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The Role of Local Government in Development, with Special Reference to Middelburg.

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TABLE OF CONTENTS

1. Introduction 1

2. The Role of Local Government in Capitalist Society. 7

2.1 Local Government Functions in Neo-classical Thought 8

2.2 The Functions of Local Government in Neo-Weberian Theory. 13

2.3 Local Government Function in Marxist Thought. 14

2.4 Nation and Economy. 20

2.5 Conclusion 23

3. The Functions of Local Government 26

3.1 Local Government in the Developing World. 28

3.2 Local Government Functions around the World 33

3.2.1 Local Government as an Affirmative Action Agency (38)

3.3 Small Town Local Government and Development 41

3.3.1 Why Small Towns? (41)

3.3.2 Small Town Development (45)

3.3.3 Small Town Local Governments (50)

3.4 Local Government in Development and as a Development Institution. 53

3.4.1 The Comparative Advantages and Problems of Local Government. (53)

3.4.2 Economic Development and Local Government (55)

3.5 The Financing of Local Government. 58

3.5.1 Forms of Financing (58)

3.5.2 Central-Local Relations (63)

3.5.3 Problems of Financing (65)

3.6 Conclusion. 67

4. South Africa: The Case of Middelburg. 71

4.1 The Middelburg Context. 72

4.2 The Middelburg Economy. 73

4.3 The Functions of Local Government. 81

4.4 Middelburg's Finances. 84

4.5 State Influence and Control. 92

4.6 Possibilities for the Future. 95

4.6.1 The Official's View. (95)

4.6.2 An Alternative View (99)

4.7 Conclusion. 109

5. Conclusion. 113

List of References. 121

CHAPTER 1.

Introduction.

During the 1980s considerable attention was focused on the need to develop institutions to draw populations into development efforts. Local government was the recipient of much of this attention.

This study is concerned with the role of local government in development, and problems that are experienced in playing a developmental role. In particular, it is concerned with international experience of local government as a development institution, and the relevance of that experience to SA.

The first question, asked in chapter 2, is 'what is the role of local government in contemporary society?' Various outlooks are examined in brief. What emerges is a view that local government is predominantly concerned with the provision of social services. This function is variously conceived - the neo classical tradition asserts that local government is limited to intervening in the economy in order to adjust the allocation of resources for market failure. Alternatively, in a neo-weberian outlook, the local state intervenes in the process of consumption in order to cater to socially defined needs of the community. Cockburn's analysis is similar, for local government intervenes to ensure services necessary for social reproduction are available.

In such analysis local government is subordinate to the national government. For Duncan and Goodwin local government is conjunctural, the result of a wide variety of social forces, both national and local in nature. Local government, while dominated by national government, has the capacity to influence the locality. Local government may simply ameliorate the effects of the larger political economy, or it may be a pressure point for an economy based on the satisfaction of community need. This points to the potential role of local government in development.

All the interpretations of the role of local government accord great weight to the nation and the economy. Local government is subject to obsolescence and redefinition if not serving the functional needs of the economy and national centre. Contemporary local government remains under the influence of the economy and nation, at the expense of a base in the community. This points to the need for local government autonomy.

In chapter 3 international experience of local government's impact on development is reviewed. The record is bad. Local government has in many countries not had the capacity to play a substantial role in development efforts. Much of the inefficacy of local government is traced to its subordination to the national centre, and efforts to limit it to play a role as an adjunct to the private sector.

Notwithstanding this local governments perform a wide variety of development functions. It is an agency that is most commonly associated with urban services, but also has an active role to play in the larger development process, and has a role to play as an institution of affirmative action in the areas of race and gender. This is especially true in small towns, where it is often one of the few agencies, or the only agency, concerned with development.

International experience also suggests that small towns, and small town local government are well served by policies which are orientated towards the development of a local economy. Such policies offer scope for egalitarian development, and afford local government an opportunity to play a substantial development role.

Local governments are constrained in developing the local economy by a range of problems, including a lack of institutional capacity, which takes the form of a lack of skilled staff and a lack of financial resources.

Revenue sources available to local government are often limited by a range of factors, amongst them the tendency of central government to retain taxes which are politically and administratively easily collected for its own use, even if the taxes are subsequently budgeted to local government, a lack of resources available for tax collection, especially skilled personnel, a lack of institutional capacity with administrative systems unable to collect taxes, community

resistance to the payment of local government charges, and often, a political process that promotes 'tax-bashing'.

Local governments need, by and large, further sources of revenue, the ability to vary the level of revenue, and flexibility to spend revenue.

The relevance of these lessons is discussed in chapter 4, with a case study of Middelburg. It is apparent that the town of Middelburg is dependant on the "white" town, industrial and commercial districts for the revenue with which to provide services. In particular, it is dependant on rates, service charges, and to a lesser extent, subsidies, for revenue. For capital expenditure it is dependant on the capital markets. In general the finances of the town, as it is presently constituted (ie as the "white" town) are in a healthy state. The town also enjoys good relations with the state, notwithstanding a range of restrictions on its activity which limit its development effort.

The town council is focusing on the expansion of the large-scale manufacturing sector for its future development. It is depending on its position relative to the PWV to draw industry, and the existing presence of a few large factories. The Council sees its role as maintaining the development of infrastructure to facilitate such development. Council officials are wary of development paths that are orientated more towards the needs of majority of the community.

Middelburg has not shown substantial industrial growth since the mid-1960s, and the wisdom of the development path outlined can be questioned. It is clear that the development path outlined is likely to favour those presently skilled and part of the political process of the town. It is suggested that this results from Middelburg's divorce from its local base, its undemocratic nature.

It is suggested that international evidence suggests that small town growth is promoted with policies that are focused on the region in which the town is situated, and sectors in which labour intensity is high. Agriculture and agro-processing, in particular, make a great contribution to development, particularly in association with policies of land reform and redistribution. Such development is also more egalitarian.

In the case of Middelburg the town has a range of factors which support such a development path. The Council can play a valuable role in re-orientating the town to facilitate such development. The Council has a valuable skill base which can be utilised for the development of the town. These include planning, engineering and financial skills. The Council is, however, constrained by inadequate revenue at present.

Substantial scope exists to increase revenue from the present sources of finance. Additional revenue sources are also necessary, but the Council is constrained by central state legislation which limits the form of revenue

collection it can engage in. It also does not have easy access to easily collected forms of revenue, which are under the control of the central state.

CHAPTER 2.

The Role of Local Government in Capitalist Society.

This chapter is concerned with the functional role of local government. The question to be addressed is What is the basis of the activities of local government?

As shall be seen, the answer can be variously conceived. The answers will be referred to, implicitly or explicitly, in the following chapters, for the role of local government underlies activity (and non-activity) of local governments.

The question will be looked at in a number of sections. The first section looks at the functional role of local government in neo-classical economic theory. Arguably this theory forms the basis of the hegemonic understanding of local government in contemporary society. Following this brief reference will be made to neo-weberian outlook, after which the marxist approach of Duncan and Goodwin will be examined in more detail. A review of the influence of nation and economy, influence which is a decisive determinant of the activities of local government, forms the final section.

2.1 Local Government Functions in Neo-classical Thought.

Neo-classical economics articulates a triple role for the public sector at large, to "supplement the mechanisms of the private sector in adjusting the allocation of economic resources, to bring about desired changes in the distribution of income and wealth, and to achieve stabilisation of economic activity, or more generally, to attempt to reconcile the goals of price stability, full employment and fast growth"[1]. This can be summarised as an allocative function, a distribution function, and a stabilisation function.

Richardson rejects a distributive role for local government on the basis that attempts by local government to pursue distributional policies will simply off-set or reinforce central government policies, undermining national initiatives, and/or will undermine locational efficiency as firms and people move in response to local distributional measures. He argues that distributional policies are rather the domain of central government, and that central government should adopt policy measures able to deal with local distributional questions as part of a comprehensive package of measures.

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[1] Richardson, H: The urban public economy. London: Weidenfeld and Nicholson, 1969, p187. See also the classic public finance text, Musgrave, R and Musgrave, P: Public Finance in Theory and Practice, 3rd ed. London: Macgraw Hill, 1980, pp6-17, for greater detail.

The absence of a stabilisation role follows from:

* firstly, from the relatively inflexible demand for local government services and its relation to population size
* secondly, the considerable geographical leakage from local measures adopted (especially fiscal measures)
* thirdly, the absence of local authorities's monetary policy powers which limits their interventions to the fiscal level, imposing severe stresses on the local budget, and
* finally, because stabilisation policies undertaken by one local authority might well have destabilising effects on other local authorities and indeed, for the larger metropolitan centres, on national stabilisation policy.

Local governments do play an inadvertent stabilisation role in the course of their activities, as they frequently undertake development activity at a low point in the business cycle. This arises from the lag between the time when decisions for development are undertaken, and the time when work actually starts. Such a stabilisation role is, however, incidental to the limitations of the stabilisation role that this framework of analysis accords local governments.

Richardson sees more of a role for *local* government in the sphere of allocation[2]. The role is rooted in the correction of market imperfection and

[2] Richardson, op. cit., pp189-192.

failure, a role of adjusting the inadequacies of the market which fails to achieve an optimal allocation of resources due to the presence of economies and diseconomies external to the decisions of the private sector.

The private sector will not produce public goods because of their nature as a good from which it is difficult to extract profit (obvious examples include street lighting or low cost housing), or because the production of such goods according to market dictates will result in substantial public harm (such as the uncontrolled emission of pollutants in the course of producing a good that has a market value). Local government should provide either for the production and distribution of goods whose impacts are local in nature[3] that will not be provided by the market, or for the regulation of the production and distribution of goods which entail public harm. In short, the market either produces too much or too little of certain locally needed goods, and the role of the local government is to intervene to correct these imbalances.

In practice, of course, the distinction between an allocative, stabilisation and distributive role for local government is a fine one. Low cost housing construction by the local government has an allocative effect in that society's resources are shifted to an area deemed to be socially necessary, but that activity can be distributive if accompanied by an element of subsidy, and be

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[3] Musgrave and Musgrave, op.cit, p9.

locally stabilising if taking place in a recession, especially if using local building materials.

Local government, according to this outline of neo-classical views, internalizes market externalities. Typically this comes down to providing services such as health, education and housing which are not provided by the market, especially for lower income groups, due to the absence of a profit motive.

Which level of government should be responsible for providing services is a matter to be decided by a number of (technical) criteria. Amongst these are[4]:

1. the optimal area of administration and
2. the presence or absence of scale economies in particular services,
3. the degree of areal spill-over from service provision in a locality, and
4. the related question of the constituency to which benefits accrue.

Democracy is external to the model of local government - indeed, the basis of citizen control of the activities of local government is consumer sovereignty, rather than direct control of the activities of the local government. And consumer sovereignty, ideally, is exercised as citizens choose particular services in preference to others provided through the maximum use of market mechanisms. For those services that are not provided by the market,

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[4] Richardson, op. cit, p195.

"ratepayer democracy" ensures that local government remains responsive to local needs as consumers move from a locality that is unresponsive. Property prices thus suffer, as do rates of the local authority, subjecting that authority to discipline. Competition amongst communities, too, encourages responsiveness to local need, as communities discipline their neighbouring communities[5].

The understanding of local government that is displayed is both instrumentalist and economistic. It is instrumentalist in that the local state and local government can variously be seen as a business corporation, a consumer co-operative responsible for the distribution (and perhaps production) of various services or, and more frequently, an agency of the central state. The local government is defined by its function, and crucially, its efficiency in performing that function. It is economistic in that the instrumentalism is economic, concerned with economic questions of the extent, quality, cost and form of service delivery. More generally, local government derives its legitimation from the notion of economic welfare, a measure that limits the concept of what constructs a decent standard of living. Local government is subject to economic dysfunctionality; the structures of local government are replaced as soon as they are no longer functional to the provision of necessary services.

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[5] Ibid, p192.

The concept of local autonomy and local polity is absent from the orthodox understanding of local government. Community control is relegated to consumer sovereignty, or a concern with increasing the efficacy of development efforts by promoting community participation. While present, it is marginal to the substantive basis of the existence of local government. The very concept of development is constrained by its concern with the raw provision of services, without consideration of the mode of supply of the services, and the stresses and strains acting upon that mode of supply. In the end, the political basis of local government is both economic and determined by the national state. If local government is not serving the purposes of both the national economy (as understood by the national government) and the wider interests expressed by the national government, it is functionally obsolete, and subject to replacement.

2.2 The Functions of Local Government in Neo-Weberian Theory.

The dual state thesis of Saunders argues that distinct political processes operate in the local state, for while the central state intervenes in the process of production, the local state intervenes in the process of consumption. Thus the central state is concerned to address the principle of private property and to maintain levels of profitability, and the local state addresses itself to questions of social rights and needs. The central state operates through a process of corporatist mediation, while the local state develops policy through a plurality of competitive political struggles. Interests mobilized around the central state

originate in production, the interests of industrial and finance capital, trade unions and professions, while the local state cuts across class lines to form itself around consumption groups such as tenants associations, welfare recipients and parents.

The theory usefully draws attention to the existence of the differential constitution of central and local states, and to the range of social forces represented in the local state. Yet at root the theory is weak perhaps because the division between consumption and production functions does not reflect actual activities of local government - roads, housing and other infrastructure, for example, cannot be considered to be consumption. As shown above, the local state is rooted in and emerged out of support for production activities. Corporatist practices, too, are not unique to the central state.

The theory starts from a position of functions determining political process, and the functions of the local state, related to consumption, are determined *a priori*. It is not clear that the functions and process attributed to each level of the state is an appropriate conceptualisation, with minimal historical evidence to support the view. In short, the argument is functionally deterministic.

2.3 Local Government Function in Marxist Thought.

Cockburn in *'The Local State'* argues that the local state and other local institutions are part of the entire state apparatus, in turn a complex of

relatively autonomous institutions for class domination, mediating a range of competing demands of fractions of capital. Thus "local councils don't spring from ancient rights of self-government but are, and under capitalism always have been, an aspect of national government under the state"[6].

The local state differs institutionally from the national state as it is concerned with social reproduction, through families and local institutions, while the national state is more concerned with the basis of accumulation. It is, however, shaped by class struggle along with central government. The local state then, is not shaped apart from the central state, but is subject to the same national processes of class domination and social reproduction. While local state and government is not reduced simply to a set of functions, it is set apart from national government only by the functions it performs.

The analysis is hindered by a view of the state as simply an instrument of class domination. Arguably, the local state can be better conceived as both an agent of and an obstacle to the national state. It is also insufficient to conceive of the specificity of the local state in functional terms. This abstracts from the question of whether the very functions of the local state are subject to conflict and bargaining.

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[6] Cockburn, The Local State, p2, quoted in Duncan, Simon and Goodwin, Mark: The local state and uneven development. London: Basil Blackwell, 1988, p33.

An alternative approach, argued by Duncan and Goodwin[7], is to view the local state as the result of social relations, or a set of institutions that embody a range of social relations. Thus the local state is constantly changing in response to changes in local and wider societal relations. Each town is unique, for inasmuch as the local state is dominated by the national centre, it is also the product of a process of uneven development, where social relations in the locality develop in response to the particular characteristics, particularly economic, of that town.

A distinction is drawn between the state form and state apparatus. The state form describes the power relations that the state mediates in carrying out its functions. In essence, the state transmutes class and other (for example gender) relations into atomised relations between individuals which then enjoy legal sanction and protection. These atomised relations, indeed, form a basis for the constitution of local government as "citizens" elect their local government. The state apparatus refers to state institutions and the functions they perform. The state as a whole is the subject of social conflict and contestation. It plays an interpretive role, interpreting and mediating the divisions in society.

The social relations expressed in the local state are not constant, but change over space and time in response to international, national and local conditions

[7] Ibid, pp37-43.

and struggles, representing the waxing and waning of social forces that are contesting the local state and wider society.

At the same time, the local is not simply dominated by the national or international, but is rather both causal and contingent. It is causal in that local forces can cause a change in local policies. Thus working class organisations can redirect local state activity to the construction of affordable houses, given the correct conditions such as a legal framework that allows the local state to engage in housing construction. It is contingent in that the locality acts on and shapes larger social processes. While the larger political economy can dictate a necessity for a high tech industrial area, the contingent nature of space dictates that only certain locations are suitable for such a development (locations that are near major transport roots, for example) and local forces can then act to determine the precise location of the development, and industrial development more generally[8].

This gives rise to the need for different policies in different places at different times, and the need for the local state to formulate and implement these policies and activities.

Social groups can contest the local state and use it in opposition to centrally dominant interests. In particular, and crucially, groupings marginalised in

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[8] Ibid, p59.

larger society can contest the local state to some effect. Civic movements, for example, might contest the state apparatus, and in so doing they contest the state form, the relations that are expressed therein, and the interpretations dominant in the local state as to the role it should fulfil in society.

Such contestation is legitimised by, and based upon, the representative nature of the local state, a representative base that is accepted and defended by large parts of society.

Importantly, the functions that the state performs are seen as the result of struggles that social forces engage in: "It is thus not its functions that give the local state its specificity, but the contradiction inherent in its interpretive and representational roles, a contradiction that is activated and sustained through the uneven spatial development of social relations"[9].

Thus we have turned the question of the functional base of the local state and government on it head. We have not adopted a managerialist framework, and viewed the functions of local government as simply a technical question of how to provide services at the lowest cost. Nor have we accepted that the local state simply plays an allocative role in the economy, or the mirror conceptualisation, that it is centred around consumption issues or is simply an instrument of social reproduction.

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[9] Ibid, p43.

The local state, and local government, is a vibrant body that incorporates many of the social relations extant in society, along with a range of social relations located in local society. It is contested, and the functions it performs influence that contestation and are moulded by that contestation. The functions of the local state are derivative, not primary.

This approach makes the clear point that the functions of local government are not determined in an asocial, ahistorical way, but are rather the result of decades of social conflict and bargaining.

In examining the functions of local government in more detail, as will be done below, the view that the local state should be autonomous to the maximum degree possible from central government is a starting point. Local government should be rigorously democratic, accountable to the local community. This follows not simply from the managerialist view that autonomous and accountable local government is able to promote development efforts more efficiently and effectively than if local government were simple agencies since it will enable participation in development efforts, although we do not discount this view, but rather that local government follows from unequal spatial development and specific local situations. Autonomous local government is best able to meet local challenges that are faced.

Thus we would not agree that local government should be contested as a precursor to, and example of what can be achieved with, control of the

national government. According to this account, local authorities can help "set the atmosphere in which central government can be changed"[10]. More concretely, local authorities can develop policies, such as responses to a lack of housing, which can later be adopted and adapted in the national context. While in some (crucial) spheres of local government activity (for example housing policy and the promotion of women's interests), this might be valid, in general the very fact that local government is rooted in the locality precludes such a limited role for local government.

2.4 Nation and Economy.

Much of the hegemonic contemporary understanding of the role and function of local government focuses on questions of economic welfare, economic development, resource availability and service delivery. It is also rooted in the concept of state, and overwhelmingly considered to be a subordinate authority to the central state. Questions of the role and functions of local government are typically considered to be technical. Such a view is stated explicitly by both Richardson and Musgrave:

"Much of the need for increased urban government activity has developed as a by-product of trends in the private sector"[11], while the size, definition and

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[10] Gyford, J: The Politics of Local Socialism. London: Allen and Unwin, 1989. p67.

[11] Richardson, op. cit, p187.

role of local government is also a to a significant degree, "a technical rather than an ideological issue"[12].

Magnusson counters, aptly, that "the very conventionality of most thinking about local government makes the lineaments of bourgeois thought stand out in sharp relief"[13].

Magnusson[14] argues that the economistic view of local government has its origins in the first local governments (borough corporations), formed by merchants in order to offer urban services to the emerging urban communities, and more centrally, to the emerging (capitalist) mode of production. Services were made available for the shareholders of the corporation, and sold to other users. In that, local governments were similar to other corporations established for mercantile purposes in the 18th and 19th centuries.

With the advent of free trade mercantilist corporations were under pressure to convert to public corporations as freer access to services, and a whole new scale of service became necessary. New roads and streets, refuse removal, clean water, new transport networks, room for railways, and

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[12] Musgrave and Musgrave, op. cit, p5.

[13] Magnusson, W: "Bourgeois theories of local government". Political Studies, 1986, XXXIV, p1.

[14] Ibid.

telecommunications were essential for the new, industrial, free enterprise economy to work.

Given that the costs of these services were difficult to recoup, it was seen to be the responsibility of public corporations, controlled by property owners (shareholders), to provide these services cheaply and efficiently. The role of the state as such was limited. The municipalities were seen as a part of civil society, distinct from the state, and to be defended against the encroachments of the central state.

The passing of laissez faire brought about a change of role for local governments and brought into highlight the latter theme - they were soon to be seen as agents of the central state (or the bourgeois state)[15]. The local state is clearly subordinate to the central state, agencies that we may consider as "trouble-shooters" providing a range of economic, police and welfare services under the protection and with the approval of the central state. Mill, a classic theorist of local self-government, states the role of local government thus:

"The principal business of the central authority should be to give instruction, of the local authority to apply it"[16].

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[15] Op. cit, p6.

[16] Mill, quoted in Magnusson, op. cit, p9.

Competition amongst communities (or rather their governing authorities) encouraged the adoption of this view. A municipal authority that did not pursue the provision of services in as cheap and efficient a manner as possible, suffered as economic activity moved to, or grew, where such services were available.

Notwithstanding this, it is clear that a view of local government being determined by economic functional considerations together with a bias to the unified, centralised state has held hegemony over the last century. Magnussson interestingly terms this the hegemony of democratic centralism, a term that expresses the possibly contradictory central accountability and subjugation of local governments and the localised democratic basis on which they are constituted.

2.5 Conclusion

A common thread that emerges in the conceptions of local government dealt with is that of local government being defined as an agency that is concerned with the provision of social services.

Neo classical theory asserts that the role of local government is determined by the activities of the private sector. Local government is limited to intervening in the economy in order to adjust the allocation of resources for market failure.

Alternatively, the local state intervenes in the process of consumption in order to cater to socially defined needs of the community, needs defined in a competitive political process. Cockburn's analysis is similar, for local government intervenes to ensure services necessary for social reproduction are available.

In all of these interpretations local government is defined by its functions, variously allocative, consumptive, and socially reproductive.

For Duncan and Goodwin local government is conjunctural, the result of a wide variety of social forces, both national and local in nature. Local government, while dominated by national government, has the capacity to influence the locality. Such influence may result in the amelioration of local effects of general economic development, or may tend in the direction of the construction of a locally orientated political economy.
In such an interpretation local government is defined not by function, but rather its role as a contested representational and mediatory structure. It is an interpretation that takes us away from functionalism, and points to the gains that can be had from contesting local state structures. That is important when considering local government as a development institution.

All the interpretations of the role of local government accord great weight to the nation and the economy. Local government is subject to obsolescence and redefinition if not serving the functional needs of the economy and national

centre. The role of the nation and economy in the development of local government was examined, and found to be at its very origins. Contemporary local government remains under the influence of the economy and nation, at the expense of a base in the community.

CHAPTER 3.

The Functions of Local Government.

It is often assumed by South Africans that apartheid has lent a uniqueness to SA local government. At face value this is true - racially distinct local government authorities in the same town do not occur elsewhere, for example. This leads to unique problems such as the complete lack of legitimacy of present structures, and a level of dispersion of communities.

Yet it is also an oversimplification. This chapter forms a yardstick against which SA local government can be measured. SA local government, as compared to local governments in many other countries, has many advantages which enhance its potential as a development agency, particularly skills and potential resources. On the other hand, SA local government suffers many of the shortcomings and limitations of local government in the developing world more generally in a context of inadequate and unequally distributed services - shortcomings and limitations which will have to be overcome if it is to fulfil its potential. This chapter is concerned with the activities of local governments around the world, with particular regard to small town local governments.

In the first section the development of local government will be reviewed, with particular regard to the influence of the nation and the economy. As we shall see, it is not possible to understand contemporary local government without

understanding the influence of these two spheres, in particular, on its development.

Following this local government functions in various developing countries are reviewed. The survey reveals the multi-dimensional nature of local government, with a wide variety of development functions being performed. The third area of focus is small town development and local government. The first question to address is Why the interest in small towns? Those practices and policies which tend to promote the development of small towns in a fashion that benefits the mass of people in the town will then be reviewed. Particular attention will be directed towards the influence of industry and agriculture on small town development. As shall be seen, local government has a particularly large role to play in small town development because of the lack of institutionalised development capacity in such settings, its multi-dimensional development nature, and the popular legitimacy of local government as a development institution.

The fourth area of focus is local government as a development institution. The problems, potentials and requirements for effective development work are addressed. One particular problem stands out, that of finance. Finance forms the fifth area of concern, being the major single area of constraint on the development efforts of local government.

3.1 Local Government in the Developing World.

Local government in Africa evidences a clear colonial legacy. At an operational level, we find that local government is informed by western concepts of how to go about organising local government - thus in French-speaking Africa local government is highly influenced by the "French pattern" while English speaking Africa (including SA) is highly influenced by the "classical United Kingdom model"[17].

The United Kingdom model encompasses five principals which have attained the status of truisms in relation to the form and structure of local government[18] -

* firstly, that local authorities should be institutionally separate from central government and assume responsibility for the provision of a range of services,
* secondly, that local authorities should be self-financing to the maximum degree possible,
* thirdly, that they should employ their own staff, being reliant on central government only for purposes of temporary access to skilled personnel,

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[17] Mawhood, P: "Decentralisation, the concept and the practice". In Mawhood, P, ed. Local government in the third world. Chichester: John Wiley, 1983, p12.

[18] Davey, KJ: "The changing pattern of local government: from McKenzie to McKinsey". In: World Development, 1974 v2(2), p71.

* fourthly, that the governments should be governed by councils elected by popular vote, and

* finally, that the central government's role should be limited to advisory and inspectorial services.

These principles are counteracted by a clear concern with, and centrality attributed to, the questions of economic development and nation, whose genesis and evolution in relation to local government will be briefly examined below.

Local government in the developing world is subject to a similar instrumentalist view of local government as that which, as has been seen, pertains in ex-colonial powers, for local government is subservient to key national goals of nation-building and socio-economic development[19]. The overarching importance of these goals, the lack of an indigenous tradition of local government structures relevant to a modern world, and the social dominance of "national ruling elites (who) depend for both survival and still more the capacity to organize change upon the centre being able to control the periphery"[20], has meant that local governments have been susceptible to the influence and control of the centre and its fluctuating views on appropriate forms and objectives of local government.

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[19] Mawhood, P: "The problem of decentralisation for governments". In Mawhood, P, ed. Local government in the third world. Chichester: John Wiley, 1983, pp249-259.

[20] Mawhood, op. cit, p249.

3.1.1 Colonial Local Government.

Local government under (British) colonial rule was relatively decentralized. No doubt colonial modes of social control influenced this situation. A significant influence in the development of representative structures of local government was the policy of the 1947 Colonial Office to introduce an "efficient and democratic system of local government in each dependency"[21], in order to increase the level of participation in the development process, in a more efficient way than the central government is capable of doing, and in a democratic manner[22].

The policy of decentralisation preceded the nationalist struggles which brought African nations independence, but in most cases was supported by urban, middle-class dominated national liberation forces who contested elections as a strategy of mobilising political support amongst the rural peasantry. The decentralised nature of local government was in many cases strengthened prior to independence as a means of limiting central control by the withdrawing colonial forces.

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[21] Kasfir, N: "Designs and dilemmas: an overview". In: Mawhood, P, ed. Local government in the third world. Chichester: John Wiley, 1983, p27.

[22] Cochrane, G: Policies for strengthening Local government in developing countries. World Bank Staff Working Papers, No. 582. Washington: World Bank, 1983, p3.

At a more functional level, the motivation for opting for decentralised local government lay in an appreciation of the necessity of knowledge of local conditions, often built up over generations, for the success of development policies, and the importance of mobilising local involvement in development projects as a precondition for their success. A lack of infrastructure, literacy and widespread poverty which did not facilitate central control of development efforts encouraged this devolution[23].

3.1.2. Post-Independence Local Government.

In the post-independence period decentralised local government became a hinderance to national government. Other means of mobilising local support and initiating development efforts were now possible, means that did not imply that opposition forces could retain a base of power in localities. Alternative means were also available to train the populace in government.

Decentralised local government became irrelevant to the national development of politics. Thus in Uganda a central government spokesman declared in 1969, echoing Mill, that "district councils are no longer local governments but local administrations and as such have to pursue the policies of government"[24].

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[23] Ibid.

[24] Uganda Argus, 15 February 1969, quoted in Kasfir, op. cit, p32.

Senegal, Guineau, and Ivory Coast replaced the election of local officials with appointment shortly after independence, Ghanaian elections were abolished in 1964, Kenyan responsibility was gradually transferred to appointed provincial commissioners and central government departments, while in Botswana district councils were transformed into administrative units of the central bureaucracy. The process was intensified in situations of radical change - thus the military in Nigeria divested local governments of all authority in 1966, while the military in Ghana and Uganda completed what had started under civilian rule.

The Anglo-American tradition of local government provided some legitimacy to the abolition of local government autonomy. So too did the very mode of British colonial rule, for inasmuch as indirect rule was a central tenet, it was complemented by authoritarianism which did not tolerate dissent.

To this can be added the prevalence of notions that economic development necessitates the central co-ordination of resource use in commandist fashion, and disenchantment with the inability of local governments to reach planned targets of output due to the absence of sufficient resources, qualified staff and organisational depth. The solution, for many African governments, lay in Kuanda's "decentralisation in centralism"[25], or the curtailment of local government autonomy while attempting to make central ministries responsible in some or other form for the provision of facilities at the local level. Thus,

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[25] Zambia's Guideline for the next decade, (Lusaka, Government Printer, 1969), quoted in Kasfir, op. cit, p.7.

while many conditions, such as the fractured nature of civil society in most African nations, favour local autonomy, the pressure of central government's desire to control state activity has systematically undermined local government autonomy, especially in the immediate period after independence, without necessarily increasing the state's control over society.

However, as the effects on development became clear, a round of local government re-organisation followed in the 1970s with the intention of increasing local participation in decision making and increase the ability to respond to local problems. Local government was established as a relevant development institution, but it remained, as shall be seen below, hindered by central domination and control of resources.

3.2 Local Government Functions around the World.

Surveys of local government in the developing world are few and far between. The most insightful and comprehensive is that of Roger Smith[26].

The table from Smith[27] reproduced below indicates expenditure patterns for local authorities in cities from around the developing world. The data is twenty years old, and suffers from several shortcomings that impede strict

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[26] Smith, R: "Financing cities in developing countries", IMF Staff Working Papers, 1974, VXXI, pp329-388.

[27] Ibid, pp351-352.

comparability, the key shortcomings being a measure of variation in the level of government responsible for the provision of a particular service, and different accounting practices for expenditure on the same service[28]. Despite this, however, Smith is able to draw several conclusions from the data which in all likelihood will have remained valid through time.

It is apparent that four functions are the recipient of the major portion of local government expenditure, being general administration, health, education, and public works.

Health commands a material proportion of resources, ranging from 37% in Ahmedabad to 2,9% in Recife. Education ranges from 37% in Manila to 0,5% in Hyderabad. Africa has typically devoted 20%-30% of its resources to each of the services, with substantial government subvention also occurring. The significance of such ranges is obscured by the fact that local government responsibility for local services varies widely, with regional, state and central authorities often having responsibility for services such as health and education. Local authorities may decide, even when they have responsibility for services, not to undertake the function (thus Calcutta spent only 3,8% of its income on education while being the prime government agency responsible for the function, something it was able to do as it provided rudimentary schooling

[28] See Smith, op. cit, pp346-348.

for only half to two thirds of children, leaving the rest without schooling and no doubt working).

table from smith p350-351.

from cochrane p41

It is to be expected that general administration costs will form a major part of expenditure, given that administration systems are necessary in order to run any local government service. While the costs are a larger portion of expenditure than for the cities in the table from the developing world than those from the developed world - an average of 20,8% of total expenditure for the 27 cities from the developing world versus 2,3% for the three western cities - this can be explained by the lack of skilled personnel which developing local authorities encounter and consequent inefficiency, and the tendency of administration costs to be income inelastic. For low income local authorities administration expenses will therefore consume a greater proportion of the total budget. Thus we find that administration costs decrease as per capita expenditure rises. Singapore and Seoul are two examples. Put another way, it is a poverty trap, presenting surmountable obstacles to development, with poorer cities resembling more of an employment service and less able to deliver services to the population.

A final point pursuant to the table worth mentioning is the wide range of services for which local government are responsible. Roads, sanitation, utilities, fire, police and housing cover the central areas, but it is evident from the extent of the category "other expenditure" (it ranges from 0,5% in Ahmedabad to over 55% in Sao Paulo) that a wide range of other services are under the auspices of local government. Perhaps the lesson from this is that there are few services which local governments do not, in principle, have the

potential to provide. Other functions and potential functions of local government will be examined below.

3.2.1 Local Government as an Affirmative Action Agency.

A function that is not typically considered to be in the domain of local government, and consequently neglected, is that of addressing inequality. Local government in West European countries, such as Britain, is concerned with addressing both racial and gender inequality. The case of local government as an agency to address gender inequality will be discussed in more detail below. The lessons are also relevant to other forms of discrimination.

In the case of gender local governments isolated the need to address gender inequality expressed as *unequal opportunities* in local authority workforces, in other employment in the authorities's jurisdiction, in unequal access to local authority services, and *inequality of outcome*, an accumulation of discrimination which results in a discriminated social position reflected in unequal ownership and control of resources.

In the case of Britain, Women's Committees and Women's Units were established in local governments to institutionalise the fight for gender equality. They were the organising mechanisms with the ability to pressure council departments. Frequently they were also dispersed amongst departments in order to have day-to-day access to the activities of the council.

They typically had the following aims[29]:

* To promote the welfare and interests of women and women's rights
* To work for the elimination of discrimination against women in legislation, policies and practices
* To encourage the adoption of positive action to promote real equality of opportunity for women
* To encourage and support the development of women's groups and organisations
* To open up the council decision making structure to women in the community and make them more accountable to the community.

Women's Units functioned with varying degrees of success inside councils. Frequently they were faced with hostility from council officers and trade unions, and marginalised. In more sympathetic surroundings they were, with the help of measures such as employing Women's Officers with a high job grading, successful in changing council programmes tackling service provision to ensure the availability of creche facilities, access to housing for single mothers, and developing employment generating and training initiatives geared to the needs of women, and more generally re-orientating council services that they are accessible to those in the greatest need. Councils have also had their employment criteria examined with greater employment of women as a result, and have challenged discriminatory employment practices in their

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[29] Riley, K: "Equality for women - the role of local authorities". Local government studies, 1990, 16(1), p53.

jurisdictions, A more dispersed but nevertheless important result has been a challenge to professional understanding in areas such as street and building lighting, and building design, and a challenge to rigid departmentalism which was dysfunctional to the provision of services that were required by the community.

Frequently such programmes had the spin-off of enhancing council effectiveness and efficiency. Qualified women could be recruited with the provision of flexi-time posts and child-care facilities, and training programmes enhanced staff capacity to deliver services[30]. Such successes challenge the notion of efficiency - is an efficient service one which simply minimises costs or one which is also rooted in the needs of the community.

In the literature on local government in a developing context the question of gender is noticeably absent. Yet women play a key economic role in developing societies, while also suffering the effects of political and economic marginalisation. Local government, if it is concerned with addressing the needs of its constituents, has a clear and decisive role to play in providing services that are accessible to local women. From the experiences of West European women a key requirement is the active involvement of women in the day to day operations of local government, and the development of affirmative action

[30] Ibid, p49.

programmes that are integral to the activities of the authority. It is perhaps this lesson that is relevant to the situation in South Africa.

3.3 Small Town Local Government and Development.

3.3.1 Why Small Towns?

Recently considerable attention has been focused on the question of the role of small towns in development. Hardoy and Satterthwaite[31] put forward five reasons for such attention, while Rondinelli[32] puts forward three.

For Hardoy and Satterthwaite small and intermediate urban centres:

* Firstly, are the centres with which the majority of rural people interact in the developing world.

* Secondly, are politically important, being centres from which national political control is exercised, yet also centres that are marginalised in a centralised political system. Any challenge to national centralisation of resources and political access is assisted if the dynamics of such centres

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[31] Hardoy, J and Satterthwaite, D: "Why Small and intermediate urban centres". In: Small and intermediate urban centres: Their role in national and regional development in the third world. London: Hodder and Stoughton, 1986, pp6-9.

[32] Rondinnelli, D: "Small towns in developing countries: Potential centres of growth, transformation and integration". In: Kammeier, HD and Swan, PJ, eds, Equity with Growth? Planning perspectives for small towns in developing countries. Bangkok: AIT, 1984, p11.

are understood, and if policies to aid economic growth in the centres are formulated. * Thirdly, could play a pivotal role in national government priorities such as increasing agricultural production and the provision of infrastructure for rural development.

* Fourth, can lessen the tendency for productive and bureaucratic activities to concentrate in primate cities.

* Finally, have a role to play in managing urban growth in primate centres when there is a sound rationale for devoting resources to such a purpose.

Rondinelli argues that attention has been focused on small towns because of,

* firstly, the prevalence of theoretical arguments for "a diffuse and integrated system of settlements to promote economic growth with social equity",

* secondly, reactions against failed macro-economic approaches to development that failed to consider the role of marginalised areas of the country, and

* lastly, pragmatic considerations of the nature of urbanisation and rural development.

Small towns, then, can play a significant role in providing services and outlets to the adjacent rural populations, and in so doing can relieve pressure on major urban conglomerations. They can create a more balanced urban hierarchy.

Economically such centres can generate wealth in marginalised areas, while, politically, challenging the national concentrations of power.

On the other hand, and implicit in the above, interest in small urban centres is also based on disenchantment with strategies for rural development. In many countries, in Africa especially, rural development is hampered by the inability to generate economic activity that is self-sustaining. Agriculture was prioritised, but it meant little in countries where produce had no means of effective distribution. To illustrate, Tanzania managed to get only 9% of its cotton crop to market in 1988 - 21 000 tons of 235 000 tons harvested by peasants[33]. A dispersal of resources across agricultural regions also meant an low level of resource availability in a particular area, diluting the development impact of the spending[34].

Such arguments rests on the view that, in Rondinelli's words, "an articulated and integrated hierarchy of settlements provides potential access to people living throughout the country to markets of different sizes and to a wide variety of urban amenities"[35], while "in market economies a diffused and integrated system of central places is a necessary but not a sufficient condition

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[33] Maliyamkono and Bagachwa: The second economy in Tanzania. London: James Currey, 1990, p141.

[34] D Rondinelli, op. cit, p19.

[35] D Rondinelli, op. cit, p13.

for achieving widespread economic development"[36]. Further, it entails a view that the economic benefits to flow from development efforts concentrated in primate cities are seriously distorted by social costs external to the economic calculations[37].

Enthusiasm for the development of small towns, must of course be tempered by caution. Substantial evidence exists[38] that small towns can serve as a basis for both national political control and economic exploitation of rural hinterlands. They can be considered the main element in "a spatial order for capitalistic exploitation"[39]. Especially in developing societies, with their governing authorities firmly under central control and direction, small towns form the basis for the national political centre and its associated elite to consolidate and extend their control of dispersed areas of the country, where previously national political control was weak. Small towns can also form the basis for local elites and international economic forces such as transnational corporations to extend their influence across the rural hinterlands. This is reflected in tendencies such as increasing concentration of ownership of land, undermining the local economy (see p47 below).

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[36] D Rondinelli, op. cit, p12.

[37] D Rondinelli, op. cit, p15-16.

[38] Adelemo, IA: "Small towns: centres of growth or centres of exploitation?". In: Kammeier, HD and Swan, PJ, eds, Equity with Growth? Planning perspectives for small towns in developing countries. Bangkok: AIT, 1984, pp30-32.

[39] Ibid, p156.

It is clear, however, that small towns have historically not provided the economic growth that they are capable of doing. The basis of small town development will now be reviewed.

3.3.2 Small Town Development.

According to Ganapathy[40] the "role and functions which small towns may now be expected to perform centre around the concept of an equitable regional development", offering services to rural areas and providing a link between urban and rural spheres. Rondinelli discusses the development functions of small towns[41]. They include:

* Offering economies of scale which will allow for adequate health, education and other social services
* Offering a wide variety of consumer goods and commercial services, both through formal and informal enterprises
* Offering services as marketing centres for rural products with associated services such as transport and insurance
* Offering a base to small-scale manufacturing enterprises, especially those orientated to goods in local use
* Offering an agro-processing base

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[40] Ganapathy, RS,: "Spatial development, small towns and public policy: the Indian experience". In: Kammeier, HD and Swan, PJ, eds, Equity with Growth? Planning perspectives for small towns in developing countries. Bangkok: AIT, 1984, p207.

[41] D Rondinelli, op. cit, pp20-27.

* Offering off-farm employment and migrant employment

* Offering transport and communication services

* Offering services to increase agricultural productivity

* Functioning as centres of social transformation in absorbing urbanising migrants, fostering urban values and behaviour, and providing new opportunities for social and economic mobility.

Hardoy and Satterthwaite, in perhaps the seminal review of small town development, provide an in-depth discussion[42], drawn from 150 papers, of the basis of development of small urban centres. Small towns are typically based economically on government, agriculture, mining, the military and/or transport, with industry playing a secondary role.

The influence of government, the military and mining are in large part outside the control of the local community, informed by freaks of nature and central state policy. They will therefore be mentioned briefly before a more detailed account of the impact of agriculture and industry.

Government activity in a town is often a key element in whether or not a town became part of developing road and rail networks. Besides generating a local

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[42] Hardoy, J and Satterthwaite, D: "A survey of empirical material on the factors affecting the development of small and intermediate urban centres". In: Small and intermediate urban centres: Their role in national and regional development in the third world. London: Hodder and Stoughton, 1986, pp278-334.

economy in itself through the impact of multiplier effects of government expenditure, government activity is also key to broader economic development.

The presence of suitable transport networks is a necessary component for the long-term development of the local economy. In essence that is a common sense point - no area can expect to develop over the long term in isolation from other regions of a country or indeed the world. However, it is important to note that accessability of the area is not a sufficient condition for development. In fact it may even be detrimental, for goods may be imported which destroy some of the local productive base. Obvious examples are local handicrafts industries or local crops grown at a greater cost than in other regions[43].

3.3.3.1 The Influence of Agriculture.

The relationship between urban development and agriculture is a complex one, for agricultural activity may or may not generate urban economic activity. Factors which are of importance in determining agriculture's impact on urban activity include the nature of production, the structure of agricultural land ownership, the structure of marketing operations, agricultural pricing policy, and taxation policy. These factors influence, often subtly, whether an area's

[43] Ibid, pp303-307.

agricultural output is maintained within a region, or is lost to primate and metropolitan centres.

The question of the *land owning structure* is a euphemism for the degree of concentration of ownership. With a more concentrated ownership of land local enterprises that stock the large range of goods needed will not be viable, while the landowners will have a greater access to intermediate or metropolitan centres, and will bypass local centres. Local centres will then be dependant on the wage earners, most of whom will be earning a relatively low wage as is common practice in agriculture. An egalitarian land ownership structure is therefore more beneficial to the development of small towns[44].

The *nature of the production* that is undertaken, too, can subtly influence the nature of ownership that develops. Hardoy and Satterthwaite quote the instance[45] of the Brazilian government's attempts in Cruz das Almas to slow the out-migration of rural inhabitants by replacing tobacco crops with higher income earning citrus. Due to the highly capital intensive, and low labour intensive (compared to tobacco) nature of citrus production, something which was overlooked in the planning stage, a considerable out-migration of rural dwellers, and increase in the concentration of land holdings, resulted. Even when the crop remains the same, but land holdings concentrate following

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[44] Ibid, p233 and p300.

[45] Ibid, p298.

changes in the nature of production due to, for example, the pursuit of productivity enhancing and labour saving work methods, substantial out-migration from both rural and urban areas results. Small towns decline as the new land holders by-pass the local urban centres.

The interaction between the pattern of land ownership and the nature of production is thus a crucial variable in the fortunes of small towns. Other factors which indicate declining fortunes for small towns include the presence of foreign land ownership in the area, especially ownership of plantations, a decline in world prices for commodities in local production, and the presence of vertically integrated marketing operations for agricultural produce that steer produce to major centres.

3.3.3.2 The Influence of Industry.

While the evidence of the industrial impact of growth centre strategies based on decentralisation policies is negative[46], agriculture, on the other hand, is an important generator of industrial activity.

Growth centres provide a small impetus to development efforts in the locality. Much of the impetus that the growth centre policy does provide is siphoned off to larger urban centres. The level of multiplier link between smaller and larger

[46] Ibid, pp342-353.

growth centres is great, while the link between larger and smaller growth centres is small. Growth centres have tended to hav the resources made available appropriated by groups outside the target area, or by local elites. Little effect has reached the poor in the area to which the policy is applicable. Where it has the cost of creating employment has been astronomical, and companies have remained uncompetitive without subsidies due to their remote site.

In the absence of factors peculiar to an individual centre, if an industrial policy is possible for smaller centres, it exists around consumer industries that will satisfy local demand, which in turn implies economic growth and/or restructuring in order to promote the expansion of consumer demand, or the production of goods that are competitive on the international market[47]. Industry that is successful in smaller towns includes weight-losing and bulk-reducing processing of agricultural products, and further value-added processing of agricultural products, consumer industries that cater to local needs and tastes, building materials industries focused on local needs, and assembly, mixing and finishing activities of national or international companies. The combination is one of externally- and regionally-based economic links and growth.

3.3.3 Small Town Local Governments.

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[47] Ibid; Rondinelli, op. cit, pp336-338.

By way of summary of, it can be noted that local governments are perhaps the obvious development institution in small towns. Their multi-dimensional nature, established in section 3.2, makes them ideal for a setting which will not support specialised institutions. Beyond providing services and infrastructure, as section 3.3 indicates, local governments have a key role to play in promoting the development of the larger local economy, particularly in making the town accessible to people from rural hinterlands in a fashion that allows for the participation of the mass of town dwellers.

Amongst the potential development activities of local governments are the promotion of marketing facilities, particularly markets for agricultural produce, providing infrastructure, incentive and facilities for agro-processing and industry geared to the local market, and more generally stimulating the formation and development of development institutions such as credit agencies and co-operatives. In principle, the development activities of local governments are constrained only by the resources available to it.

Local government is, however, constrained by a range of problems which will be discussed below. Amongst the problems that small town local governments face is a lack of authority, with the central state seeking to control their activities by withdrawing or limiting their authority to engage in activities to encourage development, a lack of skilled personnel, which can form a base for the central authority to control the activities of local structures, and a dire lack of finance which limits the authorities' development efforts, even when the

authority has authority, power and skilled personnel[48]. As a result, local governments are "fragmented, confused about their functions and all too often either invisible or largely ceremonial"[49].

The financial problem is not limited to areas with small economic bases to draw on, but also to towns which serve as administrative centres, are on transport routes, and have a substantial industrial base[50]. As a result, these local governments have a limited, if not negligible, capacity to act as development institutions.

All of these key problems emerge as a problem of centralisation, with local governments in dispersed areas of a country subordinate to national centres of economic, political and administrative power. More than that, they are subordinate to "centres through which sub-national and sub-regional population's needs and priorities are articulated and passed to higher levels of government: the centres from where many sub-national and all sub-regional development potentials and resources are assessed: the centres through which many development tasks are planned and implemented, taking the responsibility off national agencies; the centres through which infrastructural

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[48] Ibid. Also Cochrane, op. cit, p5, and Rondinelli, D: "Increasing the access of the poor to urban services: Problems, policy alternatives and organisational choices". In: Rondinelli, D and Cheema, GS, eds. Urban services in developing countries. London: Macmillan, 1988, p30.

[49] Cochrane, ibid, p5.

[50] Hardoy & Satterthwaite, op. cit, p292.

and public services should be provided and maintained for urban centres and for the regions and sub-regions over which they have jurisdiction; and the centres through which local revenues are raised"[51].

3.4 Local Government in Development and as a Development Institution.

Cochrane states that "few developing countries have fully recognised the contribution that local government can make in achieving national development goals", a fact that is underscored by a survey of national development plans of 54 nations by the International Union of Local Authorities which showed that the development potential and role of local government was not examined in any[52]. This forms part of the difficulty in assessing the role of local government as a development institution. Local government does, however, have advantages over other forms of development institutions.

3.4.1 The Comparative Advantages and Problems of Local Government.

Cochrane (drawing on the classic formulation of Creech-Jones in 1947) considers these advantages as comparative advantages. Amongst them are the

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[51] Hardoy, J and Satterthwaite, D: "Government policies and small and intermediate urban centres". In: Small and intermediate urban centres: Their role in national and regional development in the third world. *London: Hodder and Stoughton, 1986*, p366.

[52] Cochrane, op. cit, p1.

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[52] Cochrane, op. cit, p1.

(potential) democratic basis of local government, a basis that (potentially) allows for easy acceptance of and participation in development efforts, and the fact that local government efforts will (potentially) be more rooted in the needs of the community than the activity of the central government and will be able to use the resources more efficiently. The widespread acceptance of and support for the concept (if not the practice) of local government makes such institutions key development institutions[53].

These comparative advantages are sometimes posited as the source of disadvantages. Problems such as the shortage of trained and experienced personnel, lack of finance and stifling central control of finance are frequently posited as a result of the inefficiency of local government, in turn the result of the key comparative advantage of local government, its roots (or potential roots) in the local community and polity. The critique of local government is then based on efficiency criteria. The critique hinges around the question of "democracy versus efficiency", with those qualities posited as contradictory in many ways.

Such critiques conflate fundamental resource weaknesses of local governments, the problems of developing an efficient democratic culture, the difficulties inherent in pursuit of efficient modes of implementing development work and mechanisms that act to promote efficient operation, the difficulties inherent in

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[53] Ibid, p5.

promoting participatory modes of development and the complex requirements for a sophisticated development institution to work.

As we have already seen, the notion of efficiency is not a clear one. In the case of meeting women's needs for services, a clear challenge is posed - is efficiency to be defined as efficiency of a local government in meeting the needs of its constituents, in using the least amount of resources possible in meeting the needs of those constituents, or simply, in managerial terms, using the least amount of resources in day-to-day operations of the authority.

3.4.2 Economic Development and Local Government.

The financial stress of local government around the world points to the need for economic growth to finance urban services. In situations of high population growth and/or urbanisation and a stable per capita cost of urban services the absence of economic growth means that the provision of urban services will simply consume an increasing proportion of the gross domestic product of the country. Services become unaffordable.

A cycle then comes into play, as urban services form a necessary condition for industrialisation which will in turn support urbanisation. The absence of economic activity and growth, and in particular the absence of industrial concerns and industrial growth, undermines the revenue raising abilities of local authorities, limiting the ability to provide the very services necessary to

foster economic development. A cycle of deterioration of urban services is then entered into, as local authorities are unable to maintain, replace, modernise and expand their services.

Such a cycle is especially applicable, and a special danger, to small urban centres which typically do not have a large industrial base and agglomeration economies to offer industry, or as great economies of scale in service provision as the larger urban locations. Local government, as outlined in chapter 2, is not typically seen as having a role related to economic development per se. Such a role is drawn from and subordinated to larger determinants of the role of local government. In the neo-classical tradition (see p8), its role in promoting development is incidental, drawn from its activities as an institution or set of institutions that is concerned with the allocation of society's resources to purposes not served, or served inadequately, by the market. Alternatively, its development role can be seen as being drawn from its concern with social reproduction (see p15), ie its development role is confined to a concern with those activities that are functional to the reproduction of society. Another, and more encompassing role for local government, is that it can play a role in economic development that is geared in the locality (see p16), responding to differential local effects of general economic development, and attempt to stimulate development on a local basis, or ameliorate the effects of developments over which it has no control.

Local government is constrained to be an institution acting to provide those services that are necessary for development, and intervening to ameliorating the effects of development, in many cases only those effects that threaten stability and accumulation. But local government, because of its democratic nature, also has the potential to act as a conduit for the aspirations and demands of the community.

Cochrane[54] makes the valuable point that the breadth of the role that local government is able to fulfil is dependant on the resources available to it. More strongly put, with "more capable personnel and a well developed capacity to generate revenue it can assume responsibility for a greater range of economic development functions". Put another way, "the greatest task that developing countries face at present is to involve the growing number of poorly trained and poorly paid local government officials in the development process"[55].

Local government is most well placed to develop services that interact with the community directly. The evidence indicates that such is in fact the role that local governments play around the world (see p? above). Especially in settings which do not have the economic basis for a plethora of development institutions, local governments offer a range of skills and resources, offering

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[54] Ibid, p7 and p42.

[55] Ibid, p23

the potential for local governments to play a developmental role far beyond that of simply providing infrastructural services.

Magnusson[56] provides a further caveat to enthusiasm for the role of local government, for while the local state is viewed as an agent of the absolutist central state its functions are potentially comprehensive. The cost is subordination to the centre.

Two key requirements for an active and development orientated local government, then, are independence from the central state and finance. Discussion will turn to finance.

3.5 The Financing of Local Government.

It is often assumed that local governments are in the best position, as in the western world, to provide urban services. Yet the problem has grown past the present financial resources of most urban governments. After summarising the forms of financing typically available to local governments, the influence of central government on the financing crisis of local government and the problems of financing, will be reviewed below.

3.5.1 Forms of Financing.

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[56] Magnusson, op. cit, pp6-7.

Revenue sources vary - in areas under the influence of the Anglo-American tradition local government tends to have substantially greater fiscal autonomy than local government in previous French colonies and in Latin America. African and Asian nations schooled in British local government rely heavily on property taxes of one form or another. These taxes are the responsibility of the local governments themselves. In South America sales taxes, in the form of revenue sharing with central government, form the bulk of revenue for local government, while in other areas more obscure but very effective taxes such as gambling taxes make a substantial contribution[57].

In general, local government revenues are drawn from areas such as property taxes, licences on arms, radios, trading activities, motor vehicles and such, the construction and rental of such facilities as abattoirs and markets, charges on the provision of utilities (often through the activities of enterprises under local government control) and poll taxes.

Personal income taxes have been attempted in many countries throughout Africa, either as a tax levied by the local authority or a surcharge on national income taxes which then return the tax to the local authority. They have proved politically and administratively difficult to manage, being very unpopular and requiring considerable administrative infrastructure. Countries as politically diverse as Kenya and Tanzania removed such taxes from the

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[57] Cochrane, op. cit, pp11-20.

ambit of local governments in the 1960s period of post-independence consolidation, and moved to indirect taxes.

User charges attempt to obtain payment for services from consumers, by charging rates yielding a commercial return on the current replacement costs of capital assets, or to yield a commercial return which incorporates debt service charges, or marginal cost pricing in which charges are calculated on the basis of full capital and operational costs of providing a service.

User charges have been applied particularly to utilities, where the opportunities for cost recovery are greater since the costs of the service can easily be tied to particular households and there is an easy means of enforcing payment by terminating services. In some services, such as water and transport costs are more difficult to recoup for economic, political and social reasons. Water is clearly a social necessity, with considerable negative impact for the wider community if water supplies are terminated for non-payment, while the absence of transport has considerable impact for the economy more generally which make it worthwhile subsidising. In yet other services, such as clinics, cost recovery is all but impossible on social and political grounds.

Considerable manoeuvre is available to local government around the recovery of user charges. In Brazil the cost of sidewalks has been recovered from

property owners who have benefited from the construction[58]. Such a method is easy to administer, entailing a calculation of frontage in order to assess the value of each property.

Grants form a considerable component of resources available to local governments, averaging 30-60% of urban local government revenue, and 70-95%[59] of rural local government revenue. They typically take the form of formula grants, project specific grants, and matching grants in which the central state tops up revenues raised by the local authorities. Such grants tend to favour wealthier areas. They are often made on a per capita basis, but can also be used to equalise local government spending between different areas of the country. Key requirements for grant systems are that the grant does not replace local government revenue collection, and the grant pool should be elastic, rising with the development of the economy. Few countries meet these criteria, with the norm that central government plays an increasing role for local government revenue and the reduction of central government remittances over time (in real terms) as the pool does not expand. In general, grants require considerable administrative effort if proper account is to be kept.

Property taxes form the core of self-raised local revenues, but have not proved up to the task of financing local government. Property taxes are attached to the

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[58] Ibid, p14.

[59] Ibid, p15.

fair rent value, capital improved site value, and unimproved value. The specific basis on which the tax is attached as, for example, a capital improved site value property tax will impede the development of property sites, while an unimproved site value might favour the wealthy who own developed sites and will pay at a lower rate relative to the value of the property than those with unimproved sites. A considerable constituency of those who can afford to pay tax will be untapped. Property taxes pose considerable administrative problems, typically requiring a data-base of property in the jurisdiction which is drawn up from a cadastral survey.

The *provision of credit* to local governments is another source of funds. Credit is provided by the central government, in the form of direst loans or indirect loans through a parastatal local government finance corporation. The former is a preferred practice in Latin America, the latter in Africa.

Credit through the banking system is very rare. In Tanzania an interesting practice occurs where local governments are required to deposit recurrent funds in a central pool which is then used for credit purposes. Essentially the local governments, under central intervention, have formed their own bank in order to maximise the use of funds. A similar scheme is to be found in the Philippines, where local governments are required to keep several month's operating revenue on deposit with the central bank. The central bank uses a part of those funds as a soft loan scheme for poorer local authorities.

3.5.2 Central-Local Relations.

Complete financial independence is not possible as the tax base is constrained by the local base available for taxation, and local government also has a limited ability to control large and complex tax administration schemes which the central government is capable of administering. It is not desirable as the central government clearly has a significant role to play as a facilitating agency for local government, especially in poverty ridden districts, and in areas which completely lack institutional capacity, as a controlling agency.

In the arena of facilitation the central government (or other appropriate institutions) can play a decisive role in areas like the training of skilled finance personnel, in recommending accounting and budgetary control measures, in assisting in the raising of capital (providing guarantees), and assisting in the development of appropriate institutions for the assistance of local government. The centre is also needed to monitor and control the raising of funds, and set minimal national standards for the activities of local authorities.

However, in order to advance local autonomy local governments should have the capacity to vary the forms and rates of charge they levy[60]. Local governments should also prioritise the charging of commercial rates for

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[60] Dhiratayakinant, K: "Rural service centres, local government and financial autonomy: the case of Thailand". In: Kammeier, HD and Swan, PJ, eds, Equity with Growth? Planning perspectives for small towns in developing countries. Bangkok: AIT, 1984, pp532-534.

services, should maximise the use of local taxation, while central grants should preferably be used to equalise differential tax bases, to ensure the provision of socially desirable services, and for capital expenditure[61].

While there is a clear role for central government, the idea of fiscal autonomy receives considerable coverage in the literature as a key component, indeed a necessary condition, for the development of locally autonomous local government. Thus "it has generally been accepted, in the theory on public finance, that local autonomy, hence local government and development, cannot be realised in actuality unless it is accompanied by effective local autonomy. This implies that local government must be financially independent of the central government as much as possible by imposing sufficient local taxes and/or other such levies (such as fees and charges)"[62].

Fiscal decentralisation is often assumed to be a panacea for local government's problems of obtaining resources. As Cochrane points out, however, fiscal decentralisation is meaningless in a context where local government does not have the resource base to collect taxes and levies. He quotes the instance of Brazil, where the central government took away local government

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[61] Ibid, pp532-534.

[62] Ibid, p532. The conclusion is supported by a wide range of writers, including Cochrane, op. cit, in his survey of policies aimed at strengthening local government, p7, and the World Bank: "Strengthening Local Government in Sub-Saharan Africa". World Bank EDI Policy Seminar Report 21. Washington: World Bank, 1989, p7.

responsibility for collecting taxes, instead collecting taxes itself with its more substantial resource base. As a result, local government's share of federal taxes grew from 14% in 1976 to 24% in 1984[63].

3.5.3 Problems of Financing.

Local governments have in instances taken the initiative to act as development agencies assisting those in the private sector. Here again the problems of inadequate resources and skill levels have stymied their best efforts. Cochrane[64] documents problems as basic as not incorporating the cost of capital into the cost of the development efforts. The consequence is that the projects were a drain on scarce local government financial resources.

Taxes available to local government frequently suffer the shortcoming of being relatively difficult to collect, with evaders difficult to track down. Enforcement requires personnel and associated costs often beyond the economic benefit of the revenues collected given the effort required to track down and the low level of tax applicable to each offender. Evasion of local government taxes is usually in excess of the level of evasion of central government taxes, with up to 50% evasion of local property taxes not uncommon[65]. As a result, local

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[63] Cochrane, op. cit, pp9-10.

[64] Ibid, p19.

[65] Ibid, p11.

governments struggle to meet existing demand for their services, let alone meet the demand for further services.

A further problem which local governments face is community resistance to the payment of taxes. Cochrane argues that it is difficult to "disabuse local people of the idea that all development expenditures are a central government responsibility"[66], while Mawhood states that "the argument that people have insufficient money to pay local taxes, naive as it is, is widely accepted"[67], with the position worsened by populist modes of politics where 'tax bashing' is a widespread means of harnessing political support. The consequence of such trends is that the development potential of local government is under-utilized.

On similar lines, Manning argues[68] that the lack of financing available to small town local government arises not so much from a lack of capacity, but rather from limitations which are of a bureaucratic, legislative and/or democratic character. In the area of legislation there are numerous tax-exempt properties, frequently those properties which are most able to support a tax burden such as owner occupied houses, government building and industries

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[66] Ibid, p11.

[67] Mawhood, P: "Decentralisation, the concept and the practice". In Mawhood, P, ed. Local government in the third world. Chichester: John Wiley, 1983, p16.

[68] Manning, H: "Small town financing: where does the money come from?". In: Kammeier, HD and Swan, PJ, eds, Equity with Growth? Planning perspectives for small towns in developing countries. Bangkok: AIT, 1984, p695.

established under industrial incentive schemes. In the area of bureaucracy the key problem is one of the development of administrative systems able to deals with the demands on local governments. Many local authorities presently lack a system which can deal with property taxes - a system that establishes and maintains a data base of all properties in an area of jurisdiction of the authority. Democratic constrain arise from the political process, with elected officials often wary of imposing taxes which can prejudice chances of re-election.

3.6 Conclusion.

This chapter has reviewed international experience, particularly African experience, of local government and its role in development. From the chapter certain points stand out as key to the development of local government, and given the importance of local government in the small town context, to the development of the larger small town economy with an active local government:

* While local government is informed by principles which entail autonomy, it is frequently in practice subordinate to the priorities of nation-building and the economy. This subordination has actively undermined local government in many circumstances.

* The mechanism of subordination is most particularly in the area of finance, and points to the need for financially independent local government.

* Local government performs a wide variety of development functions. It is an agency that is most commonly associated with urban services, but also has an active role to play in the larger development process, and has a role to play as an institution of affirmative action in the areas of race and gender.

* Local government has an especially important role in small towns, as it is typically one of the few locally-based, democratic and participatory development institutions.

* Its multi-dimensional nature enhances its role in the small town context where alternative institutions are often not available.

* Small towns are subject to a wide range of influences outside their control. Nevertheless, policies which are orientated towards the development of a local economy, as opposed to the international or even the national economy, offer scope for egalitarian development, and afford local government an opportunity to play a substantial development role.

* In order to foster the local economy small towns should focus on the multiplier link between the small urban centre and the rural hinterland, which is conditioned by a number of factors, the key amongst them the question of

who benefits from rural policy. This points to the undesirability of attempting to influence the spatial location of industry through infrastructural development or incentive schemes in the absence of supporting social, economic and political fundamentals and the importance of policies that are focused on local development with a high degree of linkage. Agricultural development, in conjunction with land reform programmes, and agro-processing have a major role to play.

* Local government can promote such development through the provision of facilities for the emergence of industry, distributional facilities, training, and co-ordinating development activities, amongst other interventions.

* Local governments face a range of problems, including a lack of institutional capacity, which takes the form of a lack of skilled staff and a lack of financial resources.

* Revenue sources available to local government are often limited by a range of factors, amongst them:

    * the tendency of central government to retain taxes which are politically and administratively easily collected for its own use, even if the taxes are subsequently budgeted to local government,
    * a lack of resources available for tax collection, especially skilled personnel,

* a lack of institutional capacity, with administrative systems unable to collect taxes,

* community resistance to the payment of local government charges, and

* often, a political process that promotes 'tax-bashing'.

* Central government retention of those taxes that are easier to collect leads to the vicious cycle of lack of revenue, deterioration of service, and consequent inability to finance present activities.

* Local governments needs, by and large, further sources of revenue, the ability to vary the level of revenue, and flexibility to spend revenue.

From the review of international local government in development, attention will turn to SA. It will be seen that SA local government is not as unique as might be thought, and has many lessons to learn from international experience.

CHAPTER 4.

South Africa: The Case of Middelburg.

This chapter will examine the role of local government in SA, with particular regard to Middelburg, and the role it could play in future. The first five sections are concerned with the Middelburg situation, while the last section is concerned with the possibilities for the future.

In this chapter themes of importance in prior chapters will be addressed. The first section provides an overview of the town of Middelburg and its population growth, while the second section examines the Middelburg economy, a key determinant of the Council's financial viability. The third section deals with the functions of local government in the SA, and Middelburg, context, echoing the concerns of Chapter 3 and the discussion of the functions of local governments and small town local governments internationally. The fourth section examines more closely the state of Middelburg's finances, with a view to assessing in broad terms the degree of manoeuvre for the future, while the fifth section outlines the role of the central state in Middelburg. The final section deals with the future, juxtaposing the view of the Council and an alternative view which argues for greater autonomy, local accountability, and community-based development on the part of the Council which will cater to the needs of the population to a greater degree than thus far has been the case.

4.1 The Middelburg Context.

Middelburg, a town in the near-Eastern Transvaal, forms the case study for the examination of local government in SA. The questions to be addressed include the development possibilities of the town and surrounding areas, the role and potential role of the Council in such development, the question of state control over the activities of the Council, the financial state of the Council and the needs of the Council to play a positive role in development in the future. The relevance of the preceding chapters will be discussed throughout.

Middelburg is a small to medium sized town, with a population in 1985 of 44 762[69]. Urban population within the Middelburg magisterial district was estimated at 101 935[70] by the Development Bank after adjusting for CSS errors. That population is distributed between Middelburg, Rietkruil and Hendrina. Middelburg satisfies Hardoy and Satterthwaite's criteria[71] for a small town as being a town with less than 100 000 population. The population of the town is growing rapidly, with African population growth estimated at 7,29% per year in the period between 1980 and 1985. This was urbanisation

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[69] Urban Foundation: Appendices to the report on Non-Metropolitan Places. Unpublished mimeo, undated, p17.

[70] These figures, and the figures below (unless otherwise specified) are drawn from Infraplan: Ontwikkelingstrategie: Konsep Hoeveld Striekdiensteraadgebied. Unpublished mimeo, 1990, pp37-42.

[71] Hardoy, J and Satterthwaite, D: "Why Small and intermediate urban centres", op. cit.

from the surrounding farming areas, however, as the African population of the magisterial district grew by only 0,87% per annum in the same period. In the period since the census, and with the abolition of influx control population growth has intensified dramatically, and Council officials report a three-fold increase in the African population of the town in the three years following the abolition of influx control. People came largely from Bophuthatswana, Lebowa and Kwandebele. Interestingly, this is from a small base, for Middelburg was uncommonly "white".

The evidence of population data, then, suggests that besides the historically accumulated need for services Middelburg is experiencing a current need due to the influx of population. Further, the fact that people are leaving the rural hinterland suggests that their development needs are not being met, in turn suggesting scope for the Council to play a role in wider development efforts.

4.2 The Middelburg Economy.

Economically, the town is dependant on the generation of electricity, with almost 50% of the district GGP being derived from this source. Mining contributes another 30%, and the balance is spread between the other economic sectors. Agriculture provides only 3% of the GGP, a share, as we shall see, that is not commensurate with its influence on employment in the area.

Growth in the GGP is displayed in Table 1 below. It is apparent that the small construction sector and the finance sector have experienced the greatest growth since 1970, closely followed by the far larger electricity sector.

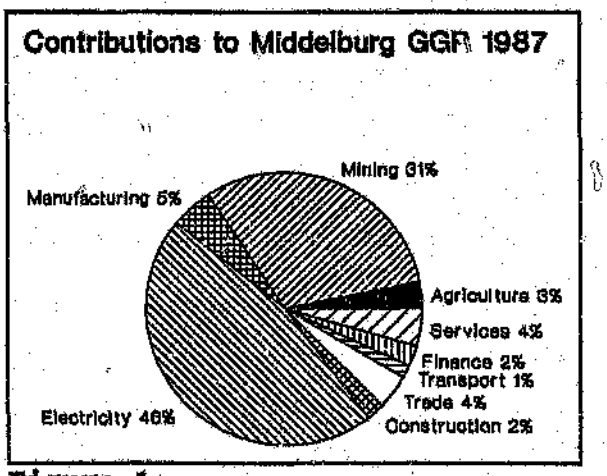


Figure 1

Agriculture and manufacturing, the key sectors responsible for employment, are notable laggards.

Table 1: Contribution of economic sectors to GGP, 1970-87 (at 1985 prices) (R '000)

	1970	1975	1980	1985	1987
Agriculture	30112	27035	42242	41378	45021
Mining	123521	136782	285494	423848	431196
Manufacturing	40250	51986	65865	67012	69145
Electricity	103443	459246	491018	645685	642508
Construction	4233	25103	25760	32142	29580
Trade	20280	32952	41478	58440	57569
Transport	8822	14484	20032	20976	20082
Finance	3712	13394	29766	32360	34014
Services	33973	43840	44861	57641	61600
Total	**368346**	**809822**	**1046516**	**1379482**	**1390715**

The shift in contribution to GGP is reflected in Figure 2, when compared to Figure 1. The share of electricity in GGP was 26% in 1970, compared to 46% in 1987, mining remained relatively stable, while the shares of agriculture and manufacturing was considerably greater, 8% and 11% respectively in 1970

compared to 3% and 5% in 1987.

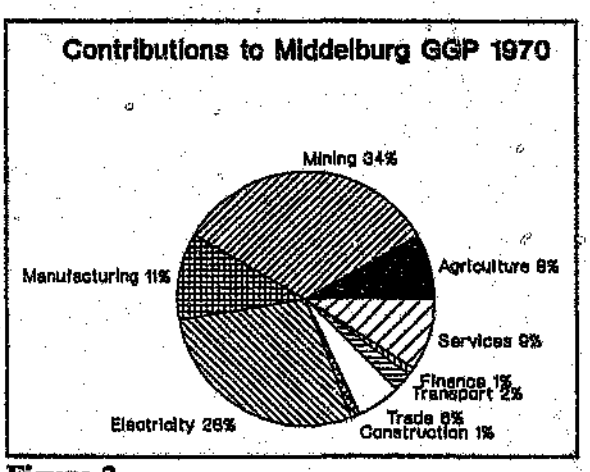


Figure 2

The shift in the make-up of GGP is obviously the effect of the expansion of Escom in the late 1970s and early 1980s, with the construction of the Arnot, Hendrina, Duval and Komati stations. Growth possibilities from the activity is limited, given the mothballing of generation facilities currently underway. Mining is closely related to electricity, with output going to Escom plants and to the export market. The prevalence of both these sectors in the local economy is problematic, since the leakage from the area is consequently high. Escom is centred in Sandton, while the mines are owned by Escom, Iscor, and private sector mining groups. The development of the region is limited by the outflux of capital, a point confirmed by the otherwise staid Middelburg Town Clerk, who refers to the "rape" of the town by industry and Escom.

The major manufacturing company is Middelburg Steel and Alloys, employing 9000 people. It is a highly capital intensive plant. Barlows Heavy Machinery and Southern Cross make up the other large companies, while some 120 light industrial enterprises comprise the rest of the industrial base, producing products for the housing market such as burglar proofing and frame housing.

Little is produced that is useful for the agricultural economy, and no further processing of the products of MS&A takes place. The level of leakage is high, with, for example, MS&A supplying 700 companies around the country and none in Middelburg. MS&A distribution facilities are placed in the PWV, so it is impossible to buy stainless steel in the town.

The manufacturing sector has considerable scope for expansion, and is being prioritised by the Town Council. The Council has recently established a Marketing Department to attempt to attract business to the town, and sees the expansion of industry as a major source of further development. Importantly, the expansion effort is aimed at attracting large companies to the area on the basis of proximity to the PWV, available labour and infrastructure, and a 60% benefit exposure in terms of the new industrial benefit allowances. A key component is the further value adding of MS&A products. Over 400ha of industrial land is being prepared for the expansion of the town's industrial base. The development effort puts emphasis on competition with other towns, and little effort is being made to promote the development of new local enterprises, or to make services and infrastructure available for such enterprises. Little effort, too, is being made to promote the development of companies that will produce for the local market, companies that will produce basic consumer products, or companies that will produce products for use in agriculture.

Agriculture, which makes a relatively small contribution to GGP, nevertheless has an important place in the regional economy. The mix of agricultural products produced in Middelburg is shown in Table 5 below.

Table 2: Contribution of Agricultural Products, 1983

(R '000)	Middelburg	Neigh-bouring Districts	Midbg % Region
Arable products	27271	77917	35.0%
Maize	23482	43332	54.2%
Hay	2665	3690	72.2%
Other	1124	30895	3.6%
Horticultural Products	7222	18402	39.2%
Vegetables	6367	12163	52.3%
Other	855	6239	13.7%
Livestock Products	70263	95857	73.3%
Beef	15451	24791	62.3%
Sheep	1208	3067	39.4%
Pigs	1527	4449	34.3%
Dairy	6655	11065	60.1%
Poultry	44350	49215	90.1%
Other	1072	3270	32.8%
Total	**104756**	**192176**	**54.5%**

Middelburg produces a wide range of products, including obscure items such as ostrich feathers and karakul pelts. Predominantly however, as is evident from the figures in Table 2 above, the district produces a range of staple items, being the major maize producer in the local area (Middelburg and the surrounding magisterial districts of Groblersdal, Witbank, Belfast and Waterval-Boven (those areas that comprise sub-region 27)). Indeed, it is the major producer of arable crops, if the production of cotton and tobacco on

irrigated land in the Groblersdal district (production of R19m per year) is excluded from the total figures. It is also the largest producer of vegetables in the area. In livestock products it is a centre of national importance, with considerable amounts of beef, dairy products and poultry being produced. Interestingly, little of these products are processed locally, but are exported from the area for processing. Kanhym, for example, has one of the largest feedlots in the country in the Middelburg district, but actual processing takes place in other centres. Beef, along with other agricultural products, is exported from the area before being re-imported for the town. To summarise, Middelburg is a mixed, relatively productive area in agricultural terms, producing a wide range of staple commodities, but with little local processing activity.

The main players in agriculture are local farmers (who own farms of between 1 000 and 3 000ha), processing companies (generally those that are part of national groups) and co-operatives.

The Town Council has recently set up an agricultural committee which will look at the contribution that the town can make to the local rural economy, and vice versa. Besides the Council officials, representatives of the District Agricultural Union, the local Chamber of Business, and the Co-ops sit on the committee. The Council is limited by statute as to the functions it may perform in the area of supporting agricultural development. Partly as a result of this,

and because it is the initial stages of looking at the question, little is planned for future agricultural development at present.

The Council has little sympathy for informal sector business people. It has, historically, prevented hawking[72], and at present limits hawking to a few parking areas. Council officials explain this to be the result of the make-up of the Council - most of the officials are business people, and are opposed to competition in the form of hawking. The Council has contributed R350 000 to the construction of a small business industry park. Rather obscurely, the park was placed in Mhlùzi, on the opposite side of town to the industrial area. It is clearly meant to serve the township rather than to participate in the larger local economy.

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[72] Hart, DM and Rogerson, CM: "Hawkers in South Africa's small urban centres: Planning and Policy". Develo ent Southern Africa, 6(3), Aug. 1989, p17. At the time the only hawker's licences in issue where in the hands of "whites".

Table 3: Performance Indices for Region F.

Impact of exogenous increase of R1m in final demand on:

	GGP:	Rank	Employ-ment:	Rank	Employ-ment/GGP	Rank
Agriculture	11.0	5	32.6	1	32.2	1
Mining	11.2	4	4.9	8	3.9	7
Manufacturing	9.5	8	8.5	6	6.9	6
Electricity	13.1	2	3.2	9	1.5	9
Construction	8.1	9	11.5	4	16.4	2
Trade	10.8	6	12.4	3	12.4	4
Transport	11.8	3	8.8	5	7.4	5
Finance	14.3	1	5.1	7	3.1	8
Services	10.4	7	13.1	2	16.2	3
	100.0		**100.0**		**100.0**	

The make-up of the local economy, mentioned above, is deceptive in the sense that the measure considered is limited to GGP. If one considers the employment effects (Table 3) of expansion of economic activity a rather different picture emerges. Electricity, while making a great contribution to GGP, makes a minimal contribution to employment, as does finance, while the opposite is true for agriculture, trade, services and construction. Agriculture makes a contribution to employment 10 times the contribution of electricity, and four times the contribution of manufacturing. This should also be seen in the light of widespread leakage of GGP in the electricity and finance sectors, while the agricultural and construction sectors have considerably greater linkages in the local economy, though there is leakage from national food companies that are present in the area. The development path outlined by the Council, focused on the expansion of industry, should be seen in the light of these leakages and a massive problem of unemployment in the area - the

unemployment rate in Mhluzi is estimated by the Township Administrator to be 50%+.

It is clear from the above data that the development plans of the Council, posited as they are on the expansion of large-scale industry and agriculture under the control of large-scale farmers, are not meant to address the problem of unemployment. They are underpinned by the notion of trickle-down of wealth from the wealthier sections of the community to poorer sections.

4.3 The Functions of Local Government.

The functional activities of local governments are governed by a variety of laws in SA. The Cape, OFS and Natal each have their own provincial ordinances, which govern the activities of the local governments. In the area closer to the present interest, the Transvaal, the activities of local governments are regulated by the Local Government ordnance of 1939 (s79, of O. 17 of 1939). The activities of the black local authorities are governed by Black Local Authorities Act of 1982 (s23). One immediately notes a separation of the legislation governing local authorities.

The situation is further complicated in that the activities of local authorities are dictated by a myriad of laws of the respective central and provincial governments. For example, the Foodstuffs, Cosmetics and Disinfectants Act directs local authorities to perform certain health related functions, while the

Minister of Health can also direct that activities be performed (local authorities are not compensated for these mandatory activities). Race adds new dimension to the activities. Housing provides an example with housing related to the white, "coloured", Indian and Africans each under the control of a different institution and different laws. Local authorities also have a degree of discretion as to which activities they may choose to perform, within the ambit of the various legal parameters.

Thus the functions of local government are regulated regionally, provincially, nationally and racially, and by the local authorities themselves. It goes without saying, then, that it is difficult to extract a concise definition of the activities of local authorities, and that each local authority will need to be examined in order to ascertain its activities, and the effect of those activities on the community it should represent.

Nonetheless, there is a measure of consistency in the activities of the local government. Typically, they offer services that have a protective, community service or commercial orientation[73].

In the community service category we can include the provision and maintenance of streets, sidewalks and drainage systems, parks and recreation

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[73] Cloete, JJN: "The functional activities of local authorities". In: South African Local government and administration, Pretoria: van Schaik, 1989, p113.

grounds, and health services. In the category of protective services we can include services such as traffic control, civil defence, municipal police forces, and licensing activities, while the provision of services such as a municipal abattoir and the supply of water, electricity and refuse removal is typically provided on a commercial basis.

Such a conceptualisation does not, however, advance beyond the point of providing a rudimentary categorisation of services. It does not say anything of the effectiveness of the services that are provided, or the role that local authorities can play as a development agency for their communities.

In order to assess the effectiveness of local government, it is necessary to first define the quantitative and qualitative need for services that exists in communities, the accessability of those services that do exist, and the affordability of those services. In a sense, we need to assess the demand for services relative to the supply of services in order to judge the effectiveness of a local government in serving its community.

Judging the need, provision, accessability and affordability of services is a task requiring great resources. It may be fairly assumed, however, that there is a dire need for urban services and services appropriate to the rural populations of the country. In the Middelburg case, for example, This can be illustrated with anecdotal evidence. In the first instance extensive migration to the town from adjacent rural areas has taken place over the last few years. This

indicates a lack of development opportunities in the rural hinterlands. Secondly, the presence of squatters indicates a lack of urban facilities.

In the racially structured, unequal and highly politicised South African service context, the skewed distribution of services adds a further dimension, in that the availability of services for industry and upper and middle classes arouses the opposition of those excluded. Certainly this has happened in Middelburg, as the rent and service charge boycotts have revolved around inadequate, inferior and expensive services.

In Middelburg, the Council confines itself to providing urban services to the "white" areas, and the business districts. Services include the provision of library facilities, fire services, health services, parks, as well as utilities. A feeding scheme is rum for the poorer white residents of the town. No services are provided for the residents of the township.

There is a case to be made that the provision of adequate services to deprived communities is a necessary condition for economic growth. A degree of social peace is necessary for economic activity to take place. One the other hand, as noted above, economic growth is widely considered to be an essential requirement if the degeneration of services and infrastructure, a tragically common occurrence in the developing context, is to be avoided.

4.4 Middelburg's Finances.

In the following pages the state of finance of the Middelburg Town Council shall be reviewed. At the outset, it should be noted that the finances of the Council being reviewed are those of the "white" Town Council.

The BLA of the town, Mhluzi, does not have appropriate records available for examination. By all accounts the authority is bankrupt, as a result of a rent and service charge boycott and a lack of business and industrial centres, unable to generate considerable amounts of income. According to the Administrator of the township[74], it is dependant on the province and the RSC for recurrent income and expenditure of R195 000 per month. The Administrator has cut salaries by 40%, and retrenched staff. The Council is able to maintain basic services, but has suspended the repayment of loans. Somewhat ironically, this is occurring while considerable development for middle and upper-income people is being implemented - some 16 houses per week are being completed, in the R25 000 - R40 000 price range, under the auspices of the SAHT. The administrator argues that new sources of finance will have to be found, while government assistance will have to continue and be increased in the interim.

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[74] Interview with Pieter Colin, recently retired town clerk of Middelburg and current Administrator of Mhluzi.

The "coloured" and "Indian" areas, Nasaret and Eastdene respectively, are administered by Middelburg, and are also unable to generate income sufficient for their needs - in 1989, as shown in table 4 below and Figure 3, both townships were in deficit, to the total sum of R319 000. The deficit was borne by Middelburg.

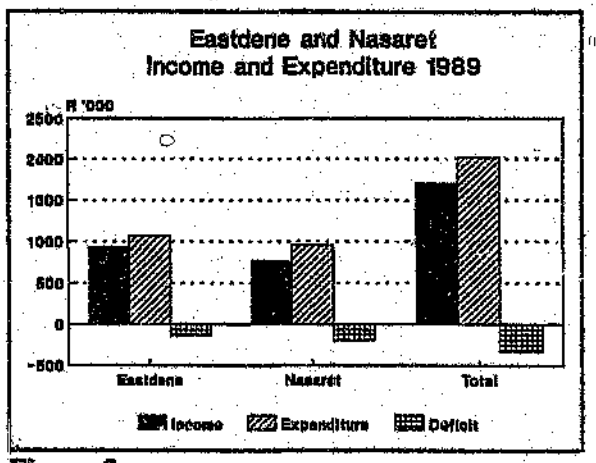


Figure 3

Table 4: Eastdene and Naseret Income and Expenditure 1989

	Income	Expend.	Deficit
	R '000	R '000	R '000
Eastdene	934.4	1062.7	-128.3
Nasaret	766.9	957.7	-190.8
Total	**1701.3**	**2020.4**	**-319.1**

Middelburg, then, is the pivotal source of finance for the Middelburg complex as a whole. The development of the town is predicated on the financial stability of the "white" Middelburg - the industrial areas, the CBD and the upper-income residential suburbs.

Middelburg had income of R46 976 000 in 1990 (1989 R39 704 000) (see Tables 5 and 6, p87). The bulk of this income was derived from the trading services of the Council. Electricity was by far the most important component, accounting for over 50% of the Council income. Rates accounted for 12%, as did other services of the Council (libraries, cemeteries, the traffic department, etc). Subsidies from higher levels of government accounted for only 3,6% (1989 4%). Other sources of income were of relatively minor importance.

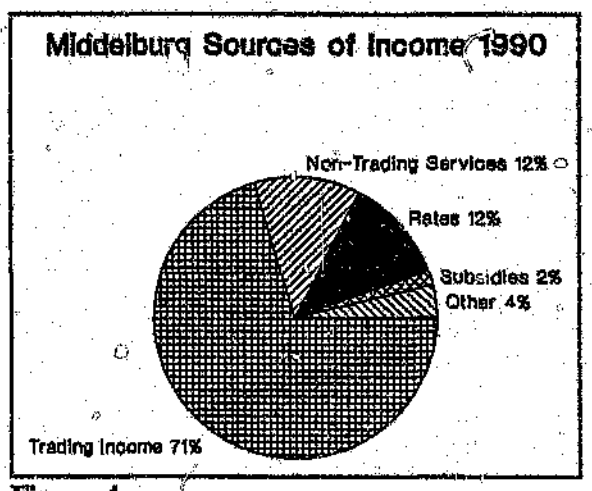


Figure 4

While the make-up of the Council income remained approximately stable, the income rose considerably in the year to 1990. As shown in Table 6, the Council income rose by 18%, on average (this compares with the Department of Finance's suggested maximum increase of 13%). Middelburg justifies this by pointing to the expansion of the town.

Table 5: Middelburg Income 1989[75].

		R '000	%	R '000	%
Rates				4576.9	11.5%
Non-Trading Services				4682.2	11.8%
Trading Income				28654.4	72.2%
	Refuse	882.4	2.2%		
	Sewerage	2172.2	5.5%		
	Electricity	20075.2	50.6%		
	Water	5524.7	13.9%		
Other				240.6	0.6%
Subsidies				1549.8	4.0%
Total				**39704.0**	**100.0%**

Table 6: Middelburg Income 1990[76].

		R '000	%	R '000	%	% change 1989-1990
Rates				5514.2	11.9%	22.0%
Non-Trading Services				5688.8	12.1%	21.5%
Trading Income				33146.8	70.6%	15.7%
	Refuse	1094.5	2.3%			24.0%
	Sewerage	2509.4	5.3%			15.5%
	Electricity	23335.2	49.7%			16.2%
	Water	6207.7	13.2%			12.4%
Other				902.2	2.0%	63.0%
Subsidies				1654.3	3.6%	12.8%
Total				46976.3	100.0%	18.3%

The figures above distort the income pattern somewhat. If one examines Middelburg net income (income after expenses of providing services) (see Table 7), then it is clear that the bulk of the services which the Council provides are loss-making. These services (clinics, library, public works etc)

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[75] Source: Middelburg Town Council: Financial statements 1989. Unpublished.

[76] Source: Middelburg Town Council: Financial statements 1990. Unpublished.

are primarily of a social nature. The services provide a useful 14,1% (see Figure 5) of revenue, but they are nevertheless supported by only three sources of net income - rates, trading services and subsidies. Interestingly, the mix of income changes considerably - rates are now the most important contributor to Council finances, providing 48% of net income of the profitable activities of the Council (providing only 12% of revenue), while trading services provide only 38% (against 71% of revenue in 1990). Subsidies too are of considerably more importance, being responsible for 14% of net income against the 4% of revenue. As regards the utilities and rates, while no figures are available, Council officials are of the opinion that the industrial sector (particularly MS&A) and the CBD provides the bulk of income.

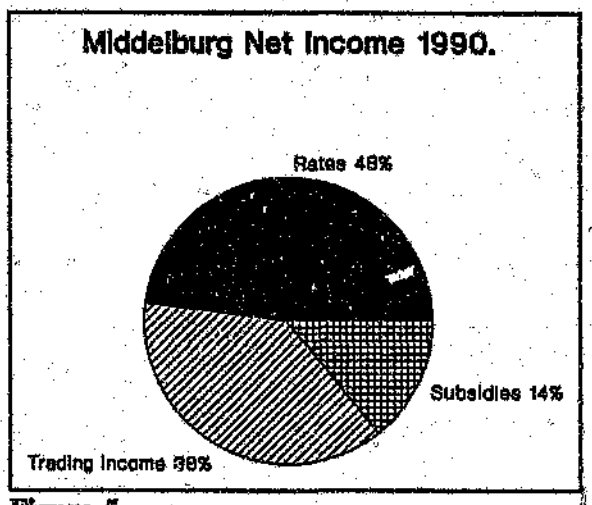


Figure 5

Table 7: Middelburg Net Income 1990[77].

	R '000	% of net income	R '000	% of net income
Rates			5567.2	48.0%
Non-Trading Services			-9875.7	
Trading Income			4372.9	37.7%
Refuse	-108.1	-0.9%		
Sewerage	320.9	2.8%		
Electricity	3072.5	26.5%		
Water	1087.7	9.4%		
Other			0.0	
Subsidies			1654.3	14.3%
Total			**1718.8**	

In the area of capital expenditure Middelburg is overwhelmingly dependant on external sources of finance. In 1990 some 26% (1989 28%) of capital borrowed was from internal sources, and the balance from external.

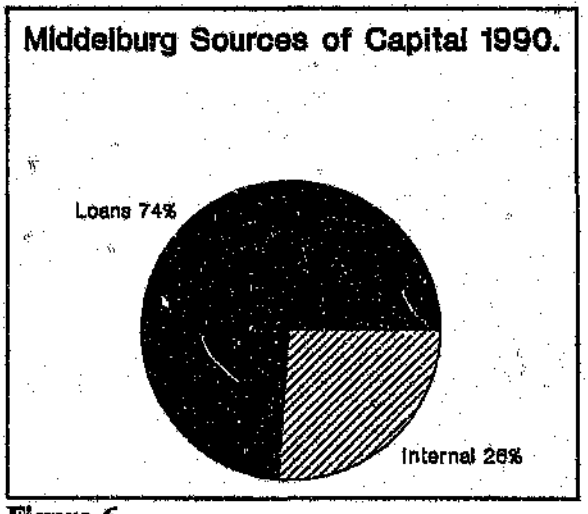


Figure 6

The internal capital came in large part from the Land Trust Fund and the Township Suspense Account (with outstanding balances of R1,5m and R5,5m respectively), which are in turn financed by the development and sale of land

[77] Middelburg Financial Statements, 1990.

owned by the Council[78], and accumulated provisions and reserves (R4,1m balance), financed over the years by the Council itself. Other accounts such as the Community Facilities Fund and the Community Development Fund made minor contributions.

As shown in Table 8 the majority of the external capital came from loans in the form of stocks, with a small amount from annuities. The funds from stocks are placed in the Consolidated Loans Fund, and not tied to particular projects which the Council is undertaking. These stocks are placed with pension funds and assurance companies, for periods ranging from a year to 25 years, the period depending on the interest payable, at rates which are approximately 0.25% higher than that payable on bell-weather Escom stocks. The Council estimates it can currently obtain capital at 17%. In other words, the authority has good financial standing, and has access to capital markets at reasonable cost in relation to the general cost of capital.

Table 8: Middelburg External Obligations.

		1989 R '000	Change R '000	1990 R '000
Loans		31133.6	4789.0	35922.7
	Stocks	29541.0	5000.0	34541.0
	Annuities	1592.6	-211.0	1381.6
Internal		11849.2	832.2	12681.4

[78] Middelburg Council is the major developer in the town. The council maintains a works department which develops land, putting in utilities and roads, before selling the land off at a cost which ranges from R10 to R25 per square meter. Land which is undeveloped (a considerable amount since the council owns over 16 00Cha.) is afforested or leased to neighbouring farmers.

A more comprehensive picture of the financial standing of the town is to be seen in table 9 below. Of the R116m[79] invested in the facilities of the town (at historical costs), R48m is financed by loans from external sources or from internal funds, with R33m having been financed by loans which have subsequently been repaid. Other items form a lesser but not inconsiderable contribution to the financing and financial position of the town.

Table 9: Middelburg Abridged Balance Sheet

	1989 R '000	1990 R '000
Loans Outstanding	44615.2	48366.6
Loans Redeemed	25654.9	33231.5
Capital Development Fund	3626.3	4712.1
Trust Funds	26453.0	30045.2
Provisions and Reserves	4317.4	4142.6
Unappropriated Surplus	5273.9	6457.1
Other	8070.7	11284.9
	118011.5	138240.1
Capital Outlay	97820.9	116166.7
Investments	3443.2	4548.3
Cash	2.2	2.1
Creditors	13977.2	14333.6
Other	2768.0	3189.4
	118011.5	138240.1

To summarise the financial position of Middelburg, the Council is clearly in a healthy financial position, being self-financing to a considerable extent, able to secure capital at costs which are reasonable in relation to the wider cost of

[79] The figure is understated, since R5m of short-term assets are financed off the balance sheet by leasing.

capital, and possessing considerable accumulated reserves and assets in the form of land that will enable it to finance itself in the future. State subsidies, while being a valuable source of income, are not essential to the operations or viability of the Council. The problem, obviously, is that the accounts exclude Mhluzi, and in so doing exclude the overwhelming majority of the town's population, and those most in need of the Council's development efforts.

4.5 State Influence and Control.

Besides those forms of control mentioned under functions of the Council, state control and influence over the activities of the Council exists in several areas.

* By-laws of the Council have to be approved by the administrator.
* Centrally, the forms of revenue collection that the local authority may engage in is limited by statute, essentially to rates and fees for services rendered. As the Council retails utilities bought in bulk, it may charge a surplus on the cost and use the proceeds for Council funds.
* The Council obtains a fair proportion of its capital expenditure from the land held in the Land Trust Fund, transactions in which need the permission of the administrator of the Transvaal. The Administrator's permission is also needed for the raising of capital on the markets.
* The Council is required to maintain a Capital Development Fund, and a Consolidated Loans Fund, and is required to devote 1% of its recurrent income to the former.

* The Department of Finance provides a 13% limit on the annual increase in Council income and expenditure, although the limit is variable in practice. Middelburg has had no problem in increasing both income and expenditure by 20% in each of the last two years.
* State bodies subsidise Council services[80], with firefighting equipment subsidised by 45%, ambulances in full, health expenditure to the extent of a third of total costs, and infectious diseases seven eighths. Anachronistically, a subsidy of R12 008 is received for roads, although the cost of sealing roads approaches R250 000 per kilometre and Middelburg has 40km of roads under its control.
* Various state departments are empowered to order the Council to perform functions.

The Council reports cordial relations with the state and the bodies that exercise influence over local government, no doubt due in no small measure to the prominence of the recently retired Town Clerk, Pieter Colin, a former President of the Institute of Town Clerks, and present Director of the Gazankulu Development Corporation, Administrator of Mhluzi and Marketing Director of the Council. In discussing state structures which exercise influence over Middelburg he talks with an obvious air of personal experience of and

[80] Figures extracted from the annual financial statements have been adjusted to take into account inconsistencies in the treatment of items. For example, included amongst the record of government subsidies is an amount of R383 000 which is the rates paid by the government on land owned in Middelburg. This amount has been deducted from subsidies and added to the income from rates.

ease and familiarity with central and provincial officials responsible for local government.

The keys area of state control of Middelburg, then, is control of the forms of revenue collection that the Council may engage in, control of transactions in capital assets and liabilities, and approval of by-laws that the Council passes.

4.6 Possibilities for the Future.

4.6.1 The Official's View.

Councils officials express great fear for the future. While a key determinant of their actions is their obligation to "obey the law", they see the future of Middelburg as a separated one, one in which the Council will remain concerned with the "white" town, while providing expertise for the other areas. A great concern, and something to be avoided, is the impact of "third world" standards on the town. Essentially their objective, stated explicitly, is the retention of separate administrations for the spatial entities that are Middelburg and Mhluzi, while conceding that there might be a "greying" of Middelburg itself by wealthier township residents (this is qualified by noting the probable hostile response of present residents. Council officials do not expect many people to move from the township to "white" Middelburg).

4.6.1.1 The Development Path

In development the Council sees its main task as the provision of infrastructure that will allow for development - the provision of adequate schools (the Council has started a fund to provide the capacity for the development and maintenance of schools in the event of the central and provincial states not having sufficient funds), utilities and other services.

The development mode being pursued is one that is predicated on the expansion and attraction of large-scale industry - Council officials see no need to address the question of the relationship of the town to surrounding areas, or to question the relationship between the town and its inhabitants, perhaps because the development path of the town has the status of 'common-sense' - Council officials are drawn into the central state's conceptions of economic development and the policies through which such development can be attained.

Middelburg has several factors which promote the development of industry in the town. Amongst them are:

* the location in relation to the PWV,
* the presence of industry in the town and the possibility of economies of agglomeration for companies complementary to the main industries,
* the location on main transport routes,
* the presence of skilled people and

* the presence of a vast pool of unemployed, relatively unskilled labour.

Nevertheless, as noted from table 1, (p74) the town does not have a history of rapid industrial growth, with the last major expansion dating from the establishment of MS&A in the mid-1960s. In the period since growth has depended on the expansion of the electricity sector and other economic activity with high leakage from the area, with minimal employment effect for labour beyond those with high skill levels.

For officials then, development is difficult to separate from economic growth, and is geared to the development of large scale industry with the benefits of such development dispersed through a process of employment creation and trickle-down of wealth. Crucially, the feasibility of such a process is not questioned. Nor does the Council question precisely who will benefit from such a process.

It seems likely, however, that such a development path is a recipe for the retention of the status quo, in terms of the distribution of wealth and opportunity, ie a situation in which the "White" citizens, large business and those working for large companies or in skilled positions in the state (nurses and policemen) will benefit while others (probably the majority) will receive minimal assistance or benefit from programmes geared to meeting their needs.

The role the Council plays and intends to play in Middelburg accords with that prescribed by the neo-classical role of local government, discussed in Chapter 2. The role of the Council is simply centred around the provision of goods that the market will not produce in the desired amount due to the presence of economies external to private decision making. The goods are nevertheless needed. The role of the Council, then, is to intervene in the market to provide these goods and services, as the Council has thus far been doing.

In the case of Middelburg this means the provision of services and infrastructure to the wealthier residents and the industrial and business districts, with the relatively deprived communities of Mhluzi, Eastdene and Naseret excluded from the bulk of resource use, and, in the racially separated South African context, institutionally separate. As such it is subject to the same criticisms as the neo-classical theory which informs it.

The discipline to which the Council is subject, the prospect of the rate-paying citizens of the town moving to other areas if they are dissatisfied with the services of the Council, reveals that the neo-classical tradition is predicated on the ownership of property. The Council, with its conscious preoccupation with the rights of property owners and the economy, takes no account of the circumstances in which many people find themselves struggling.

The theory does point to where social power lies in the town, and why, but does not offer hope for the development of the town as anything other than a

town geared toward the interests of those propertied, both those who live in the town and those active in the town but centred elsewhere. Neo-classical theory outlines a future that is elite-based and fundamentally undemocratic.

To summarise thus far, the Council's development path indicates a local government development role that is alienated from the locality and its particular dynamics, rooted rather in the national political economy and serving those who are full participants in, and beneficiaries of, that political economy. Those peripheral to that economy will pick up the crumbs that trickle down in employment effects.

4.6.1.2 Financial Concerns

Financially, a concern of officials is the need for new sources of finance, the key requirements (as put forward by the assistant-treasurer) being a form of finance in which everybody is taxed. The present sources of finance are not considered to be sufficient for the future - officials point to a rate-payer revolt as the key constraint. One possibility mentioned is greater access to RSC finances, or access to an indirect tax such as VAT. Underlying their concern for new sources of finance is the need to provide services for those presently without, and reluctance or inability to bear the costs of such services. Officials point to the +-35 000 squatters present in the town and the Council's inability to finance the cost of services for those people. Their concern, while rooted in

the self-interest of those from whom the Council draws its revenue, appears valid.

4.6.2 An Alternative View

4.6.2.1 Development Path.

This paper has put forward the view (see Chapter 2) that local government is a set of institutions that reflect a wide variety of social forces that exist in the local sphere. These forces reflect a wide range of social groups, international, national and local in dimension, including those peripheralised in the wider society. A Council acts as both an intermediary body, reflecting the outlooks and priorities of the social interests present, and a representative body, drawing a mandate from and reflecting the views of the local population on whom it is based. Often the two roles of a Council may be in conflict, and even contradictory, when the demands of a Council's constituents conflict with those of the larger social forces reflecting national and even international demands and desires.

If this paradigm is applied to Middelburg, it clearly falls short. Middelburg does not reflect the aspirations of the majority of the population. It is not a representative body, being racially segregated. In a real sense, Middelburg has functioned as a transmission belt, reflecting the interests of that section of the town drawn into and benefitting from the national economy. Its intermediary

functions have been dominant, and Middelburg has been dominated by a particular concept of nation (the "white nation") and economy.

Yet, viewed another way, the theory has some validity. The very fact that the town has endured such turmoil over the last few years points to its shortcomings as a representative body, and the antagonism between the interests of those excluded from the town and the interests of dominant social forces. The population of Middelburg has not been well served by those enterprises that have established themselves in the town, by the development of the electricity, finance and large manufacturing sectors, and the neglect of the agricultural, small industrial and construction sectors. They have not been well served by the deliberate stifling and channelling of economic activity, by the Council amongst others. In other words, the Council has not responded to the local conditions pertaining in the town, but has responded to the conditions pertaining for a section of the population and the national forces.

The Council, it is suggested above, has had and continues to have a rather orthodox view of its role. It is suggested that it is trapped in a neo-classical view of the role of the Council, and continues to have such a view, in that it is marginalising the majority of the inhabitants from the future development of the town. Such a path is rejected in the section above.

The rejection is, seen another way, a rejection of a development path that is centred around the functions of the Council. The Council sees its role as

providing services neglected by the market to its present constituents. In doing this it, firstly, does not remove itself from its unrepresentative foundation, and, secondly, precludes the question of whether Middelburg is being, and can in the future be shaped by social bargaining. In the past of an apartheid dominated country with the majority of the population subjugated by co-option and coercion, perhaps such a view held some validity at points. Certainly this is not true of the present, and is hopefully not true of the future.

Thirdly, and perhaps most importantly, the Council negates the fact that the role and functions of local government varies very greatly between different parts of the world while sharing certain common features[81]. To define the role of local government simply by its functions detracts from its nature as an institution that is flexible in the extreme, that can respond to the particular level of development and economic conditions that is evidenced in its jurisdiction, while being shaped by local actors, including those marginalised in wider society.

An alternative mode of development may be related to local conditions. Earlier in this Chapter reference was made to the extensive migration to the town, the problem of an agriculture dominated by large scale farmers, the unemployment present in the town, and the lack of services. Problems such as these naturally go along with a problem of the effects of institutionalised racism and gender

[81] See Section 3.2.

discrimination. It is towards the resolution of problems such as these that the development efforts of the Council should be focused.

As has been noted (see the discussion starting on p45 for more detail) international experience indicates[82] that the development of smaller towns is enhanced with policies that will encourage the development of linkages within and between the smaller town and its hinterland. Further, while industry, especially that based on agricultural processing, can form a valuable contribution to the economic development of such a town, agriculture itself has a crucial role to play, especially in the context of land reform programmes in the rural hinterland. The adoption of such programmes lead to a fundamental restructuring of the functions that the town performs, potentially to the benefit of the mass of inhabitants. This raises the ways in which the policies of the Council act as a key influence on such restructuring. As noted in Ganapathy's review[83] of the functions of smaller towns, the local Council can promote the development of the town by prompting development as a market centre that will service hinterlands and other towns in the area, promote small industry

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[82] Ganapathy, RS,: "Spatial development, small towns and public policy: the Indian experience", op cit; Hardoy, J and Satterthwaite, D: "A survey of empirical material on the factors affecting the development of small and intermediate urban centres", op cit; Rondinnelli, D: "Small towns in developing countries: Potential centres of growth, transformation and integration", op cit.

[83] Ganapathy, RS,: "Spatial development, small towns and public policy: the Indian experience", op cit.

that will provide locally useful products, agro-processing, and small enterprise. For Middelburg consideration of such policies is noticeably absent.

4.6.2.2 Institutional Capacity and Constraints.

International experience discussed in Chapter 3 indicates[84] that a key problem standing in the way of local government functioning as development institutions is capacity. Councils are short of staff of sufficient skill, lack finance and do not have the means and authority to raise additional finance.

The Middelburg Council indeed has considerable institutional capacity. It is well equipped with staff, containing a range of planning, engineering and financial skills. Council officials agree they are well equipped to utilise their skills beyond the "white" town.

4.6.2.3 Financial Constraints

The key shortcoming, however, is financial. Several questions emerge and remain unanswered - what will be the sources of recurrent revenue for the Council?, what will be the sources of capital for development efforts, whether

[84] See Chapter 3.

in the arena of equipping the town's community with services or developing the town's economy more generally.

An immediate point that emerges is that the town's practices of capital procurement are fairly staid. Bonds of a standard nature are issued, with term dependant largely on cost. This can be juxtaposed to practices in America, where a large variety of bonds are issued, tailored to meeting the needs of Councils. It is now common cause that the South African capital markets are limited by the state and the reluctance of lenders to invest in areas other than established companies. With the opening up of capital markets one may expect the availability of financing to increase, and the forms of finance to diversify as a more complex array of risk/reward profiles become attractive.

The municipal financing options below[85], which serve to illustrate the range of instruments potentially available to local government, can also be complemented by various call and put options, whereby the local authority can repurchase the bond and the investor can sell the debt back to the authority. This helps to create a market for the debt and lowers interest charges. Small local authorities frequently band together to form a financing authority to gain

[85] Hamilton, R: "The world turned upside down: The contemporary revolution in state and local government financing". In: Carr, J ed. Crisis and constraint in municipal financing. Rutgers: The Centre for Urban Policy Research, 1984, pp202-219.

access to markets which require size in order for an issue to be liquid. This further reduces financing costs.

Instrument	Features	Gains for Investor	Gains for Council
Zero Coupon Bonds	Pay no interest but sell far below par.	Tax free capital gains	No interest payments, but greater redemption payment.
Compound Interest Bonds	Sell at face value, interest compounded over the life of the bond and payed at redemption.	Tax free capital gain, return is known.	No interest payments, but greater redemption payments. Easier compliance with lending limits.
Stepped Coupon Bonds.	Serial bonds (redemption staggered over a number of years) with the bonds sold at par and interest rates "stepped up" for each year that the bond is in issue.	Protection of capital, interest increases over time compensating for inflation.	Lower interest costs.
Tender Option (Put) Bonds.	The bond-holder has the right to redeem the bond on specific dates before redemption.	Bond-holder has flexibility and higher interest rates than a short term bond.	Lower interest costs (1% less than similar maturity bonds). Greater interest costs than short term bonds if the put option is exercised.
Super Sinker Bonds.	Issuing agency is required to use surplus funds to redeem bonds early at face value. Bonds are redeemed by lottery. Typically used when the bond proceeds are being used to finance mortgages. If the mortgages are redeemed early the funds are used to redeem the associated bonds.	Secured bond. Higher interest rates for a bond of long maturity.	Lower interest rates (3/4% less than bonds of similar maturity). Redemptions tied to income generating assets.
Floating Rate Bonds	Interest rates are tied to rates in the economy.	Less chance of erosion of principal.	Lower interest rates (Up to 3% less). Uncertain interest payments.

Detachable Warrant Bonds.	Bondholders have the right to buy further bonds in a specified period.	Opportunity to buy bonds at a cheaper rate if interest rates fall.	Lower interest payments (1/-2%). Savings or losses depending on the trend in interest rates.
Tax Exempt Commercial Paper	Short term (maturity less than 270 days), unsecured promissory notes backed by a line of credit.	Tax exempt, short term investment	Lower interest costs (up to a third of the cost of conventional bonds), greater flexibility, access to a large pool of funds.
Tax Exempt Leveraged Lease Financing.	A public sector financing agency loans the receipts of a bond issue to a private sector consortium to buy a public facility. The facility is then leased back to the local government, which pays the consortium a lease fee. The lease secures the loan, which in turn secures the bond issue. Various forms of protection can be built in to ensure that control of the facility remains with the local authority. The sale price can be used for capital developments.	Tax exempt rental income.	Low financing costs (2% lower than conventional financing).
Tax Exempt Demand Master Notes.	Notes are sold to institutional investors who can demand repayment after a notice period. A line of credit backs the notes. Interest is floating.	Flexible, short term tax exempt investment.	Low interest (40% below prevailing rates).

The measures and instruments outlined above offer flexibility in meeting the capital requirements of local authorities. A greater matching of the financing requirements and instruments available can contribute substantially to a reduction in financing cost. The savings from such measures are magnified in situations of high interest rates due to the compounding effect.

The value of such measures is enhanced in the local context as in an unstable economic climate borrowers are reluctant to be trapped into long-term high interest charges, while lenders are similarly reluctant because of inflation, tax

changes and volatile interest rates. "Creative financing", a term that for some is pejorative, has resulted in various attempts to marry the needs of lenders and borrowers. These attempts are subject to constraints of political acceptability, technical ability to manage complex transactions, and the law.

In the South African context the key constraint to the search for innovative financing techniques would appear to be political acceptability. As Solomon points out[86] internal financing has few cost advantages over external financing, and is pursued by local governments due to ignorance and conservatism, political phenomena related to central government reluctance to see local authorities incur debt. His conclusion is that local governments forego development opportunities in favour of fiscal conservatism.

Additional recurrent finance is clearly needed. As already noted (p66) from international experience[87] it cannot be assumed that the service charge boycotts are capable of easy resolution, for community reluctance to pay local government taxes is a phenomena that occurs in many developing nations and is rooted in perceptions that local government services are a good that should be available according to need, and upon which poorer communities should not

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[86] Solomon, D: The economic and financial policies of local governments in South Africa. Unpublished MA dissertation, UCT, 1983, pp128-130.

[87] Cochrane, G: Policies for strengthening Local government in developing countries. World Bank Staff Working Papers, No. 582. Washington: World Bank, 1983; Mawhood, P: "Decentralisation, the concept and the practice". In Mawhood, P, ed. Local Government in the third world. Chichester: John Wiley, 1983a.

have to spend income. Nevertheless, South Africa's financing capacity is substantially higher than many other countries in the developing world. Substantial scope to increase revenue exists, in the form of increased service charges, rates, access to other forms of finance and access to revenue of other levels of government.

To illustrate, there seems no obvious reason why Middelburg's 5,7% markup on electricity sales cannot be increased substantially. As already noted electricity provides 50% of Middelburg's revenue, and 27% of net income (p88). A 22,8% mark-up would increase the unit cost of electricity to 11c, an increase of 14% in the final cost of electricity, and increase the Council revenue by approximately 150% and income by 75%[88].

Rates in Middelburg are presently set at 6,36c per rand of unimproved value. The Council has the capacity to increase the rate, and again there seems to be no clear reason why this cannot be done.

Government revenue at other levels could also be an important source of new finance. South Africa is not exempt from the tendency, noted above (p66), for higher levels of government to retain taxes that are administratively and politically easy to collect. In the South African context local government has

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[88] Calculated with figures from the Middelburg Financial Statements, 1989, p34.

no share of taxes which use business enterprises as collection agencies, for example, and have no power to impose such taxes.

4.7 Conclusion.

It is apparent that the town of Middelburg is dependant on the "white" town, industrial and commercial districts for the revenue with which to provide services. In particular, it is dependant on rates, service charges, and to a lesser extent, subsidies, for revenue. For capital expenditure it is dependant on the capital markets. In general the finances of the town, as it is presently constituted (ie as the "white" town) are in a healthy state. The town also enjoys good relations with the state, despite a range of restrictions on its activity which limit the development effort of which it is capable.

The town is economically dependant on the electricity and mining sectors for its welfare. These sectors, the control of which lies outside the town and the region, are not likely to grow in the future. They also provide minimal employment, notwithstanding their contribution to GGP. The area is dependant on the agricultural and manufacturing sectors for employment creation. Middelburg is an important agricultural district in the region, and in some areas in the nation.

The Town Council is focusing on the expansion of the large-scale manufacturing sector for its future development. It is depending on its position

relative to the PWV to draw industry, and the existing presence of a few large factories. The Council sees its role as maintaining the development of infrastructure to facilitate such development. Council officials are wary of development paths that are orientated more towards the needs of majority of the community. Officials fear the effect of "third world" standards on the town.

Yet Middelburg has not shown substantial industrial growth since the mid-1960s, and the wisdom of the development path outlined can be questioned. It is clear that the development path outlined is likely to favour those presently skilled and part of the political process of the town.

The Council would appear to be limited by a remaining empathy with apartheid, and the restrictions of neo-classical thought which dictates a limited role for the Council, and a role that is elitist and undemocratic.

The scope for a greater local government role is available, however. If the local government were to dislocate itself from its present constituents and be representative, rooting itself in the locality and the problems of unemployment and population growth, a range of activities open up.

International evidence suggests that small town growth is promoted with policies that are focused on the region in which the town is situated, and sectors in which labour intensity is high. Agriculture and agro-processing, in

particular, make a great contribution to development, particularly in association with policies of land reform and redistribution. Such development is more egalitarian.

In the case of Middelburg the Council can play a valuable role in re-orientating the town to facilitate such development.

The Council has a valuable skill base which can be utilised for the development of the town. These include planning, engineering and financial skills. The Council is, however, constrained by inadequate revenue at present.

Substantial scope exists to increase revenue from the present sources of finance. Additional revenue sources are also necessary, but the Council is constrained by central state legislation which limits the forms of revenue collection it can engage in. It also does not have access to easily collected forms of revenue, which are under the control of the central state. While it can increase its revenue from its present sources, Middelburg needs additional sources of revenue, and revenue that is easily collected.

CHAPTER 5.

Conclusion.

Several views of the role of local government examined in this document indicate that local government is predominantly concerned with the provision of social services. The neo-classical tradition asserts that local government intervenes in the economy in order to adjust the allocation of resources for market failure. Alternatively, in a neo-weberian outlook, the local state intervenes in the process of consumption in order to cater to socially defined needs of the community. Cockburn's analysis is similar, for local government intervenes to ensure services necessary for social reproduction are available.

In such analysis local government is subordinate to the national government. For Duncan and Goodwin local government is conjunctural, the result of a wide variety of social forces, both national and local in nature. Local government fulfils both an interpretive role and a representative role. It interprets the demands of competing social forces, international, national, regional and local in nature, while also representing and drawing its legitimacy from its constituents. Local government, wh.) dominated by national government and national economic forces has the capacity to influence the locality. In doing this local government responds to the uneven forces of development which create unique conditions in each town in the country. Local government may simply ameliorate the effects of the larger political economy,

or it may be a pressure point for an economy based on the satisfaction of community need. This points to the potential role of local government in development.

All the interpretations of the role of local government accord great weight to the nation and the economy. Local government is subject to obsolescence and redefinition if not serving the functional needs of the economy and national centre. Contemporary local government remains under the influence of the economy and nation, at the expense of a base in the community. This points to the need for local government autonomy.

In the case of Middelburg the Council does not fulfil a representative role, but simply reflects the interests of those who are full participants in the national political economy - the companies that have invested in the town, the large farmers in adjacent areas, and the white residential areas. The Council is divorced from the interests of the majority of the residents, a point reflected in the tensions and opposition that has permeated the town over the last few years, and the development path that the Council foresees for the town.

The Town Council is focusing on the expansion of the large-scale manufacturing sector for its future development. It is depending on its position relative to the PWV to draw industry, and the existing presence of a few large factories. The Council sees its role as maintaining the development of infrastructure to facilitate such development. Council officials are wary of

development paths that are orientated more towards the needs of majority of the community. Officials also fear the effect of "third world" standards on the town.

The Council would appear to be rooted in the neo-classical role of local government, in that it is concerned to provide those goods that the market will not provide in its routine working. In a context where the Council simply has to look to its property owning constituents for support, this inevitably results in services geared to the needs of wealthier residents, and corporate activities.

Yet Middelburg has not shown substantial industrial growth since the mid-1960s, and the wisdom of the development path outlined can be questioned. It is clear that the development path outlined is likely to favour those presently skilled and central to the political process of the town.

The Council's development path, based as it is in the interests of a section of the town's population, offers little to those excluded thus far from the town and its services, facilities and economic activity. It is not a development path based in the locality and its needs, derived from a process of social bargaining. As such it is illegitimate. Notwithstanding the Council's reluctance to engage in a development path that will serve the majority of the town's population, certain suggestions are made.

International evidence suggests that small town growth is promoted with policies that are focused on the region in which the town is situated, and

sectors in which labour intensity is high. Agriculture and agro-processing, in particular, can make a great contribution to development, particularly in association with policies of land reform and redistribution. Such development is also more egalitarian.

In the case of Middelburg the town has a range of factors which support such a development path. The Council can play a valuable role in re-orientating the town to facilitate such development. The Council has a skill base which can be utilised for the development of the town, including planning, engineering and financial skills. The Council is, however, constrained by inadequate revenue at present.

Development, then, should be based in the locality aimed at generating economic activity, services and facilities accessible to and affordable by all in the town.

Such a development path, focused on economic activity based on agriculture and agro-processing, construction and trade, offers greater opportunities for the provision of incomes than that proposed by the Council. Yet it is not necessarily exclusive of that proposed by the Council - in a market driven economy economic development has a momentum which is not under the control, or at points under the influence of the Council. The example of electricity comes to mind - whether or not the Council or other local authorities in the area approved, the power stations were likely to have been

built, as they are driven by a national need for electricity. The coal is in the area, and transporting the coal to the power stations would clearly not be economical. The national economy, and national priorities, imposed themselves on the town and its Council. While certain development projects and priorities, then, are not subject to the control of local forces, the local nevertheless has a considerable role to play and influence in development. It is this that the Council, by virtue of its unrepresentative nature, and orientation to particular actors in the town and sectors of the population, has ignored. The argument, then, is for a more locally-based, and community-based development.

In such development the Council has a three-fold function. Firstly, the provision of urban services that are accessible and affordable. Secondly, a broader role initiating and facilitating development projects that will benefit the residents and re-orientate the town to its population. Thirdly, the Council can function as an affirmative action agency, addressing racial and gender discrimination in particular, both in its own ranks and in the wider town.

Such a development role is, of course, subject to institutional capacity being in place. In the international sphere local governments are constrained in developing the local economy by a range of problems, key amongst which is a lack of institutional capacity, which takes the form of a lack of skilled staff and a lack of financial resources.

Middelburg has the extensive skills within the Council. These skills include engineering, planning and financial skills. The Council does, however, suffer from a lack of finance with which to play more of a role.

Internationally, revenue sources available to local government are often limited by a range of factors, amongst them the tendency of central government to retain taxes which are politically and administratively easily collected for its own use, a lack of resources available for tax collection, especially skilled personnel, administrative systems that are unable to collect taxes, community resistance to the payment of local government charges, and a political process that promotes 'tax-bashing'.

Local governments need, by and large, further sources of revenue, the ability to vary the level of revenue, and flexibility to spend revenue.

SA local government is not as unique as might be thought. It is apparent that the town of Middelburg is dependant on the "white" town, industrial and commercial districts for the revenue with which to provide services. In particular, it is dependant on rates, service charges, and, to a lesser extent, subsidies, for revenue, For capital expenditure it is dependant on the capital markets. In general the finances of the town, as it is presently constituted (ie as the "white" town) are in a healthy state. The town also enjoys good relations with the state, notwithstanding a range of restrictions on its activity which limit its development effort.

Substantial scope exists to increase revenue from the present sources of finance. Additional revenue sources are also necessary, but the Council is constrained by central state legislation which limits the form of revenue collection it can engage in. It also does not have easy access to easily collected forms of revenue, which are under the control of the central state.

Implicit in the argument above is the assertion that local government should be autonomous and independent to the maximum degree possible. Such autonomy is, at the one level, a prerequisite for effective local government that is rooted in the locality and responsive to the locality. At another level it secures local government to a degree from the demands of nation and economy.

In the Anglo-American tradition of prevalent in SA local government originated specifically to provide services to emerging industrial and commercial enterprises. Over time it came, also, to be an instrument of national government. Local government has never escaped its subordination to industry and commerce, and its subordination to the national centre. In Middelburg it is argued that local government is influenced by the demands of industry and commerce to the neglect of a role that is of benefit to the mass of the population of the town. So, too, has local government been influenced by the nation. In the SA context, the notion of the nation being white has run deep. It retains a hold over Council officials in the present period.

But the influence of these concepts is not one of the past necessarily. The experience of Africa is that "nation-building" has led to the undermining and even demise of local government in many countries. The dictates of economic development in the context of a shortage of capital has led to the centralisation of resources in the name of efficiency, and sad consequences for local government. Both of these outcomes reflect the fact that the interests expressed in local government are frequently at odds with the interests hegemonic in the larger economy and the central state.

South Africa is certainly confronted with the need for national reconciliation and nation-building, and the need for economic development. It cannot be assumed that South Africa will avoid the fate of local government in many African nations. Autonomous, locally-based and accountable local government pursuing community-based development will, however, help to avoid it. To help foster such institutions is a task of development planners.

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