'rural development with a district focus'. This gives the district development committee (DDC) the power to plan and coordinate projects and activities of different ministries and NGOs at the district level. However, the DDC consists of representatives from different ministries and NGOs, is headed by the District Administrator and is not a democratic body. Although it is an improvement over the totally centralised government it is not decentralisation (Makokha 1991; Mackenzie and Taylor 1987). The dependency on donor projects for the implementation and finance of development plans has also tended to reinforce the high degree of centralisation (Mtui 1990).

Most countries also had policies to support industrial development in towns and growth centres outside the capital. In Tanzania, in 1969 nine of the largest regional centres were designated as growth centres (Mosha 1990). In Zimbabwe, some of the new district service centres, considered to have growth potential, were designated as growth points (Wekwete 1991), and Kenya introduced in 1986 a Rural Trade and Production Centre Programme (Gaile 1988). However, although industries willing to locate here often received large benefits, few industrial enterprises responded because of weak infrastructure, difficult access to the ministries - where foreign currency allocations and import permissions had to be obtained - and difficult access to the national markets. Pedersen (1997) showed how medium-sized clothing industries in a rural growth point on Zimbabwe were kept out of the local market dominated by large retail chains, because the local chain stores were not allowed to buy goods locally but were supplied from their headquarters, whilst the local industry was too small to supply the large orders required by the chain as a whole. Similarly, the local building industry was kept out of the growing public sector building market because the ministries tendered out contracts so large that the local enterprises could not raise sufficient capital to guarantee the contract. The industrial development therefore did not live up to the politicians' expectations.

On the other hand, some of the centres developed important public and private service sectors as a result of the deconcentration policies, that, in turn, have often had a large impact on which levels of the urban hierarchy have developed and how they have developed. However, counteracting the decentralisation efforts was the rapid development of a private or non-governmental service sector mostly centred on the offices of multinational companies, donors, NGOs and international organisations. This was overwhelmingly located in the capital cities, and in most African countries it was much larger than the manufacturing industry.

2.8 The effect of import substitution policies on the development of SIUC

The different policy areas developed during the import substitution period make up an integrated complex of policies which in often intricate ways interact with each other. The SIUC depend on the agricultural development in their hinterland. However, the parastatal agricultural organisations and development policies had a number of indirect negative consequences for the development of SIUC. These negative impacts were often reinforced by the industrial, transport and public sector policies. There are important national differences, both in the way import substitution policies were formulated and implemented, and in the geographic, social and historical landscape in which they were implemented. This has influenced their consequences for development in general and more specifically for the SIUC. Some of the more general negative consequences for the development of SIUC include:

? Heavy taxation, especially of export agriculture, reduced the purchasing power of the rural population on which the SIUC and especially the small town depends.

? The pan-territorial buying prices, which supported agricultural development in the peripheral regions, could have supported the development of SIUC there. However, in practice they did not because the parastatal agricultural services often by-passed the SIUC, and because the parastatals also operated with a pan-territorial selling price which subsidised input supplies to the large processing plants in the largest cities.

? Livelihoods based on semi-subsistence farming and remittances had a negative consequence on the development of the SIUC, because remittances from the capital city to the rural areas often were delivered in kind (food from the rural to the urban areas and industrial products the other way) through rural–urban household linkages, and thus by-passed markets in the SIUC. This generally reduced access to goods and services for the poorest households which typically are small (often single women) households without such rural–urban household linkages.

- Narrow sector planning, which did not take into account potential local inter-sectoral linkages, tended to result in strong centralisation of agricultural processing and services which reduced the economic role of the SIUC.
- The narrow focus on few staple food and export crops led to a lack of agricultural diversification which, in turn, reduced the diversification of activities in the SIUC. In combination with the often highly standardised advice from extension services, this also led to a generally poor utilisation of farm households' land and labour resources, which, again, reduced incomes and markets for the SIUC.
- The lack of rural transport resulting from a combination of transport licensing policies and the parastatal monopolies reduced the links between the SIUC and their rural hinterland.
- The macro-economic policies in combination with poor infrastructure led to a strong concentration of manufacturing industries in the largest cities and primarily in the capital. This of course also influenced the agricultural processing industries. The regional industrial development programmes generally were not enough to change the flow of investments.
- The result of this was that the multipliers of rural development projects and programmes primarily benefited the large cities and not the rural areas. Thus, although many donor activities focused on the rural areas, they often benefited the large urban areas as much as the rural.
- The lack of recognition or even the harassment of small-scale business activities meant that scarce resources, including capital, were not utilised efficiently. It was generally assumed that the amount of capital in the small informal enterprises was so small that it was unimportant. However, together the small enterprises command a working capital which has been important for economic circulation, probably especially in the rural areas and the SIUC.
- Deconcentration of public sector employment to the lower levels of the urban hierarchy has in some cases been an important impetus to urban development.
- Although most countries in principle had decentralisation policies and policies to develop towns and growth centres outside the capital, these policies were generally not able to counteract the strong centralising forces in the import substitution policies.

2.9 The development of SIUC in Tanzania, Zimbabwe and Kenya

Although there are general trends related to import-substitution policies, there are also national differences, partly because the point of departure for the policies differed, and partly because they were differently implemented.

In *Tanzania,* where private sector development was politically constrained, urban decentralisation was primarily a result of a public sector policy of deconcentration of the state administration to the regional level. This resulted during the 1970s in a rapid development of the 22 regional capitals (Therkildsen 1991). Even manufacturing industries were to a considerable extent decentralised to the designated growth centres, especially Tanga, which was seen as future manufacturing centre. At the same time there was a massive attempt to limit the growth of Dar es Salaam, including forced expulsion of people without employment in the formal sector. However, there was little development further down the urban hierarchy, below the regional capitals. Although one of the stated goals of the villagisation programme originally was to improve rural access to services, these came to mean only primary schools and health clinics. Private commercial services which often existed before, were banned and almost disappeared from most villages, together with private motorised transport services. Only a few communal or cooperative village shops and services remained and they seldom functioned efficiently, partly because the regional trading companies which should provide them with goods did not function (Lerise 1991). Commercial services and motorized transport could often only be obtained in the regional capital or other large centres, if at all.

In *Zimbabwe*, before independence the commercial farm areas were served by a system of well-developed towns and transport lines. These were service centres for the commercial farms, but many of them also had relatively large industrial sectors. On the other hand, there were only few small urban centres and almost no hard surface roads in the communal areas in the peripheral parts of the country, where development had purposely been held back. After independence in 1980, the new government made an effort to develop a system of district service centres in the communal areas. Ministries and agricultural parastatals, such as the marketing boards and Agritex (the extension services) opened branch offices and depots in the new centres. The marketed production of especially maize and cotton in the communal areas increased rapidly, and with it the rural purchasing power. Work migration to the large towns also increased, further increasing rural incomes through remittances, and leading to the growth of private trade and services in the new centres. Some of the large national retail chains established retail outlets (mostly in clothing) in the larger of the new centres. The hard surface road network was extended to most of the district service centres. A unique system of long distance bus routes, some of them 500–600 km long, connected the peripheral rural areas directly with the large towns, serving the increasing number of work migrants, but also serving the household urban–rural linkages by-passing the district service centres. During the 1980s and early 1990s (before structural adjustment) some of the largest of the district services centres grew into towns of 10,000–20,000 inhabitants, but most of them have since stagnated.

In *Kenya* there has been a much more balanced development of the urban system. The reason for this is primarily that Kenya during the 1970s and 1980s had a more rapid agricultural development than Tanzania and Zimbabwe (outside the commercial farm areas). However, Kenya has also followed a much more liberal domestic trade policy than both Tanzania and Zimbabwe, at the same time as the regional development policies have focused more on the district level.

3. Development of SIUC under structural adjustment

3.1 The structural adjustment policies

By the early 1980s, some of the negative and self-contradictory consequences of the import substitution policies had become evident and the World Bank started pressing for introduction of a new development paradigm called structural adjustment. This was expected to transform the government controlled import substitution economies into open market economies by:

- devaluating the foreign currency to market value, which would make imports easier but also more expensive;
- liberalising external trade, by reducing custom tariffs and opening up for imports;
- deregulating internal trade in agricultural produce and other goods which were earlier government controlled, and 'setting the prices right' by giving up parastatal monopolies and eliminating subsidies and excessive taxation;
- privatising or at least commercialising the parastatals, retrenching their excess employment;
- reducing government spending, leading to public sector retrenchments and reduced government services;
- supporting the development of the private sector in general and especially the small-scale/informal sector by creating a so-called enabling environment, through the provision of credit and training schemes for small entrepreneurs and policies to reduce the legal regulations and administrative practices which earlier hindered its development.

As a result of the introduction of structural adjustment policies during the late 1980s and 1990s, policies have gradually changed, although there are large differences in the way and timing in which the new policies have been implemented.

3.2 Agricultural developments under structural adjustment

Food crops

One of the main purposes of structural adjustment policies when they were introduced was to increase the incentive for agricultural export by devaluating the currency and reduce the excessive taxation on export crops, and at the same time increase rural incomes and reduce urban bias. However, the experiences with reaching these goals have been mixed, partly as a result of the different ways and timing with which the policies have been implemented. (For a more detailed review of the consequences of structural adjustment for agricultural development see e.g. Friis-Hansen (2000)).

Food crops prices have generally increased. However, the currency devaluation and elimination subsidies on input supplies meant that the cost of inputs in many countries increased even more and in reality left farmers worse off than before. Even in Zimbabwe, where the maize price increased more rapidly than input prices because there had been no input subsidies (except after draught years), it was only the larger farmers selling most of their produce on the market who benefited. The majority of small communal farmers, who are not self-sufficient but rely on non-farm incomes and have to buy a large share of the maize they consume, were hit by the higher prices of both maize and inputs. They had to cut back on their fertilizer purchases and often used their own seeds, which reduced their production.

At the same time, the elimination of pan-territorial prices meant that the cost of getting to the markets in the peripheral parts of the country increased and often made traditional agricultural production unprofitable. Structural adjustment policies therefore tended to increase income differences between small and larger farmers, as well as regionally.

Deregulation of the parastatal monopolies opened up new markets in both urban and rural grain deficit areas earlier served by the urban industrial mills. As a result, new private enterprises in agricultural trade and processing have developed. However, this development has been constrained and structured by the lack of operational capital.

In Zimbabwe, where small service mills and oil presses had been mostly confined to the rural areas, new and somewhat larger mills and oil presses, operating both as commercial and service mills, were established in small and large towns, with the result that, within a few years, the large commercial mills lost a large share of their market (Pedersen 1997a). New oil presses were also established but they were less successful, partly because they had difficulties getting access to oil seeds which were bought up by the large oil processors shortly after harvest in order to avoid competition.

The new mills combined service and commercial operations. This was partly because the millers did not have enough capital to buy grain, and partly because the large millers-cum-grocery wholesalers attempted to keep them out of the retail market, where they had a semi-monopoly status. Therefore the successful small-scale millers were enterprises with their own retail or wholesale outlets, or able to sell to local institutions such as schools and military barracks. Although it would clearly have been profitable for the small-scale millers to buy grain directly from the farmers after harvest, they continued to buy grain from the marketing board, because they did not have enough working capital to buy and store maize.

A lot of maize was also transported to the large towns by individual households and milled there by a large number of new service mills. This individualised food transport was partly based on the existence of extremely low gasoline and transport prices and seems to have come to an end when the gasoline prices tripled in 2000 (Bryceson and Mbara 2001).

In Uganda, where the grain market was deregulated in the 1980s following the collapse of parastatals, Sørensen (2000) shows how, by the mid-1990s, maize trade in the town of Iganga had developed into a complex, partly hierarchical network of small-scale traders and millers exploiting their limited but differential access to working capital and transport capacities.

Deregulation also led to rapid change in other agro-processing sectors. In Zimbabwe, the Cold Storage Commission (CSC) lost 50 per cent of their market to private abattoirs within a few years in the middle of the 1990s. This was the result of draughts which reduced CSC's intake from the communal areas at the same time as many commercial farmers shifted to the private abattoirs (Pedersen 1997a).

In Kenya, deregulation of the dairy sector in 1991 led to increasing milk prices and a rapid transformation of the dairy industry. During the first half of the 1990s, many small-scale dairy farmers close to Nairobi shifted from Kenya Cooperative Creameries (KCC), which earlier had a monopoly, to a rapidly increasing distribution of raw milk (Owango et al.). By the end of the 1990s, a number of new dairy industries had been established, KCC was reduced to a small fraction of its former size, and an international milk market had started to develop in East Africa.

Export crops

It was generally hoped that the trade in export crops after deregulation would be taken over by domestic traders. However, in reality large international trading companies (with large capital) have taken over most of the trade, except in those countries where only domestic trade was deregulated while export remained under the control of marketing boards. The inroad of international trading companies is partly due to a restructuring of the global commodity markets during the 1990s. The commodity markets operating before structural adjustment were based on a series of international commodity agreements geared to supply standardised agricultural commodities to Fordist processing industries in the industrialised world by national suppliers responsible for the production and domestic collection of the crop. What happened within the producing country was not the processors' concern. They bought the produce if it lived up to expectations or shifted to another supplier. During the last 10–20 years the requirements of the processing industries have changed. Their input supplies have increasingly been outsourced to multinational trading companies operating as so-called supply managers, which undertake to supply inputs to narrow technical and social specifications and also often within very narrow time windows, of days or even hours, in order to reduce the processor's own stocks. In order to supply the specified produce, trading companies often mix produce from different countries; and in order to meet the time requirements they have an interest in integrating back into the rural area in order to get access to produce and to control its quality and the whole transport chain. This requires both a large capital and a global presence which few domestic traders can live up to.

The farmers' share of the world market price generally increased, but deregulation has seldom resulted in increased price competition. In many cases, the privatised parastatal has remained a major actor by setting a price which is then followed by the private traders. Instead, traders compete for a large market share by offering cash payment, collecting crops closer to or on the farmstead and accepting lower crop qualities. To reduce costs they often do not distinguish between quality grades but buy everything at the low- grade price.

In many cases, the grading system has therefore collapsed. This is clearly problematic from a national point of view. The impact on the farmers is much less evident, because the extra payment to farmers for higher grades was seldom related the extra input of labour and other resources needed to produce that higher quality.

Also the input supply systems operating before deregulation have mostly collapsed. Due to their market monopoly, the parastatals could finance a farm input supply system with the security of the harvest. Private traders with limited capital and competing for market shares are not able to do that.

Deregulation of export crops and elimination of the parastatal monopolies have generally increased farmers' share of the world market prices. However, liberalisation of the global agricultural commodity markets has also tended to increase price instability, and for some export crops, e.g. cocoa, the higher share of the world market price has amounted to less value in real terms, although due to devaluation farmers got a higher price in the national currency. At the same time, devaluation and the elimination of subsidies have increased the cost of inputs, with the result that both the amount and quality of produce have been falling because many poor farmers use less fertiliser and pesticides and often recycle their own seeds. There are therefore large differences in the impact of liberalisation on different export crops, but the effect has generally been positive. However, as was the case with food crops, it has especially benefited large farmers.

Deregulation has also in some cases led to the decentralisation of new processing plants to the rural areas or SIUC. This is the case for cotton, where there is a large weight loss in the processing. Thus in Tanzania and Uganda, the opening of a number of new ginneries has resulted in a new growth in cotton production. In some places, plants for the production of cotton oil have also been established. In Zimbabwe, after many years of discussions, a new large ginnery was established in Gokwe by the former parastatal. In 2001, ten percent of the cotton seed was bought by a small-scale entrepreneur who had developed a small-scale refinery for extraction of the oil; but the ginnery had plans for investing in its own larger cotton oil production.

These changes in the agricultural processing industry are likely to have a positive impact on the development of the SIUC. However, the location of the new processing industries varies from sector to sector, and for most export crops new processing plants are likely to be located in the capital cities or major ports. In this connection it is worrying that the current discussions in the global value chain literature on upgrading possibilities in developing countries (See e.g. Gibbon 2001) focus only on the national level and do not address the issue of location within countries.

Rural non-farm activities and increased agricultural diversification

In many areas, structural adjustment has led to increased agricultural diversification both into new crops and into new markets for old crops. There is a growing direct trade between rural areas with food surplus and deficit, which earlier was restricted or banned, and there are more competing channels for trade between the food growing areas and the urban areas. In Tanzania, vegetables from far away Uluguru Mountains are now sold at the market in Dar es Salaam (van Donge (1992); Ponte (2001)). Trade deregulation and liberalisation has also led to increased, often informal, cross-border trade in food. Thus tomatoes, onions and potatoes travel from Northern Tanzania to the Kenyan market, and the grain trade in Iganga studied by Sørensen (2000) was based to a large extent on export to Kenya and sales to the World Food Programme.

There is also an increased diversification of agricultural production. In Zimbabwe, the production of pigs and chicken, which depends on access to grain or stock-feed for fodder, has expanded especially around the towns; and Ponte (2002) shows that near urban markets, production has shifted from grains and traditional export crops to fruit and vegetables. He argues that this is a shift from 'slow' crops with only one harvest a year to 'fast' crops harvested more than once a year or continuously. By growing such crops, scarce capital can be re-circulated more than once a year, which is likely to both increase the surplus and reduce the risks of production. In addition, in rural areas with no access to banking it is less risky to invest in some production or capital good than holding on to the cash, at the same time as one gets more continuous access to cash.

Structural adjustment has also resulted in a growth in rural non-farm activities, including production and services but especially trade in consumer goods, agricultural produce and farm inputs. This has grown because the commercialisation of the rural economy has increased, and because increasing diversification of the agricultural production requires a more diversified trade in agricultural produce and input. Based on case studies in six African countries, Bryceson (2002b) finds that, by the late 1990s, 60–80 per cent of all rural household were engaged in rural non-farm activities against only an average of about 40 per cent in the 1980s.

Rural non-farm activities are often part-time and seasonal occupations combined with agriculture. In his study of diversification in Southern Tanzania, Seppälä (1998) shows that almost half of the rural non-farm activities were operated for less than six months a year. Both poor and wealthy households engage in rural non-farm activities, but there are large differences in the activities they participate in. Poor households engage in traditional rural handicrafts based on cheap agricultural inputs or simple services requiring few resources and little investment. More wealthy households engage in different types of trade, the wealthiest in grain trade based on the recirculation of agricultural capital released after harvest (Møller 1998). Thus, although non-farm activities generally improve livelihoods, they generally do not reduce income differences (Ponte 2002; Møller 1998).

Most of the rapidly growing literature on rural non-farm activities discusses them as if they were all rural, although many of them may be located in or move to the rural towns. On the other hand, as long as they are subordinated seasonal agricultural activities most rural non-farm activities are likely to remain rural.

3.3 Industrial development under structural adjustment

When structural adjustment policies were introduced, the industrial sector in low income countries generally perceived them positively, because liberalisation would improve access to imported production inputs and machinery. During the first years after the introduction of structural adjustment, manufacturing industries in many African countries also experienced an increased capacity utilisation (Lall 1998). However, at the same time currency devaluation increased the costs of imported inputs and machinery, while liberalisation of the money market led to higher interest rates. Together, these reduced their competitiveness, not only on the export markets where they were now expected to compete, but also on the domestic markets which were increasingly opened to imported consumer goods. At the same time, domestic purchasing power contracted due to price increases and public sector retrenchments. Many manufacturing industries were unable to restructure and improve their efficiency and had to close (Lall 1999). Especially clothing and shoe industries were hit by a rapid increase in imports of second-hand clothes from the USA and Europe, and of end-of-runs and rejects from Asia. On the other hand, this means that one now rarely sees people in rags, and although I have seen no investigations of this, one would expect that the reduced spending on clothing would have benefited other sectors.

In many countries, the effect of increased imports has been aggravated because politically favoured individuals are allowed to evade the low duty left (in Kenya this involves especially second hand clothes and shoes, maize, and sugar) as a new way of financing the political patronage system when the agricultural parastatals are privatised or closed.

Most industries have reacted to the contracting market with rather defensive strategies (Lall 1999). In Kenya, many try to diversify their production in order to reach broader market segments, while the industrial associations have argued primarily for improved infrastructure, reduced electricity prices, anti-corruption measures and increased import control and limitation (McCormick and Pedersen 1999).

In one of the few studies of coping strategies of the formal manufacturing industry during structural adjustment in a large Nigerian provincial town, Kano, Olukoshi (1996) similarly found that, rather than restructuring production, locally-owned firms diversified into non-manufacturing activities (especially large-scale agriculture), the labour force was shifted into casual labour, and the marketing system was informalised by using informal trade agents and paying workers part of their wages in goods for them to sell. They also attempted to expand their exports, but mostly indirectly through traders from the neighbouring countries or from Nigeria who bought their goods at the factory gate rather than through their own concerted effort, and therefore also with limited success.

On the other hand, the multinational enterprises are increasingly restructuring their African activities (Olukoshi 1996; McCormick and Pedersen 1999). During the import substitution period they were forced to set up production in each country. Now they are specialising their production units and concentrating in fewer regional centres (in West Africa, Abidjan, Lagos and Dakar; in southern Africa, Johannesburg; in eastern Africa, Nairobi but also increasingly Johannesburg) and distributing their products from there. It is also the multinationals which are most active in setting up and outsourcing more efficient distribution systems. Some capital cities will gain from this process, but most small capitals will probably lose, and it is unlikely to result in dispersion of production activities to the SIUC.

Few locally-owned industries have embarked on more pro-active strategies to increase efficiency through specialisation, strategic outsourcing and expansion into export markets. Such strategies to increase efficiency and adapt to the changing market have been made difficult by the high interest rates, poor public infrastructure and the generally low technological standard in the small-enterprise sector. The expansion of manufacturing into overseas export has therefore been limited. However, since the late 1980s some manufacturing industries, especially in Zimbabwe and Kenya, have successfully expanded into the regional export market, and partly made up for shrinking domestic markets. However, even in Kenya, which has been the most successful in following this strategy, most industries still rely predominantly on the domestic market (Bigsten and Kimuyu 2002). During the late 1990s, regional exports have also been met by increasing competition from the rapidly increasing South African exports to the rest of sub-Saharan Africa (McCormick and Pedersen 1999).

The limited success on the export markets appears also to be due to insufficient focus on market adaptation, marketing and distribution. To a large extent, Kenya's export strategy to Uganda and Tanzania is successful because it is based on a revival of often family-based trade connections which were closed when the East African Community broke down in 1979. However, many even large Kenyan exporting firms seems to have very little sales activity of their own, but rely mainly on importers from the neighbouring countries showing up at the factory gate (McCormick and Pedersen 1999).

Formal industries generally seem to be caught in a dilemma as to whether they should go for the high quality consumer goods market, where the domestic market is small and shrinking and their quality seldom good enough to compete in industrialised countries, or for the low quality consumer goods market, where the domestic market is growing but their production technology not good enough to compete with cheaper imports nor, in many cases, with the small informal producers either. Their inclination is mostly to go for the high quality market for which, as import substitution industries, they were 'born', but without an expanding domestic market are likely to fail. Therefore they blame the cheap imports for their shrinking domestic market. However, the competitiveness of imports is not just that they are cheap, but also that importers have managed to reform the distribution system by organising the informal sector and their small working capitals in a way the formal manufacturing industries generally have not been able to do.

In order to increase their exports of manufactured goods, most African countries have attempted to attract FDI by setting up Export Processing Zones (EPZ), where mostly foreign firms exporting all or most of their products can import their inputs duty free. They generally also get other benefits such as tax exemption, investment support and exemption from parts of the labour legislation, though this varies from country to country (Jauch 2002). In some countries, the EPZs are set up as closed enclaves in the capital cities or export harbours (Kenya), while in other countries individual enterprises are accepted as an EPZ (Zimbabwe). The latter opens up for more SIUC to benefit, but also makes it more difficult to control the EPZs.

It is much discussed whether the benefits of EPZ outweigh the privileges and subsidies given. Apart from the low-cost labour wages, it is hoped that the EPZs will stimulate industrial development and export in the domestic industry. On the basis of a recent study comparing EPZs in South Korea, the Dominican Republic and Mexico, Schrank (2001) argues that EPZs in countries with large domestic markets and a relatively well developed industry are much more successful than EPZs in small countries, because EPZ firms are able to procure more inputs in the large host country. Thus while firms in the Korean EPZs increased their local procurement to more than 50 per cent of their total commodity purchases within ten years, firms in the Dominican Republic's EPZs never procured more than 0.01 per cent locally (in spite of a large US financed linkage programme). According to Schrank, the reason is that the Dominican industry is so limited in both diversity and quality standards that it is unable to deliver. Therefore, the domestic industry has really not been interested in reforming the 'system of tariffs and quotas which gave birth to both rent seeking industrialists and low quality production'. If he is right, the impact of EPZs on the African industry may prove to be limited.

Recent global value chain studies also indicate that it will be increasingly difficult for African firms to get into the global value chains as subcontractors. Gibbon (2002) concludes, on the basis of a study of the clothing sector in South Africa, that it will be increasingly difficult to use large firms to integrate smaller firms in the value chains, partly because buyers in industrialised countries demand increasing levels of consistency in quality and documentation which are difficult to obtain with small subcontractors (and here that means 200 employees), and partly because of the falling lead times in the export business.

The USA's AGOA programme to increase imports from Africa requires that the sourcing of input from the domestic economy or other AGOA countries increases within a few years. It will be interesting to see whether this will enable/force firms to develop backward linkages from the EPZ to the domestic industries.

There are only a few studies of industrial development in SIUC, and I have found no studies of the relative development of manufacturing industries in the capital cities and the SIUCs during the 1990s, but given the relative stagnation of the formal manufacturing industry it seems unlikely that it should have dispersed, except in agricultural processing, fishery and mining, and possibly in South Africa. During the apartheid regime, the South African government offered large subsidies to firms setting up branch plants in the Bantustans. Both foreign and domestic clothing industries (especially from Johannesburg and Durban) did so in order to reduce their labour costs. This continued during the 1990s in order to overcome the increased competition from cheap imports (Harrison (1997) and Rogerson (2000)). According to Gibbon (2002) especially the large foreign-owned firms in the Bantustans have a good chance to export to the US market under the AGOA programme. In the rest of Sub-Saharan Africa such a cost–push industrial decentralisation is rare because the infrastructure in SIUC is even worse than in the capital and the labour costs not much lower.

3.4 Small enterprise development under structural adjustment

The contraction and retrenchments in the formal economy, together with raising consumer prices, have led to a decline in living conditions in the large towns where most of the formal sector is located. Although this has also reduced remittances to the rural areas, it has reduced rural–urban differences (Jamal and Weeks 1988). It has also reduced net rural–urban migration, both because fewer move to the large towns and because there has been some return migration to the rural areas. However, many return migrants have probably returned to small rural towns rather than to the rural areas proper, and the latest population censuses seems to show that it is the smallest towns which are growing most rapidly.

The rapid contraction in the formal economy during the 1990s has also given room for a rapid growth in the number of small formal or informal enterprises, and most of the urban economic growth, especially in the SIUC, is likely to be based on small enterprises. Different data from the clothing industry may give an indication of this development. Thus in Johannesburg (and also elsewhere in South Africa, though there is little indication of its geographical distribution) there has been a rapid development of small-scale clothing producers (Rogerson 2000; Harrison 1997). In Zimbabwe, Pedersen (1997a) also found indications that the small-scale clothing sector in the small towns benefited from the closure of large-scale clothing industries, though there is little detailed information about this; and in Kenya, a census of small clothing enterprises in Nairobi showed that the number of small-scale producers almost doubled between 1989 and 1999, at the same time as the large-scale formal clothing industry contracted (McCormick et al. 2002).

However, there is no simple direct link between contraction of the large-scale, formal economy and the expansion of the small-enterprise informal sector. Thus the number of small-scale dressmakers and tailors per 1000 inhabitants is twice as large in Zimbabwe as in Kenya, although the large-scale clothing sector in Zimbabwe is also much larger than in Kenya (Pedersen 2000). The reason for this is that small and large enterprises not only compete for the same market, they rather complement each other. Small enterprises often serve low-income markets in both rural and urban areas and urban middle income niche markets left unserved by the formal sector, but small-scale clothing traders also, and probably increasingly, distribute produce from both small and large producers as well as imports. In both Zimbabwe and Kenya, trading has generally increased much more rapidly than production, indicating that there has been a rapid transformation in the retail distribution. Thus importers, and increasingly also large producers, use informal retailers to distribute their goods, and small-scale producers who earlier sold exclusively from their premises, increasingly rely on small scale traders to reach a wider market. The reason for this transformation of the retail trading is probably that increased commercialisation of both the rural and urban low-income economy now requires a much more differentiated distribution system than what the traditional parastatal and formal sector retailing could deliver.

The rapid growth in informal trade is often taken as a sign of poverty, because of the assumed easier access to trade due to it being less capital intensive than production. Contrary to conventional wisdom, however, a large survey of small-scale enterprises in Kenya (Daniels, Mead and Musinga 1995) shows that in reality small-scale traders are on average more capital-intensive than small-scale producers. The explanation is that while often the customer provides the producer with materials, the trader needs a working capital to invest in a stock.

The attitude towards the informal sector has generally become less negative. In Zimbabwe, where the district service centre and growth point of Gokwe in the early 1990s was planned to become a modern European-type town, dominated by modern retail chain stores and with the informal artisan activities pushed out in the periphery, the attitude had apparently changed by 2000. A number of stores of large retail chains and parastatals had closed and informal activities had moved into the town centre. Similarly, Bryceson (2002a) indicates a shift towards a more positive attitude even to small-scale traders in the Tanzanian villages (though Bryceson herself seems to doubt their economic viability). The attitude towards informal enterprises seems also to be changing in the governments' small enterprise development organisations (Müller 2001).

The role of capital in small enterprise development

Expansion of the informal sector to comprise new groups of people, who ten years ago would not have dreamed of working in the informal sector, has contributed to this improved image. At the same time, improvements in the levels of education mean that many of today's entrepreneurs are better qualified than their predecessors (Alila and Pedersen 2001). There are also indications that the nature and conditions of family loans have changed. With few job openings in the formal sector, and a formal banking system which shows no interest in small savings, parents increasingly invest in small enterprises as a way of starting their children off. There are also more examples of men in employment supporting their wives' enterprises (Njeru and Njoka 2001). Otunga et al. (2001) even found in sample of women entrepreneurs in Eldoret in Kenya, that the women earned more money than there formally employed husbands.

At the same time, a new semi-formal credit market has developed (often with donor or NGO support) to support small enterprises. Whilst in the early 1990s, surveys indicated that only 1–2 per cent of small enterprises obtained institutionalised loans, this had generally increased to 3–5 per cent by the end of the 1990s. In Kenya, it was close to 10 per cent. Whilst the old enterprise development programmes focused on investment capital, there is in the new credit schemes an increased understanding of the need for short term working capital in small enterprises where trade and services are often more important than production.

In spite of these improvements in access to capital, lack of both working and investment capital and recurrent cash flow problems remain major constraints for small enterprises. Moreover, small enterprises in developing, mainly rural, economies operate in unstable environments with large seasonal, climatic and political swings, and where it is often extremely risky to borrow money against interest. It is therefore unlikely that they will be able to solve their financial problems through formal borrowing, unless the general risk in society is reduced.

The way African entrepreneurs try to solve the problem of capital scarcity is to use what capital they have more efficiently by re-circulating it. In the rural areas, the shift from slow to fast crops and diversification into non-farm activities are examples of this. In the SIUC, the lack of working capital and recurrent cash flow problems have led to new informal or semi-formal organisational forms of credit and market sharing. The grain market in Iganga described by Sørensen (2000), consisting of a nested hierarchical network of traders mastering different amounts of capital, is an example of such an organisation.

The development of scotch cart production in Gokwe, a district service centre in a cotton growing rural area in Zimbabwe, is another example. In the early 1990s, there was in Gokwe an agent of a formal sector scotch cart producer in Bulawayo who sold carts in Gokwe. There were also two small-scale producers producing 30–40 scotch carts a year. In 2001, there was a cluster of 50–100 producers in Gokwe producing at least 2000 scotch carts a year. This was the result of increased earnings from cotton production after deregulation. However, the market for scotch carts was highly concentrated in a short period after harvest, which was the only time farmers had money to buy. A single producer wanting to exploit this market would therefore need a large capital to produce a stock of scotch carts ahead of the harvest. The largest of the producers only had capital to produce 50–70 vehicles. Many of the producers only operated during the season. They only had capital to produce a few vehicles before harvest, but bought new raw materials when they had sold the first, and thus re-circulated the scarce capital several times during the season. Even if one of the producers had more capital, large year to year variations in the cotton production and thus in the demand for scotch carts would make it very risky to produce many carts before one got an idea of the size of the harvest. This must be one of the reasons why the Bulawayo producer had not taken over the market.

A third example of such an organisation exploiting small amounts of capital is the hierarchical distribution network for second-hand cloths which has developed in Kenya during the 1990s, and which gives a few large importers (often importing the goods illegally) access to both rural and urban markets all over Kenya (Rono 2001). Most of the examples of what in the literature is called 'replication of activities' or 'sharing of a shrinking market' are probably also examples of such a credit sharing in unstable markets.

The role of clusters in small enterprise development

In many both large and intermediate towns in Africa there has been a development of small-enterprise clusters (McCormick 1999a; 1999b). The ability of small enterprises to achieve agglomeration economies through what Schmitz (1990) calls collective efficiency or collective action has been widely documented and discussed during the 1990s in the Latin American and Asian literature. In Africa, the experiences have generally been much less impressive. There seems to be a number of reasons for this:

- First, while access to national or international markets in the successful clusters is often secured by large enterprises in the cluster, agents of external buyers or cooperative marketing activities, small African enterprises cluster primarily in order to passively attract more customers than they would individually, because clustering reduces search costs for the customer. There is generally no collaboration in marketing, and most enterprises continue to sell all their products from the workshop. Some clusters, for instance in Ghana and Nigeria, have developed some regional exports, but this is also based on passive sales to traders from neighbouring countries showing up at the workshop. Spatial clustering of the enterprises may also create a joint pool of specialised labour and services which they would not be able to attract individually, corresponding to the passive agglomeration and urban economies discussed in traditional economics. But as the differentiation and vertical specialisation within the clusters generally remains limited, the demand for such specialised labour and services is also limited. Therefore, the trading agents and brokers, which knit the successful clusters together and often are agents of change, are missing.
- Second, while the efficiency of successful Latin American and Asian clusters is based on extensive division of work both within and between the enterprises in the cluster, the division of work even within enterprises in African clusters is much more limited. The enterprises in the African clusters specialise horizontally in the production in different products, but generally not vertically. The only exceptions are first, that enterprises may share large orders with other enterprises, but all will make the full product, and second, that enterprises which have invested in expensive capital equipment often rent excess capacity out to other small enterprises, but this is due to capital scarcity rather than attempts to increase efficiency. According to Sverrison (1997), the lack of vertical division of work is mostly due to the often extreme market instability in which the small enterprises operate.
- Third, while the successful Latin American and Asian clusters generally comprise a whole town comprising both large and small production enterprises, traders and service providers, most African clusters are described much more narrowly as small enterprise areas within a town. This limits the access to new technology and larger markets which in successful clusters is mostly obtained through large local producers or trading agents for outside buyers present in the cluster, but it mirrors the limited interaction which is usually found between the large formal industries and the small informal enterprises in Africa.

In order to understand the dynamics of cluster development, Schmitz (1995) focused on what he called the turning points of development, where growth and transformation of a cluster take off. In a review of studies of relatively successful small enterprise clusters in Africa, McCormick (1997) indicates that the first turning point of a cluster often coincides with some windfall gain which allows the cluster to supply the market at competitive prices and therefore leads to increased production and sales. That windfall gain can for instance be import restrictions, collapse of the formal sector enterprises, low fuel costs which lower the cost of long distance trade, or the discovery of the cluster by an external trading agent.

However, such windfall gains never last for ever. After some time, other clusters or large enterprises are likely to become cheaper, and traders will leave again unless the cluster has been able to utilise the windfall gain to increase its productivity, improve its products, diversify production, and make itself less dependent on the external traders. This is the second turning point. The successful clusters described in the literature were all able to make the transformation and develop into a new phase. None of the clusters in Sub-Saharan Africa reviewed by McCormick so far have been able to make the transformation into a higher productivity level.

In some enterprises technological change does take place in the form of acquisition of new machinery, but because the market is unstable, this does not lead neither to the reorganisation of production within the enterprise, nor to vertical specialisation between enterprises (Sverrisson 1997). Lack of product standardisation and quality control is a mayor hindrance.

In some of the African clusters reviewed by McCormick (1997), some of the larger enterprises apparently have been able to overcome the crisis successfully, but they have not been able to extend their success to other enterprises in the cluster and take the lead in a process of technological change; rather, large enterprises integrate vertically and horizontally in order to free themselves from dependency on an undependable environment.

Brautigam (1998) describes one of the few successful African enterprise clusters mentioned in the literature, a motor spare parts cluster of about 25 industrial firms with a total employment of about 2700 in the town of Nnewi in eastern Nigeria. Many of the entrepreneurs are former spare part traders, and, according to Brautigam, the success is based, first, on the existence of an ethnic based network of Igbo traders which secure market access, and second, on close contact with spare part producers in Asia who supply the technology. The ethnic trading network is essential to overcome general mistrust and lack of infrastructure. However, although the cluster has had some regional exports, it is primarily based on a relatively protected home market, and it has not been able to break into the overseas export market.

3.5 Development of transportation under structural adjustment

During the 1990s, there has been an increased focus on the role of transportation in development. Improved transport (and other) infrastructure is an important ingredient in the so-called enabling environment seen as a precondition for successful privatisation. To the private traders taking over from the agricultural parastatals, transport time and regularity is now as important as costs because they influence the costs of quality/damage and storage which are often larger than the transport costs (Pedersen 2002b; Gulyani 2001).

During the 1990s, donors rehabilitated or rebuilt the main trunk roads which had, for example in Tanzania and Kenya, deteriorated to a degree where simple rehabilitation was not possible any longer. Donors also insisted on increased user participation in the road maintenance through road user funds financed by gasoline taxes, and improved control of truck overloading, which is one of the major sources of road deterioration.

Truck transport licensing has generally been simplified or completely eliminated. This, together with the liberalisation of the import of trucks, has led to a rapid increase in the transport industry and the market for truck transport. The transport industry has further been enlarged because transport increasingly has been outsourced from the now privatised parastatals and other large transport users.

Donors also supported the rehabilitation of railways and ports, but at the same time pressed for their rationalisation and privatisation. However, this has generally been a slow process due to the many vested interests, especially in the ports which usually (in contrast to the railways) have given a large surplus to the state (as a result of large port fees) and also been the seat of 'control' of illicit imports. In contrast, the railways have had increasing difficulties competing with the road traffic and generally operated with large deficits. In spite of this, there is a considerable private sector interest in taking over the railways, which undoubtedly have an important future role to play, especially in bulk transport of minerals and in inland container transport between the seaports and container depots in the inland cities.

The deregulation of truck licensing has led to an increased rural transport in many rural areas. For instance in Gokwe, in Zimbabwe, where in the early 1990s there was only one truck for hire, in 2000 there were more than 50 trucks for hire. They serve the growing cotton production but also a more diverse market for rural transport. (Not all of them were new to the area, but belonged to local traders who, before deregulation of the truck licensing, were not allowed to rent them out) (Pedersen 2002a). In Moshi, in northern Tanzania, since the mid 1990s a large number of pick-ups have started to operate as taxies, serving not only the coffee industry in the area but also a wider demand for transport (Pedersen 2001d). In general, large trucks appear to have been substituted by smaller vehicles better suited to a more diversified rural transport market.

Also non-motorised, so-called intermediate forms of transport have been expanding in many areas, e.g. bicycle transport has increased in eastern Uganda and western Kenya. In the cotton growing areas in Zimbabwe, Tanzania and Burkino Faso, the number of ox-drawn scotch carts has grown rapidly (Pedersen 1997a; Gibbon 1998; Bryceson 2002a). In inaccessible rural areas there has been increased focus on building foot paths and the World Bank and a number of NGOs have, albeit with mixed success, experimented with different alternative forms for intermediate transport (Porter 2002).

This development has generally contributed to the diversification of the rural economy and supported the development of the SIUC by improving the accessibility between them and their hinterland.

3.6 Public sector decentralisation under structural adjustment

Decentralisation policies generally have started to change from deconcentrated ministerial offices to more locally elected sub-national bodies. However, this is a slow process, partly because it often has been donor-driven (se e.g. Doan 1995) against resistance from central government and administration (Mohan 1996) and local vested interests, partly because contraction of public sector budgets and retrenchment of civil servants in connection with the structural adjustment have tended to hit local governments especially in the rural areas and the SIUC hard, because there was little to cut.

Most local governments are heavily under-financed and have low administrative capacity due to lack of qualified staff. In most African countries local government's share of the total public finance is less than 10 per cent, often much less, but in some it is higher (e.g. in Ghana it is almost a third and in Uganda more than a fourth (Steffensen and Trollegaard 2000). Activities are apparently often decentralised to local government without securing the necessary funds to finance them. There is an on-going trend towards increased self-financing both through local taxation and through increased local user payment for local government services. However, there are large national differences in the way and extent to which local government reforms are carried out.

Urban municipalities are usually better off than rural districts, although central government transfers make up for part of the difference, but usually only a small part. While large intermediate towns traditionally have had their own local governments, most of the small rural towns are part of larger rural districts.

For the large rural towns the problem has often been that they grew outside their geographical boundaries into the surrounding rural areas, and thus lost part of their tax base. For the small rural towns, being a part of the rural district may secure the integration between the town and its rural hinterland; however, the specific problems of the small town tend to disappear within the much larger districts dominated by rural problems, especially where the traditional negative attitude and differences of interest between 'rural peasants' and 'urban bureaucrats and traders' prevail.

There seems to be a trend to create new local governments comprising both a large town and its hinterland. Such a development has taken place in many European countries during the last 40 years. This would help equalise the large income differences between rural and urban areas, and make it easier to finance rural infrastructure. However, such reforms are often met with resistance from the urban areas which have to pay more (see e.g. Cameron (2002) for the case of South Africa), although they clearly will be the first to benefit from a more rapid rural development. A similar process is taking place in Zimbabwe, where District Councils (the communal areas) are being amalgamated with Rural Councils (the commercial farm areas).

In principle, the development towards stronger local governments is positive as it is likely to result in more locally relevant decisions and more local control of the resources. However, without the development of varied local organisations (entrepreneurial organisations, labour unions, social organisation and NGOs) the representation of specific groups in the new local governments will be weak and controlled by traditional vested interests. Especially in the small towns, this may be difficult because people often are migrants from different places with their roots elsewhere.

3.7 The effect of structural adjustment policies on the development of SIUC

The effect of structural adjustment policies on SIUC is not clear. This is partly because different parts of the policies have had different impacts, but it is also because the timing and extent to which the policies have been implemented have varied greatly from country to country (Jayne et al. 2002). Although one of the World Bank's objectives in introducing structural adjustment policies was to reduce rent seeking, the policies have mostly been implemented in small steps and with many retreats, all opening for rent seeking opportunities (Pedersen and McCormick 1999). As the rent seeking opportunities earlier afforded by the parastatals have been closed when they were privatised, structural adjustment policies have created plenty of new opportunities especially in banking and imports. It is therefore difficult to make more generalised statements.

The economic activities on which the development of SIUC is based are, on the one hand, derived from agricultural production and consumption in the rural areas and the town itself, such as agro-processing and trade and trade and production of consumer goods. On the other hand, they consist of urban-based public sector services and administration and private manufacturing, trade and services derived from non-local demands on the national and international markets.

Activities derived from agriculture and the rural areas

Deregulation of agricultural trade has generally increased the price of agricultural crops. However, increasing farm input prices due to devaluation and elimination of input subsidies has in many cases resulted in negative net results for farmers. This is especially the case for the poorest farmers who are not self-sufficient in food. They have been hit by the escalating prices of both food and farm inputs, and have no or little crop to sell. In terms of the traditional food and export crops, structural adjustment policies have therefore primarily benefited larger farmers and led to increasing income differences. At the same time, the geographical income differences have increased because especially farmers located within good access to urban markets have benefited from the abolition of pan-territorial prices and deregulation, which have resulted in increased diversification of small-scale agriculture into fast crops (such as vegetables) and small livestock (such as pigs and chicken), where scarce capital can be re-circulated several times a year. This process has been furthered by improved rural transport.

The abolition of centralised agricultural crop planning has made it possible to take more account of specific local conditions, resources and markets and possibilities for integration of different local production and service activities. This has in some cases led to more local processing and trading activities, especially in food crops but also in cotton ginning. Thus food deficit areas, which were earlier supplied from the large urban areas, are today supplied from the neighbouring rural areas.

The new diversified agricultural and non-agricultural activities tend to complement the use of poor people's resources and improve their living conditions. However, as more wealthy people tend to engage in more profitable activities, they also lead to increased income differences.

Box 1: Rural non-farm activities in a historic perspective

The growth of non-agricultural activities is not unique to today's developing countries. During the 1840s and 1850s Danish agriculture experienced a boom based on grain export to Britain. This led to a rapid commercialisation of the rural areas, which started off the very first industrialisation in the provincial towns (brick works, iron foundries for production of kitchen stoves and small machine workshops for farm implements), and during the 1850s a rapid development of small-scale rural non-agricultural activities (poor farmers went into different artisan work while wealthier farmers went into grain trade requiring more capital). However, during the 1860s agriculture went into a serious crisis because Danish agriculture could not compete with the rapidly growing exports of grain from Ukraine, America and Australia. The rural non-agricultural activities continued to grow, but now in a shrinking market. The migration to Copenhagen and overseas destination also increased. However, the rural non-agricultural activities remained rural until the 1880 when agriculture gradually shifted from grain to the diversified agriculture based on dairy cattle, bacon pigs and grain and beats for fodder, which became the original basis for Danish development. This reduced the seasonality of agriculture and required so much capital that farmers had to choose between agricultural and non-agricultural activities. Large farmers usually chose to invest in agriculture, which was seen as most prestigious, while farmers with little land and capital became full time traders or artisans and often moved into one of the small rural towns which, as a consequence, developed rapidly during the 1880s and 1890s.

Source: Pedersen (1990)

A more diversified agriculture has also resulted in a more diversified local output marketing and input supply. This, together with the generally increased monetisation, has led to a growing market for rural non-farm activities both in and outside the urban centres, mostly trade and services but also production of simple farm implements and consumer goods with a local market.

This has led to a rapid growth in rural non-farm activities, mostly located in the rural areas, because they complement seasonal agricultural production and are based on labour and capital vacant after harvest until sowing. However, the increased agricultural diversification reported by Ponte (2002) and others indicate that this may change in time. The shift to fast crops requires more capital and labour year round. So farmers engaged in fast crops are likely to stop their non-agricultural activities and instead diversify their agricultural production. Ponte's data indicate that such a process is already under way. On the other hand, poorer farmers with little land and capital are forced to continue diversifying into non-agricultural activities, and many of them are likely to move to the nearest small town where the market access is better (see also Box 1).

Formal industrial development

In most African countries, the manufacturing industry is responsible for only 10–15 per cent of the total formal employment (Mazumdar 2002). Many of the import substitution industries established before structural adjustment have had large difficulties adapting to market conditions and have contracted or even closed. However, overall formal manufacturing employment has been growing, albeit much slower than the population and with large national differences.

After independence, many African countries attempted to establish manufacturing industries outside the capital city. Therefore, although in most countries there has been a strong concentration of manufacturing, there has also been a certain industrial development in other large towns. It is not clear which impact this relative stagnation of the manufacturing industries has had on the SIUC.

However, voluntary decentralisation of industries has only taken place to a very limited extent, although large subsidies have often been available. The likely reason is that infrastructure in the SIUC generally is even worse than in the capital, without access to cheap labour being better. The only exception is agro-processing, where deregulation of the parastatals has resulted in some decentralisation. The new focus on production for export has generally made peripheral locations less attractive than before, and the export processing zones are mostly centrally located.

Public services and administration
The public sector make up a large share of the formal employment in most African countries, often about half, and in a number of countries deconcentration of the rapidly growing public sector before structural adjustment had a large impact on the development of SIUC, e.g. the rapid development of the regional capitals in Tanzania during the 1970s and the development of the new district service centres in Zimbabwe during the 1980s.

During the structural adjustment period, growth in public sector employment has generally stagnated or slowed down (Mazumdar (2002) finds that, in spite retrenchments, the public sector in most countries has continued to grow, but slower). Despite the continued focus on decentralisation, the impact on employment in SIUC is likely to be much smaller during the 1990s and in the future.

The private and non-governmental service sector
A large share of the formal employment belongs to the private service sector. In most African countries it is probably more than double as the formal manufacturing industry, and it is growing more rapidly. However, there has been surprisingly little research on it. Donors, NGOs and international organisations are still important, though probably stagnating, while offices of both multinational companies and domestic enterprises trying to benefit from trade liberalisation and globalisation have been growing rapidly and are mostly concentrated in the capital cities (e.g. sales offices of multinationals, international commodity traders, mining prospectors, telecommunication and electronic data processing firms, and transport companies).

The informal small enterprise sector
The informal sector is now dominating urban employment, not least in the SIUC. Mazumdar (2002) shows in a sample of 18 African countries that only 9 per cent of the workforce in 1990 was employed in the formal sector; in half the countries, less than 5 per cent belonged to the formal sector, but in Kenya it was 14 per cent and in Zimbabwe 30 per cent. Although many of those working in the informal sector are farmers, the urban informal economy now employs much more people than the formal. Due to the concentration of formal employment in the capital cities, the dominance of the informal economy is likely to be even larger in the SIUC.

Many small production enterprises, especially in the large towns, are located in clusters. Small enterprises cluster in order to get better access to the market than they would have by locating individually and to exploit large markets which they do not have enough capital to serve individually. There is a certain horizontal specialisation in the clusters; enterprises often share large orders and buy time from each other at expensive machinery which they individually would not have enough capital to buy. But there is very little vertical division of work among the firms, production efficiency is seldom much higher within the cluster than outside, and there it is little collective action among the enterprises.

After structural adjustment, the informal sector in both rural and urban areas has shifted rapidly from production to trade. (This of course is only seemingly a shift because more than 90 per cent of the small producers sell most of their goods from their workshop and often spend more time selling them than producing them, and thus in reality is as much traders as producers). Many researchers see this as a sign of poverty. I think it is a healthy development and the first sign of the beginning of an integration of the domestic market, which was never before allowed to take place. Although small-scale producers still sell most of their produce from the workshop, recent surveys indicate that more small producers than before use intermediate traders to reach a wider market; distribution and collection in the rural areas are no longer one-directional flows between the farm and the large towns, it is being diversified in both space and scope; and new forms of organisation of retail and wholesale trade is emerging, especially in the import sector, but there are also a few examples from the manufacturing industry. The development of new forms of both motorised and non-motorised transport is an important element in this development.

This reform of the trading system and the resulting market integration I think is a precondition for breaking the stalemate of both formal manufacturing industries and small-enterprise clusters. The development of a network of SIUC will be an important element in this process of market integration.

Conclusion on the development of the SIUC
In total the development of the SIUC during structural adjustment seems primarily to be based on increased development of locally-based agro-processing and especially of growth in the informal small-scale sector,

both production and trade for the towns and their rural hinterlands. Actual development has probably been most rapid in the small rural towns, but to conclude in more detail on the development of the urban system in Africa would require a more detailed study of the recent population censuses.

4. Policies for development of SIUC

4.1 The wind from the west: from import substitution to structural adjustment

Development theory and policies often follow the trends and fashion in the developed part of the world. When IIED in 1986 published its first book on Small and Intermediate Urban Centres in the developing countries, it followed a period of urban turn-around in the developed countries during the 1970s and early 1980s (Vining 1978). The growth of the large cities which had been the rule of the game during the era of Fordist industrialisation stopped or even reversed into growth of the SIUC under the impact of crisis in the Fordist industries and the growth of flexible specialisation and service industries for which economies of scale were less important. The peripheral development, which national regional policies had in vain attempted to create since the 1930s, suddenly occurred by itself and reduced the regional differences in incomes and unemployment, even though national funds for regional reallocation generally decreased due to the Fordist crisis. To accommodate the new development, policies increasingly emphasised the role of local government in economic development.

In the developing countries, this new trend in development and policy was mirrored in the increased focus by both governments and donors during the 1980s on the so-called urban (or rather capital city) bias which tended to concentrate economic activities in the capital cities and on policies to break this bias, both rural development policies and the policies to support the development of SIUCs analysed by IIED in the mid-1980s (Hardoy and Satterthwaite 1986).

The urban bias was to a large extent caused by the policy complex known as the import substitution policies which attempted to develop a manufacturing industry in the protected domestic market, by keeping the currency overvalued so that investment capital was cheap, and financed by a highly controlled agricultural production. During the 1970s and early 1980s, these import substitution policies proved problematic because instead of saving imports they increased the need for imports and were a major hindrance for the development of exports, at the same time as they held rural development back and hindered growth in the domestic market which was the basis for the model.

The World Bank and donors therefore from the early 1980s have pushed for a shift in macro- economic policies to structural adjustment policies: the currency should now be devaluated, the economy in general deregulated, parastatals privatised, the public sector cut back and at least partly be paid by the users, and foreign trade liberalised. During the late 1980s and early 1990s such structural adjustment policies were introduced in most African countries, although there are large differences in the ways and speed in which the new policies have been implemented.

This policy reform has reduced the urban bias and the conditions for the development of SIUC. The deregulation of the major food and export crops has generally benefited the large farmers, but not the small semi-subsistence farmers and therefore led to increased income differences. But agricultural deregulation has more broadly given way for an increased diversification into both agricultural and non-agricultural activities which seems to have been beneficial for most people in the rural areas, so that poverty has been reduced. This has led to a rapid growth in the small rural towns in many parts of Africa.

However, the urban economies have generally been hit much worse. Devaluation and growing food prices have reduced the buying power of the urban population. The manufacturing industries have had large difficulties adapting to reform, many firms have closed, and the manufacturing employment has generally stagnated. At the same time the public sector has been cut back. As a result, urban living standards have gone down. This has reduced urban bias, but has also led to a stagnation or slow growth in the formal economy, and increasingly forced people to rely on the informal small-scale economy. The stagnation of the formal economy has probably hit the SIUC worse than the capital cities, but little is in detail known about this.

4.2 Policies to develop SIUC should focus on trade

Policies for the development of SIUC should therefore specifically focus on the development of the small-enterprise sector, both in the town and in its rural hinterland. The role of SIUC in the economy is to provide the link between the local/rural and the national/global economies. The small-enterprise policies should support that.

Small-enterprise policies should therefore focus on trade and networking, on making small enterprises able to trade beyond the workshop. How to find and procure production inputs and goods to sell and how the distribute goods not just by waiting for costumers to show up. All enterprises trade, only a minority produce, still most enterprise development programmes focus on manufacturing and investment capital, and treat trade and traders as a social (or even a criminal) case. Production is of course important, but for most small producers lack of stable markets seems to be a primary reason for their lack of technological progress. Without a growing market, reorganisation of production and increased division of work are simply not profitable, and the only way for the individual enterprises to obtain a larger and more stable market is by expanding and deepening the market. The current trend towards diversification of the rural economy helps reduce the seasonal and annual swings in the rural market. The main policy goal must be to develop and integrate the rural market more efficiently into the national market. Policies to improve transport, communication and money transfers should be important elements in that. The one-sided focus on the export market is problematic as long as the domestic market is still poorly integrated. However, in intermediate towns located in border regions, market integration across the border should be promoted.

Access to national and global markets is equally important for both producers and traders because their profitability and ability to serve the local/rural market depends on their ability to procure cheap products and inputs. From the other end of the link, importers of cheap goods have generally been much better than the formal manufacturing industry in organising small-enterprise networks to distribute their goods. Similarly, Harper (2000) presents many examples of large national and multinational companies which have organised small enterprise networks to distribute their goods or services.

Unfortunately there has been very little research into private domestic trade and the way it is organised. However, the organisation of trade seems to be rapidly changing. Many investigations of small enterprises do not specify sectors at all, and even where trade is separated out it is seldom disaggregated into commodity sub-sectors. However, although our knowledge is limited, the trade sector is clearly diverse both within and between different commodity groups. Domestic trade policies probably have to be relatively specific to be effective. Experiences from the import substitution period show that it was often small details which constrained the development of local production and trade. Similarly the present international trade negotiations often specify commodity groups at a very detailed level. The same is the case with AGOA.

4.3 SIUC and sector planning

From a SIUC point of view, sector planning is often problematic because it tends to focus on individual sectors rather than on the links between them. Thus agricultural development programmes tend to focus narrowly on agriculture itself without going into details about whether its links to the urban economy are to small or large towns. Non-farm activities are now increasingly recognised, but often treated as a social sector of little consequence for agricultural production. On the other hand, industrial policies often focus on the formal sector only and have little concern for the sub-national distribution of activities.

The SIUC, their economic linkages, and the cross-sector economies of location in the SIUC therefore tend to disappear in sector specific programmes. As a result economic activities tend to shift up the urban hierarchy. This is probably even more true in connection with the current shift from donor project support to donor-financed sector programme support. While donors in project support attempted to involve the relevant local groups directly in the project (but often by-passed the ministerial level), the focus in sector programme support is on capacity building at the ministerial level. In the current situation where local government tends to be dominated by central government, local coordination tends to be coordination between the different ministries rather than between local participants. Local sector programmes therefore are unlike to secure effective local participation and coordination unless elected local government has been created.

4.4 Small and intermediate urban centres in the global storm

During the 1990s, under the impact of globalisation the world has experienced a new era of large city growth. Now the largest cities increasingly are linked into a global system of world cities, serving as control centres for the new global service economy. Urban growth and development is no longer seen as linked to industrial scale and agglomeration economies but rather to innovation networks of financial brokers, scientists and business managers concentrated in the largest metropolitan areas but also linked through telecommunication and airlines to similar networks in other global cities, and to a large extent controlled by large multinational corporations. Small industrialised countries without a global city of their own focus their development on their capital city, hoping to develop business and scientific networks able to link up to and be part of the global networks. National regional development policies are no longer in vogue and are mostly substituted by attempts to build private or public partnerships or consortia between local, national and multinational organisations and enterprises.

Although since colonisation most African urban hierarchies have in one way or the other been subordinated the global urban system, generally with the main link to the capital of the former colonial power, since independence the focus has been on the national urban hierarchy. However, with globalisation and trade liberalisation, the international links have recently become more important and broadened to include other world cities, as well as a set of developing regional centres in Africa, such as Johannesburg in southern and eastern Africa, Nairobi in east Africa and Lagos, Abidjan and Dakar in west Africa (Pedersen 2001). Many of the activities in both the capital cities and the SIUC are part of national regional or global value chains and often controlled by large enterprises or organisations in the capital city or foreign cities.

New SIUC policies must take account of this changed pattern of global urban development. However, it also makes SIUC policies more important. The danger is that the irresistible process of globalisation leads to the justification of a new concentration of activities in the capital cities. This will be self-defeating in a situation where development for a long time to come will have to be based on agriculture and where urban–rural and regional differences in living conditions and productivities are still very large, biased in favour of the capital cities. Policies to develop SIUC and link the peripheral regions to the global networks are therefore as important as ever, but may be also more difficult to carry out.

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