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ARTICLES

FEMALE ECONOMIC ACTIVITY IN RURAL MALAWI

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ABSTRACT

This study investigates economic activities and their determinants for women in households of rural Malawi, one of the poorest countries in Sub-Saharan Africa (SSA). Three waves of household panel data for years 2006, 2008 and 2010 from the Malawi Longitudinal Study of Families and Health (MLSFH) are used to examine female labour market participation. This study includes relevant characteristics of Malawian households i.e., polygamy, ethnicity, religion and self-reported health status. The study reports five different labour market outcomes for women's participation i.e., agriculture related work, market & sales activities, cottage industry, other economic activities out of the labour market. The study finds significant relationships between these five different labour market outcomes and age cohorts, ethnicity and marital status (monogamous or polygamous).

Keywords: Gender; Labour Force Participation; Sub-Saharan Africa; Area Studies; Multinomial Logit for Panel Data; Poorest Society.

INTRODUCTION

Malawi is a landlocked country situated along the east-African ridge between 9°30' and 17°00' southern latitude. Its climate, vegetation and soils are that of a country belonging to the semi-humid tropics in the transition from humid to dry savannah. Malawi is in a fragile state both in terms of physical and human capital and is a relatively poor country, even by African standards. Malawi is one of the poorest of the least developed countries in the world, ranking 153 out of 169 countries on the Human Development Report (2010), which is below the regional average, and its GDP per capita was $902 in 2008 (US$ purchasing power parity) compared to an average of $3 845 for Sub-Saharan Africa (UNDP, 2010). Life expectancy at birth is 53 years. Malawi is facing a serious human capacity problem with its labour market characterised by a large number of unskilled workers with low productivity. The percentage of each birth cohort that advances to the last grade of primary school is only 35% for girls and 37% for boys (World Bank, 2006). Agriculture is the single most important sector of the economy as it employs about 80% of the workforce. However, agriculture in Malawi is characterised by low productivity due to over dependence on rain-fed and traditional farming. Malawi also has experienced several catastrophic droughts in recent decades and continues to suffer from chronic food insecurity with many of the problems being structural and economic in nature (IDA, 2006). Africa is known for high rates of female labour force participation. Within Sub-Saharan Africa, Burundi, Madagascar, Malawi, Mozambique and Tanzania have particularly high rates (over 80%) of women's labour force participation (Heintz & Valodia, 2008). In Africa, as well as in South and West Asia, more than 75% of women employed are engaged in agriculture. Over the past decade in particular, much has been written on the increasing feminisation of labour forces all around the world (Roberts, 2003 for US; Sasaki, 2002 for Japan; Lee, Jang & Sarkar, 2008 for Korea; Contreras & Plaza, 2010 for Chile; Maglad, 1998 for Sudan; Hyder & Behrman, 2012 for Pakistan).

The aim of this paper is to examine the age-specific participation of women in economic activities in three different regions of rural Malawi i.e., Rumphi (south), Mchinji (central) and

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Balaka (south). The study contributes to earlier literature in several ways; **firstly,** the study presents basic yet detailed statistics for women's participation in different economic activities in rural areas of Malawi, which is one of the poorest societies not only in the world but also within Sub-Saharan Africa. **Secondly,** determinants are provided of women's economic participation for a further five brief categories of work i.e., agriculture (Agricultural worker incl. animal care, own field, agricultural wage-labour, for cash or in kind and Fishing), market (salaried employment, marketing work/sales), cottage (Zaluso handicraft production e.g basket/mat weaving), (Alcohol production and Carpentry) and other activities including domestic work for profit purposes. **Thirdly,** study also incorporates some independent variables which are particularly characterised according to Malawian culture e.g., ethnicity, religions and marital status (includes both polygamous and monogamous marriages).

Data

Data used in this analysis is from the Malawi Longitudinal Study of Families and Health (MLSFH; formerly, Malawi Diffusion and Ideational Change Project, MDICP), a longitudinal panel with survey waves in 1998, 2001, 2004, 2006, 2008 and 2010 that is currently focused on studying the mechanisms that individuals, families, households, and communities develop and use in a poor rural setting to cope with the impacts of high morbidity and mortality in their immediate living environment. The main data source used is the Malawi Longitudinal Study of Families and Health (MLSFH; formerly known as the Malawi Diffusion and Ideational Change Project)[3] is jointly collected by the University of Pennsylvania and the University of Malawi, College of Medicine and Chancellor College.

Female labour participation has been studied in many developed and developing countries of the world from the perspective of human capital theory (for a review of international literature on female labour force participation, see Mark R. Killingsworth and James J. Heckman [1986]). In the present study some other variables are used that may play an important role in labour market participation decisions i.e., ethnicity, religion and polygamy, particularly in the context of rural Malawi. Panel data is used of women aged 20-60 years for the years 2006, 2008 and 2010. In addition to age and region of residence control is used or school attainment, marital status and number of living children those are less than 10 years of age. Definitions and summary statistics of all variables are given in Tables 1 and 2 respectively below. The key question regarding participation rates that is asked in the survey is, *'What is (NAME) main occupation'?*

Female Labour Force Participation Rates in Rural Malawi

Malawi has an agriculture-based economy, highly dependent on rain-fed agriculture and a small range of products[4]. Malawi's rural workforce is mostly employed as mlimi (subsistence/family farmers) and this is also true for rural women. Unlike commercial farmers, sub-sistence smallholders generally have inadequate land for subsistence and thus rely on wage labour to supplement their incomes (Lele, 1990).

Table 3 below presents female participation rates by age cohorts. Major features of these participation rates include (1) overall high female participation rates[5], (2) overall participation increases

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[3]Detailed information on the project is available at [http://www.malawi.pop.upenn.edu]

[4]Main agricultural products are potatoes, maize, cassava and tobacco (FAOSTAT).

[5]Almost 87% percent of total employed work force is employed in informal sector and women's share in formal sector is even much smaller than that (Van Klaveren, Tijdens, Ramos Martin & Hughie-Williams, 2009).

at decreasing rate with age; however in ‘market category’ which includes salaried employment, marketing work/sales participation rate decreases with respect to age, (3) secular increases in participation rates over time, and (4) concentration in agriculture increases with age.

The concentration in agriculture is not surprising given that this sector employs 80% of the overall labour force and contributes the same proportion to foreign exchange earnings and that women constitute 80% of the agricultural labour force. This sector has contributed half of the growth in GDP in the last few years (UN, 2010). For age groups 20-29 and 30-39 years, the *‘Market’* category of employment comes after *‘Agriculture’* for female participation. The *‘Market’* category includes salaried employment, marketing and sales of products that require interaction with customers/ public for bargaining or trading, which is probably the reason that this is the second most popular category of age group 20-39. Participation in the *‘Cottage’* industry that includes handicraft and alcohol production and carpentry does not show any age-specific patterns but secular trends show that over time participation rates in such occupations are increasing. However, there is a significant decreasing trend in participation rates within the ‘others’ category of work.

The patterns for both married and single women indicate high participation rates, inverted U-shape participation rates, secular upward trends and concentration in agriculture. But participation rates in *‘Agriculture’* tend to be higher for married than for unmarried women. The married-specific participation rates also are differentiated between *‘Market’* and *‘Cottage’* categories; after agriculture, married women are more concentrated in the *‘Cottage’* category and single women’s participation is higher in the *‘Market’* category. The age specific participation rates for the *‘Market’* category show a declining trend over a life-cycle period; on the other hand the participation rates are very ambiguous in the *‘Cottage’* category with respect to age cohorts. The *‘Cottage’* category of occupations is usually based on homemade products or mostly does not require females to leave their homes. Thus married women often can easily combine participating in this activity along with their household chores.

METHODOLOGY

This study adopts standard methods to study the determinants of women’s labour force participation for five different labour market outcomes and based on the discrete response nature of dependent variable it employs the multinomial logit model, as there are three waves of observations i.e., 2006, 2008 and 2010. If *Yit* denotes the *th* observation for individual *i, t = 1,...,T.*

If there are *J* possible responses then

Pr(Yit = *j* | X_{it}) , *j = 1,...,J,* is the probability that individual *i* has response *j* at time *t* given *Xit,* a column vector of explanatory variables for that observation.

The Panel multinomial logit model is (PMLM) expressed below in equation (1):

$$\pi_{itj} = \Pr(Y_{it} = j \mid X_{it}) = \frac{e^{x_{it}\beta_j}}{\sum_{k=1}^{j} e^{X_{it}\beta_k}} \tag{1}$$

The panel multinomial logit model (PMLM) pairs each response category with a baseline category. In this analysis there are five responses (j-1….5):

= 1, if woman is working in ‘agriculture’

= 2, if woman is in 'market' category
= 3, if woman is in 'cottage' category
= 4, if she is involved in other working categories
= 0, if out of labour force (reference category)

The *X* vector includes age cohorts, marital status, if women are living in polygamous marriages, number of live children, schooling, region, ethnicity, religion and health status. Age includes the four age categories described in Table 1; marital status is a categorical variable with two categories i.e., married and single; education is a categorical variable for being illiterate, have primary or secondary schooling; number of live children (less than 10 years of age) is a continuous variable; region is a categorical variable for the central, south and north regions; ethnicity is a categorical variable for six ethnic groups, polygamy with two categories i.e., if living in polygamous marriage or otherwise and finally 'health status' is a self-reported variable with three categories including if health is better than other, if same and if worse than other members of the community or neighbourhood.

To fit a panel multinomial logit regression model with random effects to data using gllamm is quite complex process (Haynes, Western, Yu & Spallek, 2006). GLLAMM (Generalized Linear Latent and Mixed Models) manual provide the detailed illustration of the model. The default number of quadrature points in gllamm is eight and the same is used in our estimation. Even with this number of points the procedure is very slow for this data.

Estimates and Discussion

The panel multinomial logit estimates suggest increases in female labour force participation over the lifecycle, with significantly higher rates for ages 30-60 than for 20-29. While there is some suggestion of a decline after ages 30-39, the differences are not significant. There is a significant reduction in the *'Market'* category relative to *'Agriculture'*, however, for the 50-60 year old group of women. We are not able to identify whether this reflects less orientation towards the *'Market'* category because of cohort differences or because of life-cycle patterns.

Overall female participation rates are significantly less in the North than in the Central Region (but there is not a significant difference between the South and the Central Regions). There also are significantly higher participation rates in all of the non-agricultural sectors relative to agriculture (particularly in the *'Cottage'* category) in the North and in the *'Market'* category relative to agriculture in the South. The Northern Region has better education provision than the Central regions – a legacy of the colonial era (Kalipeni & Zulu, 1993) and thus with better education in northern areas women are involved in occupations other than agriculture. In our data 77 and 17% of all women in the northern region have primary and secondary education respectively. Women's educational status is worst in the southern region that is 56% women are illiterate and only 3% of women have secondary education.

Having primary school education significantly increases overall labour force participation and shifts the composition of such participation away from agriculture, particularly towards the *'Market'* category. Interestingly, having secondary schooling relative to illiteracy does not cause significant changes in overall labour force participation[6], but it does significantly increase the shares of *'Market'* and *'Other'* relative to *'Agriculture'* and *'Cottage'* occupations. Over time, the composition of female occupational activity has shifted significantly towards *'Market'* and perhaps

[6]All models of the secondary education in the 'Agriculture' category show insignificant but negative signs.

towards *'Cottage'* activities from *'Agriculture'* and more so from *'Other'* activities.

Marital status is highly significant in labour market participation decisions. Estimates suggest both monogamous or polygamous marriages increase the probability of participating in the economic activities in all the labour market activities relative to being out of the labour force. Results reinforce the earlier finding by (Spell, Anglewicz & Kohler, 2012) that there is a negative association between polygamous unions and education as well as wealth quintiles for both men and women; most of the uneducated Malawian women are concentrated in the agriculture sector, which does not require high skill levels. Results also suggest that having children increases the probability of joining the labour market. However, the child-square variable allows us to estimate the maximum number of children and after that the women's associations with labour market activities start decreasing. The child square's estimated coefficient that is negative in all models and also significant for few categories elucidates that the higher number of children reduces the probability of joining the labour market because children add to the overall hardship of the household and thus a mother has the opportunity to spend her time out of the labour market. The results suggest that having up to seven children women's economic association increases and after that it starts decreasing. Similar results are reported by Spell *et al* (2012) for the Malawian households that wealthier families have more living children, or that more living children contribute to family wealth because they are able to work and share the economic burden.

Malawi is ethnographically complex. The culturally hegemonic ethnic group, *Chewa*, *Yao* and *Lomwe* can be grouped as matrilineal and *Ngoni* and *Tumbuka* are usually patrilineal. However, the broad cultural divisions shouldn't be taken as uniformity among the different ethnic groups because there are large disparities within these cultural groups even for the operation of the kinship system (Segal, 1993). Our estimates suggest few significant associations with ethnic groups in overall labour force participation, but there are some significant differences with regard to the distribution of female participants among the occupational categories. As compared to Yao the rest of ethnic groups have negative signs (although insignificant) in the agriculture category, summary statistics show that in the southern region almost 72% of women in this sample belong to the *Yao* ethnic group and they rely on subsistence farming because of being close to Lake Malawi. Association with Lomwe decreases the probability of being in the cottage industry as compared to the base category. Chewa and Tumbuka have greater probabilities to be in other elementary economic activities as compared to the Yao ethnic group.

Traditional Protestants have less association with any work category of economic activities as compared to those who don't have any religion. Similarly in the other categories of work all the religious categories have significantly less association as compared to the reference category of religion.

CONCLUSION

Female economic activity is high as compared to other developing countries. Division of labour within rural areas means that women carry extraordinary work burdens. Opportunities for earning income from non-farming activities are usually constrained.

As a result of women suffering from wage discrimination in formal sector employment, particular pressures on employment in manufacturing may be worsening the situation.

Married monogamous women are more likely to be in economic activities as compared to their single counterparts, but single or polygamous women are more likely to be involved in the cottage industry i.e., handicraft production, carpentry or mat weaving occupations. Religious categories and self-reported health status remain insignificant in all labour market outcomes.

Table 1 Definition of variables

Variable		Definition
Type of work	*Agriculture*	Agricultural worker (incl. animal care), O\vn field, Agricultural wage-labour, for cash or in kind and Fishing
	Market	Salaried employment, Marketing work/ sales
	Cottage	Zaluso (handicraft production e.g basket/mat weaving), Alcohol production and Carpentry
	Others	Other cash activity, Domestic activities
	Out ofLF	Students, never worked or not seeking work are considerec as out of labour force
Age	*Age 1*	Age between 20-29 years
	Age 2	Age between 30-39 years
	Age 3	Age between 40-49 years
	Age 4	Age between 50-60 years
Region	*1*	Central-Michinji
	2	South-Balaka
	3	North-Rumphi
Ethnicity	*1*	Yao
	2	Chewa
	3	Lomwe
	4	Tumbuka
	5	Ngoni
	6	Sena, Tonga, Senga and other
Alive children		Number of Living Children
Marital Status	*Married*	Married
	Single	Widowed, Divorced or Never Married
Education	*Jlliterate*	llliterate
	Prima1y	Completed primary but less then secondary
	Secondwy	Completed secondary or higher
Polygamy		=**1** if living in polygamous marriage and 0 if monogamous mamage
Religion	*1*	No Religion
	2	Catholic
	3	Pentecostal
	4	African Independents
	5	Muslims
	6	Traditional Mission Protestant
	7	New Mission Protestant
	8	Others
Health	*1*	Better than other in neighborhood
	2	Same
	3	Worse than others

Table 2 Mean of the variables

Variables		2006	2008	2010
Work	*Agriculture*	.71	.69	.73
	Market	.05	.11	.12
	Cottage	.09	.12	.11
	Others	.13	.05	.02
	Out of LF	.02	.03	.02
Age	*Age 1*	.36	.34	.33
	Age2	.30	.28	.28
	Age 3	.23	.21	.22
	Age4	.11	.17	.17
Region	*Central*	.34	.34	.32
	South	.34	.35	.35
	North	.32	.31	.33
Ethnicity	*Yao*	.25	.26	.26
	Chewa	.30	.32	.29
	Lomwe	.04	.04	.04
	Tumbuka	.30	.29	.31
	Ngoni	.06	.05	.05
	Others	.05	.04	.05
Alive Children		4	4	4.3
Marital Status	*Married*	.88	.85	.79
	Single	.12	.15	.21
Polygamy	*Monogamous Marriage*	.66	.68	.57
	Polygamous Marriage	.34	.32	.43
Education	*No Schooling*	.32	.29	.25
	Primmy	.61	.63	.65
	Secondmy	.07	.08	.10
Religion	*No Religion*	.03	.03	.01
	Catholic	.17	.18	.17
	Pentecostal	.04	.04	.05
	African Independents	.18	.14	.15
	A1uslims	.23	.24	.26
	Traditional Mission Protestant	.17	.18	.19
	New Mission Protestant	.13	.12	.12
	Others	.05	.07	.05
Health	*Better*	.42	.44	.61
	Same	.26	.25	.33
	Worst	.32	.31	.06
		1160	1328	1619

ote: Percentages for dummy variables and mean for continuous variables.

Table 3 Female economic participation based on age cohorts (Percentages)

Type of work	Age 20 – 29			Age 30 – 39			Age 40 – 49			Age 50 – 60		
	2006	2008	2010	2006	2008	2010	2006	2008	2010	2006	2008	2010
Agriculture	64.7	63.2	65.6	72.3	68.8	77.3	75	72.8	77.7	73.4	76.4	78.0
Market	5.4	14.5	18.3	5.2	12.7	11.5	4.5	6.5	9.5	3.4	5.3	4.7
Cottage	8.6	12.3	11.6	7.6	10.4	9.4	9.3	13.9	11.1	8.5	13.7	15.0
Others	18.0	6.0	2.4	13.4	6.4	1.1	9.5	5.2	0.6	10.2	2.9	0.7
Out of LF	3.3	4.0	2.1	1.5	1.7	0.7	1.7	1.6	1.1	4.5	1.6	1.6

Table 4 Female economic participation based on age cohorts and marital status (Percentages)

Type of work	Age 20 – 29			Age 30 – 39			Age 40 – 49			Age 50 – 60		
	2006	2008	2010	2006	2008	2010	2006	2008	2010	2006	2008	2010
Married Women												
Agriculture	66.7	65.0	67.2	73.0	70.3	78.1	76.2	74.1	81.6	77.3	76.3	80.8
Market	4.9	13.6	16.5	4.9	12.2	11.4	3.6	6.1	8.6	2.8	4.5	3.2
Cottage	8.7	12.5	11.9	7.1	9.8	8.6	9.1	13.1	8.6	7.1	14.3	13.9
Others	17.3	6.5	2.1	13.7	5.9	1.1	10.1	5.5	0.6	8.5	3.1	0.5
Out of LF	2.4	2.4	2.3	1.3	1.8	0.8	1.0	1.2	0.6	4.3	1.8	1.6
Single Women												
Agriculture	62	49.3	59.0	66.6	58.1	73.7	67.4	64.9	63.2	58.33	76.54	72.09
Market	10	21.4	25.7	7.5	16.1	11.8	10.2	8.8	13.1	5.56	7.41	8.14
Cottage	10	10.7	10.4	11.1	14.5	13.2	10.2	19.3	21.1	13.89	12.35	17.44
Others	16	0	3.8	11.1	9.7	1.3	6.1	3.5	0	16.67	2.47	1.16
Out of LF	2.0	18.6	0.9	3.7	1.6	0	6.1	3.5	2.6	5.56	1.23	1.16

Table 5 Female economic participation based on age cohorts and polygamous marriage (%)

Type of work	Age 20 – 29			Age 30 – 39			Age 40 – 49			Age 50 – 60		
	2006	2008	2010	2006	2008	2010	2006	2008	2010	2006	2008	2010
If polygamous marriage												
Agriculture	67.9	58.0	68.1	72.9	66.1	72.9	75.2	75.5	77.9	78.0	74.5	76.9
Market	4.6	17.5	17.5	3.9	15.0	14.3	3.8	7.7	10.3	1.7	7.3	6.5
Cottage	8.4	14.3	9.6	8.5	11.7	11.2	7.8	11.6	10.9	10.1	15.5	14.8
Others	17.6	5.5	2.7	14.7	6.7	1.1	10.9	4.5	0	6.8	0.9	0.9
Out of LF	1.5	4.7	2.1	0	4.5	0.5	2.3	0.7	1.2	3.4	1.8	0.9
If living in monogamous marriage												
Agriculture	65.7	66.1	66.7	72.4	70.4	81.6	76.7	71.5	79.4	73.9	78.3	81.5
Market	6	13.5	16.8	4.4	11.8	8.5	4.0	5.4	8.8	3.6	4.2	2.9
Cottage	8.9	12.2	12.5	7.6	9.9	8.1	10.2	15.4	9.4	8.3	12.2	12.8
Others	16.6	6.0	2.2	13.8	6.1	0.8	8.0	5.9	1.2	9.5	4.2	0.7
Out of LF	2.8	2.2	1.9	1.8	1.8	0.8	1.2	1.8	1.2	4.7	1.1	2.1

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ADOPTION OF INTERNET BANKING AMONG THE EDUCATED CUSTOMERS: ROLE OF INTERNET USAGE

R. Shambare[1]

ABSTRACT

This study seeks to examine the role of Internet experience as a component of familiarity, and how this construct influences the adoption of Internet banking services among the highly educated consumers in South Africa. A survey, in which postgraduate MBA students participated, was conducted. Descriptive analysis and principal components analysis was used. Overall, results show some congruence with previous studies, and suggest a strong relationship between Internet usage and adoption of Internet banking. In other words, Internet familiarity was found to be an important determinant for adoption. The results and implications are presented within the context of existing literature.

Keywords: Electronic banking; Familiarity; Internet; Internet banking; Internet experience; South Africa.

INTRODUCTION

In business, the successful introduction of new products to the market is important to maintain competitive advantage. This is particularly true in the retail financial services sector, which is characterised by rapid advancements in technology and increasing competition (Berndt, Saunders & Petzer, 2010). Within the banking sector specifically, a significant proportion of new products fail to appeal to a critical mass of consumers resulting in considerable cost to financial institutions (Black, Lockett, Winklhofer & Ennew, 2001; Rugimbana, 2007). It therefore makes good business sense for financial service providers to try and better understand reasons why some customers adopt new products and why others do not. Consequently, identifying factors influencing adoption decisions constitute considerable value to banks for developing and marketing of banking services.

Past research shows that when bank customers evaluate adoption-rejection decisions for new bank services they often are confronted with "higher levels of uncertainty and perceived risk, which necessitates the importance of effective marketing strategies to encourage consumers' adoption decisions" (Black *et al*, 2001). Of particular importance is the clear distinction of services from products (i.e. the absence of tangible qualities), which introduces unique sets of challenges for bank marketers in that, unlike tangible products, new financial services are more difficult for customers to evaluate prior to purchase (Farquhar & Meidan, 2010). One such banking innovation requiring marketing intervention in the South African retail banking sector is Internet banking services (IB). Estimates of individuals using IB range from 16% of banking customers (SouthAfrica.info, 2009) to as low as 6% (Kabanda, Brown, Nyamakura & Keshav, 2010), indicating that the service is yet to be adopted by a critical mass of consumers for it to contribute to banking institutions' profitability. For that reason, a significant number of banking institutions are grappling with the problem of not only encouraging their customers to use electronic channels, including IB, but also how to design these banking channels to meet and satisfy customers' needs and expectations (Green & Van Belle, 2003). Past research consistently confirms the efficacy of Internet familiarity in shaping positive attitudes towards IB adoption (Maenpaa, 2006; Maenpaa, Kale, Kuusela & Mesiranta, 2008; Poon, 2008). Therefore, consumers' acceptance and usage of the Internet is considered an important precursor and determinant of IB adoption.

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RESEARCH PROBLEM AND OBJECTIVES

The marketing implications for financial institutions to design appropriate online banking solutions are to clearly understand consumers' financial needs together with their current Internet usage patterns. In other words, any marketing intervention aimed at addressing IB adoption must be preceded by a clear conceptualisation of banking customers' perceptions of the Internet. This becomes an imperative in today's marketplace, where consumers' expectations continuously change in line with changes in information communication technologies (ICTs) (Poon, 2008). As such, much of banks' marketing programmes revolve around introducing cutting-edge technologies (Berndt *et al*, 2010; First National Bank, 2012).

While the migration towards ICT-driven banking solutions overall is desirable to both customers and service providers, authors have described unintended consequences of the "first-to-market with innovation" approach, in particular Green and Van Belle (2003), explain that because of "technical complexities underlying Internet-based services, usability issues are often overlooked [by banks]" (Green & Van Belle, 2003: 2). Consequently, banks overemphasise attracting new customers with the promise of new innovative technologies at the expense of focussing on the needs and satisfaction of existing customers (Rugimbana, 2007). Thus, it is not uncommon for IB websites to become too complicated and consequently fail to accommodate customers' competencies and needs. It is therefore important to strike a balance between new product development and adequately servicing existing customers. This study concerns itself with the latter, and against this background the purpose of this research is to investigate the relationship between Internet experience and IB adoption. More specifically, the authors try to establish the marketing implications of South African consumers' knowledge and experience of the Internet and its effects on IB adoption. As such the research question was formulated as follows: *To what extent does Internet familiarity and experience among the educated influence adoption of Internet banking services in South Africa?*

Within the relevant literature of the diffusion of banking innovations via the internet, the construct of user-experience is considered to be an important determinant of adoption (Maenpaa, 2006). For instance, the question of how long and how often consumers have been using the Internet was shown to have a strong correlation with the adoption of IB services (Maenpaa *et al*, 2008). All the same, strategic questions – such as how consumers perceive the Internet technology and the patterns of its usage – have remained largely unanswered, especially in non-Western contexts where the Internet phenomenon is between its late introduction and growth phases of the product life-cycle. More studies are therefore needed that examine these constructs; primarily because recent marketing literature is informed primarily by research emanating from Europe and North America. While global statistics reflect strong growth in Internet usage (International Telecommunications Union, 2011), less is known about its adoption and usage patterns in developing countries such as South Africa. Given that the impact of experience and familiarity on new product adoption is a relatively new area for research (Maenpaa *et al*, 2008), it is expected that the results of this study will contribute towards a better understanding of how user Internet experience influences consumers' behaviour towards the adoption of Internet Banking (IB). Such an understanding will be useful to both marketers in designing their marketing practices in accordance with their consumers' preferences and competencies, as well as academics in their research endeavours.

CONCEPTUAL DIMENSIONS OF INTERNET BANKING

This study uses a theoretical model, developed by Maenpaa (2006) and refined by Maenpaa *et al* (2008), to describe IB familiarity and adoption. This model consists of seven important variables which predict IB usage. These are: convenience, security, status, auxiliary features, personal finances, investment, and exploration. These variables were found to be quite reliable in predicting IB usage in Europe (specifically in Finland – a developed country). It was felt opportune to test these variables in a developing country context to ascertain replicability or uniqueness of results.

In the following, these variables are briefly discussed.

Convenience in banking services relates to time, effort, efficiency, and costs associated with the provision of banking services. Basically, a banking channel such as IB services is deemed to be convenient if it requires less time and costs to conclude banking transactions. Therefore, the greater the increased convenience that IB presents to consumers, the greater the chances that it would be adopted. IB conforms to Rogers' (1995) concept of relative advantage in that this channel presents numerous advantages over traditional banking methods. These include time-savings, 24/7 access virtually anywhere, cost savings due to less effort needed to obtain service, and service quality (Black *et al*, 2001).

Security refers to the perceptions of risk or uncertainties associated with banking medium, specifically whether it is safe from fraud or any form of loss (Farquhar & Meidan, 2010). In other words, IB is considered to be secure if financial transactions can be completed confidentially and free from fraud and threats of hacking. This variable is particularly important in financial services contexts, where consumers are faced with difficulties in evaluating performance of a banking channel prior to its use. Thus, safer banking innovations are adopted more easily.

Status is the extent to which IB projects a positive image for customers who use the service. Maenpaa *et al* (2008) explains that status refers to how compatible the use of IB is to the users' sense of self-image as well as its instrumentality in expressing and enhancing consumers' self-concept.

Auxiliary features, according to Maenpaa *et al* (2008), relate to attributes within IB offerings which contribute to the overall augmented product by improving the usability and interactivity of IB. These features are characterized as contributing to multimedia by increasing experiential value and adding to the efficiency, enjoyment, visual appeal and entertainment aspects of IB. As a corollary, financial institutions such as First National Bank (FNB) are providing their customers with iPads, Smartphones and other mobile devices to promote and enhance use of IB and its related auxiliary features (First National Bank, 2012).

Personal finances include features that allow for easier management of personal accounts. Designing systems that are compatible with other software packages such as Microsoft Money and Quicken empowers consumers to better manage their finances. To empower customers in terms of managing their finances, South African banks offer a wide array of calculators and estimators on their websites. These provide platforms with which customers can calculate financial aspects such as interest rate or repayment periods.

Investment, as presented by Maenpaa *et al* (2008), refers to practical tools that assist and support consumers in investment activities. In this regard, investment is closely related to the personal finance variable in that both are aimed at increasing financial return for customers by providing information and tools (e.g., calculators), and creating the possibilities of consumers' linking their accounts such as current, savings, and loan accounts to each other on IB profiles.

Exploration involves exploratory information-seeking behaviour. This speaks to customers' tendencies to seek additional information related to their finances and financial well-being. Some of the ways banks achieve this is by supporting news, online discussion forums, and links to various other (financial) websites (Maenpaa *et al*, 2008).

RESEARCH METHODOLOGY

A survey method was conducted, in which a self-completion questionnaire was administered to a sample of educated consumers (Blumberg, Cooper & Schindler, 2011). A 22-item structured questionnaire related to the various constructs of Internet familiarity was administered to a sample of 50 Master of Business Administration (MBA) students.

Sample

For this study, a student sample was preferred for three main reasons. Firstly, students in general tend to be consumer-innovators (Parasuraman & Colby, 2001; Rugimbana, 2007). Secondly, MBA candidates in particular are generally more affluent (Blass & Weight, 2005) and more likely to be trend-setters. Thirdly, students are a homogeneous sample, thus providing for a robust test of theory (Calder, Phillips & Tybout, 1981: 200). In total 80 questionnaires were distributed to a class of MBA students at a metropolitan business school in Pretoria. Of these, 50 were fully completed and usable; representing a 63% response rate. Table 1 provides the demographic details of the participants.

Table 1: Demographic profile

Demographic Characteristics		Percentage
Gender	Male	47
	Female	53
Age Group	21 – 24 years	17
	25 – 29 years	34
	30 + years	48
Employment Status	Full-time	73
	Part-time	13
	Other	14
Monthly Income	< R7, 000	30
	R7, 000 +	70

FINDINGS

User experience and dimensions of Internet banking

In terms of Internet familiarity, more than three quarters of the respondents indicated that they have used the Internet for at least three years. A significant portion (36%) had no Internet banking experience. Approximately a quarter of the sample had one to two years' IB experience compared to 8% who had seven years or more IB experience.

It was also useful to determine the depth of IB usage, i.e. the type and frequency of Internet banking services used. Table 2 indicates that bill payment and account transfers are the most utilised (76%), which was found to be consistent with past studies (Maenpaa *et al*, 2008; Shambare, 2011). Once again, the highest proportion of users tended to fall in the high-familiarity user group (Table 2). Correspondingly, familiarity was found to be correlated to usage of IB functions. This shows that the more Internet experience individuals have, the higher are their chances of using the diverse set of IB functions. Concurrently, consumers with low Internet familiarity and experience usually do not engage in complex and advanced services including trading of shares or mutual funds.

Table 2 **Services used in internet banking – user familiarity**

Which services do you use in Internet bank?	% of all users (N = 50)	Users' Internet Banking experience (no. of respondents using service)		
		Low familiarity	Mod. familiarity	Highy familiarity
Paying bills	76.3	4	10	15
Inter-account transfer	71.1	2	8	17
Updating bank transactions	42.1	2	4	10
Checking loan/mortgage balance	18.4	2	1	4
Following share/fund prices	5.3	0	1	1
Buying or selling shares/unds	7.9	0	1	2
Following interest rates	21.1	0	4	4
Other	15.8	1	1	4

To uncover differences in demography and Internet usage patterns, descriptive statistics were conducted across the three categories of familiarity: low-familiar, moderately-familiar, and highly-familiar. Low-familiar users are the youngest of the three groups, with almost half under 25 years old (44%); their household income level is lower than in the other two consumer groups, with a slightly higher percentage (58%) being women. They use the Internet much less frequently than consumers with more IB familiarity; a majority of them (62%) use the Internet three times a week or less. Approximately one-third of respondents (34%) have used the Internet for only a year or less. Moderately-familiar users are older than low-familiar users, but younger than highly-familiar users. Most of them (86%) have been using the Internet for two years or longer, and they use it more frequently than low-familiar users, but not as often as highly-familiar users. This group is distributed quite evenly across all income levels, and again, has a slightly higher proportion of women (53%). Overall, the use of the Internet was found to be most extensive for highly familiar users. Most of these consumers (68%) have used the Internet for over three years, with 70% using it daily.

Determinants of IB usage

According to Maenpaa *et al* (2008), there are seven variables in the model, which determine consumers' acceptance of Internet Banking. To test these variables, principal components analysis (PCA) was conducted on the 22 items (Field, 2009). The factorability statistics were satisfactory (KMO = 0.724; Bartlett's Test of Sphericity $X^2 = 435.522$; $df = 136$; $p < 0.000$). A four-factor solution, incorporating the explanatory variables, accounting for 72% of variance, was extracted (Table 3). The Cronbach's alphas of the factors extracted ranged from .766 to .916, all of which exceed the .7 cut off (Field, 2009).

Table 3 Four-item solution of the IB factors

Question	**Factor 1:** Convenience & Security	**Factor 2:** Investment & Exploration	**Factor 3:** Personal Finances	**Factor 4:** Status	**Commonalities**
3.1	.747				.606
3.2	.791				.709
3.3	.810				.722
3.4	.841				.764
3.5	.706				.622
3.6	.860				.769
3.7	.806				.711
3.8	.855				.797
3.17		.799			.739
3.18		.899			.816
3.20		.728			.678
3.22		.515			.455
3.14			.829		.752
3.15			.807		.715
3.16			.738		.750
3.9				.887	.797
3.10				.881	.850
Eigen values	5.79	2.97	1.99	1.51	(Total)
% of variance	34.05	17.97	11.68	8.88	72.07
Cronbach's alpha (α)	.916	.775	.766	.789	

Although the theory hypothesises that the seven variables should function separately as explanations (Maenpaa *et al*, 2008), in this study four composite factors emerged. Some variables loaded on the same factor; for instance, convenience and security loaded onto Factor 1 and investment and exploration loaded onto Factor 2. The variables personal finances and status constituted the individual Factors 3 and 4 respectively.

DISCUSSION AND CONCLUSIONS

The aim of the study was to investigate how IB experience and familiarity impact on consumer adoption and use of IB services. The findings confirm that IB adoption follows non-linear results regarding the effects of familiarity. Users with high levels of familiarity (or experience) were observed to record the highest preference for IB usage; whereas moderately familiar users were observed as having the lowest mean. The findings of this research have implications for developers and marketers of bank services. Firstly, the most responsive IB customers appear to be those with high levels of Internet familiarity. These customers were also observed to have the highest household income, and to use advanced IB features, such as trading in shares or mutual funds. These consumers demonstrated greater tendencies towards incorporating investment-related features in their portfolios of IB services. Banks, therefore, could design various investment packages for this segment.

Secondly, users with low IB familiarity were observed to value factors such as personal finances, investment and auxiliary features. Their current IB use was limited to the basic functions. This segment tends to be younger, with lower income. As expected of students pursuing higher education, their income is expected to rise over time. As such, banks could enhance IB offerings of this group by offering rudimentary auxiliary features at reduced costs. This segment, however, is poised to be the most adventurous. Thus, banks could capitalise by providing cost efficient platforms for which these customers can access the Internet and consequently Internet banking. A case in point is the strategy currently implemented by FNB – that of offering mobile devices together with data bundles to stimulate familiarity with and usage of Internet banking. This strategy makes good business sense if seen from the point of view that these consumers currently fall within the low income group but at the same time have the potential to increase their income over time. Thirdly, consumers moderately-familiar with the Internet were observed as being the most unresponsive to adding new services related to personal finances and investment. However, they use more basic IB services than their low-familiarity counterparts. Cross-selling of multiple products together with human interface could be the most viable strategy for increasing IB adoption for this segment.

This article reinforces previous findings that Internet familiarity has a significant impact on consumer perceptions and product preferences. In other words, familiarity is correlated to client perceptions of IB service, the extent of IB services used, and to consumer demographics. Of the seven service dimensions chosen for this study, three dimensions – status, personal finances and investment — were found to have a U-shaped relationship along the familiarity construct, with moderately familiar users recording the lowest mean. Consumer interest in auxiliary features decreased with increased IB familiarity.

Surprisingly, security concerns were observed to be constant regardless of the level of familiarity. The results reveal that although low-familiar users’ current use of IB is mostly restricted to the basic functions of paying bills, making account transfers, and tracking bank transactions, they are interested in utilizing more innovative services like auxiliary features and personal finances, yet assume that their current disposable income might be considered a major inhibitor in adoption. Moderately familiar consumers adopt the most utilitarian stance, only using the most basic and practical features with very little use of supplemental services. Of the three familiarity groups, highly-familiar users utilise the whole spectrum of IB services the most extensively. Future research could consider alternative conceptualisations to measure familiarity. To offer a more rigorous test of theory as well as providing a deeper understanding, pursuing a qualitative study might yield interesting results that cannot be captured in a quantitative study such as this one.

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LABOUR BROKING: A SOUTH AFRICAN CASE STUDY

L.D. Naidoo[1] & M.S. Bayat[2]

ABSTRACT

Recently the government of South Africa together with organised business have been at loggerheads with the trade unions about the issue of Labour Broking. On the one side the government and organised business were justifying the support of it while on the other side the trade unions were canvassing for a total ban on Labour Broking. With the Marikana mineworkers incident the role of Labour Broking to aid or hinder the transformation of South African society was placed in stark relief.

This paper will reference established theorists to create the framework for discussion, then canvases public documents including digital sources to capture the prevailing opinions of the day. It will in the first instance, trace the evolution of Labour Broking both globally and in South Africa. Thereafter, the different views on Labour Broking will be explored. These include inter alia; the view that government and employers in general have supported the temporary nature of labour broking because it provides a degree of flexibility in employment and relief from the controls and stipulations of the Labour Relations Act, the view of Cosatu and some other trade unions is that Labour Broking is exploitative and disenfranchises workers, and the view of some public commentators that Labour Broking is 'immoral' and an opposing view that it allows for inclusion of workers that are otherwise excluded from organised labour markets.

In concluding this paper will argue that Labour Broking has a legitimate place within the Transformation Agenda, but needs to be more heavily regulated.

Keywords: Labour Broking; South Africa; Labour Relations.

INTRODUCTION

Over the last couple of years the South African government together with organised business have been at loggerheads with the trade unions about Labour Broking. On the one side the government and organised business were justifying the support of it while on the other side the trade unions were canvassing for a total ban on labour broking.

The incident that is now popularly called the 'Marikana massacre' where 34 striking mineworkers were killed by police has been described as one of the worst incidents to hit the post apartheid government and comparable to incidents that plagued the government during the dark days of apartheid such as Sharpeville, 1976 Soweto uprisings and other similar incidents witnessed during the 1980's and 1990's (Fihlani, 2013; Smith, 2012).

The Marikana incident reignited the debate on Labour Broking and forced Government to revisit the question.

Labour broking from a government/employer perspective

The government and in general employers strongly believe that there is a place for labour brokers and that they should not be banned. The government has justified its position of supporting labour broking by using the example of nurses who provide care for the elderly in their homes. It seems to make sense to have these nurses employed by agencies instead of by full time employers (Benjamin, 2012).

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Trade union position

Trade union federations of South Africa such as COSATU see labour brokers as the main drivers of the increasing number of atypical forms of employment. Trade unions have been canvassing for a total ban on labour brokers because they claim that it brings about exploitation and abuse of desperate and hungry people.

Labour broking and temporary employment through outsourcing "...have come under close scrutiny from the Union ranks. It is the temporary nature of the contracts and lack of protection against dismissals, in particular, that unions find exploitative…" (Nel, Kirsten, Swanepoel, Erasmus & Poisat, 2012: 117). In fact they say that contract or short term employment, also referred to as outsourcing, encourages employers to "…seek to enter into arrangements to get work done outside the regulative net of minimum wage legislation, the extension of collective bargaining agreements to those who were never party to them, and, most of all, the excessive formalism surrounding dismissals" (Venter & Levy, 2012: 145).

VIEWS ON LABOUR BROKING

According to the Labour Relations Act, Act 66 of 1995, Labour Broking is defined as "any person who, for reward, procures for or provides to a client other persons who render services to, or perform work for, the client and who are remunerated by temporary employment services".

The Sowetan, a major South African Newspaper, on 23 March 2012, quotes COSATU's view of Labour Broking as human trafficking for the following reasons: Labour broking is equivalent to the trading of human beings as commodities. Workers are excluded from having a say negotiating their wages… their rights are ignored. Desperate workers accept work for much less than normal rates and face the consequences of being dismissed at short notice without any compensation (Mokone, 2012).

COSATU's General Secretary adds:

"…

- Labour broking does not create jobs but merely acts as intermediaries to access jobs that already exist, and in many cases have existed previously as permanent full time jobs…
- Labour brokers destroy permanent jobs as they lead to insecure contractual relations and downgrading of wages and employment terms…
- Labour broking does not practice the principle of equal pay for work of equal value…
- Most if not all workers employed by labour brokers do not enjoy pension/provident funds, medical aid benefits, etc. The employers dump these workers into the government social security system, thereby increasing the state burden to provide for them in their pensionable life. This means that the taxpayers, you and I, are subsidizing the employers to make super profits…" (Vavi, 2012).

Labour Appeal Court Judge President Dunstan Mlambo supports the stance that the trade unions have. His view is "…Many firms have... adopted strategies and tactics to avoid labour laws, … These strategies include outsourcing,… and labour broking... research commissioned by the department of labour... demonstrates that there has been an exponential increase in the use of labour broking. This has deprived many employees of labour law protection…" (Areff, 2012).

Labour brokers however subscribe to a different view. Carolyn Diaz, Managing Director of Express Employment Professionals, is of the view that "…closing down vehicles that increase access to work should not be a serious option… the costs and consequences of such drastic action need to be considered… people least connected to the labour market, are able to access jobs and this must be factored into policy debate…" (Diaz, 2012).

Angela Dick, CEO of Transman, believes that despite the moves by COSATU and the debates in Parliament and National Economic Development and Labour Council (NEDLAC), companies like Transman that are in the Labour broking industry have continued to "…serve the unemployed and reduce poverty" (Dick, 2012).

Labour brokers like Express Employment Professionals and Transman contribute through their informal employment services to the formal employment sector through skills development and learnership programmes. The placed employees of labour brokers are given the opportunity "…for employment and to improve their skills and grow their careers" (Dick, 2012).

OVERVIEW OF LABOUR BROKING

Research undertaken by two South African authors, Venter and Levy (2012) on labour broking has shown that 68.3% of the respondents used labour broking. Just over 40% of the same respondents replied that the 'outsourcing company' had absorbed the workers that they had terminated. In this same survey 94% of the respondents stated that they were in favour of the process and 65.1% of them indicated that they foresaw a use for them in next couple of years (Venter & Levy, 2012: 146).

The above study demonstrates that there is an increasing tendency by employers to use the services of outsourcing companies to circumvent their obligations to their employees, resulting in permanent workers losing their full-time employment and becoming part of the part-time, temporary, short-term or outsourced employee (Venter & Levy, 2012: 146).

The changing work patterns and the willing nature of workers to take on any work to be in employment has also led to an increase in what is an atypical kind of employment predominantly controlled by labour brokers.

China's poor working conditions which was thought to have arisen from her push towards exports has led to criticisms from within and outside the country. The Chinese government is now seriously embarking on legislation that would protect worker rights (Kim, 2012).

Namibia has experimented with, and failed in allowing labour brokers a free reign. The labour brokers were accused of being slave traders… bringing back dark memories of the period in their history when human beings were bought and sold. Since 2009 Namibian courts had to embark on legislative provisions to deal with labour broking. The Supreme Court of Appeal of Namibia considered International Labour Organisation (ILO) conventions and provisions of their Constitution before concluding that labour broking should be regulated (Van Eck, 2010).

Presently in South Africa there are over 6 000 recruitment centres nationwide, and in the 15 year period from 1995 over 500 000 people per year were employed by labour brokers with an amount of 26 billion being spent on this rapidly growing industry (Wentzel, 2009).

Labour broking in South African universities

Universities across the country have used the services of labour brokers in one form or the other. In one university, security, cleaning staff and secretarial replacements etc. are outsourced to contractors. What typifies these contracts is that the staff provided by these contractors, do not enjoy permanency, are paid lower wages or salaries and are easily got rid of without much fuss. Not long ago in the same institution one of the secretaries who served the institution for five years had an argument with the HoD and the next day her contract was terminated (Naidoo, 2012).

At another university, the Vice-Chancellor, terminated the services of over a hundred workers and arranged for them to be replaced by workers from a labour broking company. This meant that workers employed by the labour broking company had lower salaries and reduced leave, subsidies medical aid and housing allowances (Naidoo, 2012; Venter & Levy, 2012: 145-146).

At a University that claims to be the leading African University of choice, staff found at the bottom end of the hierarchy earn in most cases wages that are below a livable wage. The university has been in a constant fight with the Trade Union in its attempt to reduce the worker's benefits and permanent status. "A decade of wage cuts and deteriorating working conditions, combined with a draconian disciplinary regime, means these workers have their backs against the wall" (Ngwane & Hlatswayo, 2014).

At the end of 2009, a cleaning contract company at a university campus fired 60 workers, following an investigation by the university when the workers revealed irregularities and fraud in provident fund deductions. The university did not protect the workers against the subsequent victimization by the contract company (Ngwane & Hlatswayo, 2014).

It is claimed that before outsourcing, universities paid the worker for work done; today it pays a contract company boss who, after taking the lion's share, pays the worker peanuts and squeezes tighter (Ngwane & Hlatswayo, 2014).

Government, business and trade union reaction

To summarise a City Press article written 22 March 2012 (City Press, 2012a) the South African Government was calling for labour brokers' contracts to be for a period of up to six months. Cosatu fears that employers will fire temporary workers before they serve six months to avoid them being hired permanently. There is no protection in the proposals from government to prevent this from happening. Government is pushing for an exemption of some employers from regulation of fixed-term contracts (allowing for genuine temporary work for longer than six months). Cosatu prefers that labour brokers receive a once-off placement fee and cut ties immediately with the employee.

Furthermore, on the 25 July 2012, City Press goes on to state that, Business Unity South Africa (BUSA) does not believe that laws should be changed because there is no compliance. Enforcement should be the way forward. BUSA's research claims that over 200 000 jobs will be lost as a result of the new proposals and a further 100 000 jobs will be lost through the proposal to uplift the wages of these workers (City Press, 2012b).

Government and employers in general have supported the temporary nature of labour broking because it provides a degree of flexibility in employment and relief from the controls and stipulation of the Labour Relations Act. However Government had to revisit the question of Labour Broking after the Marikana mineworkers disaster. In the public relations disaster that followed the government was accused of being immoral.

As an article in Amandla, a South African magazine, claims: The Marikana massacre brings in to focus the transformation of our society and our country. The mineworkers will be apportioned with blame for this incident. It would be argued that the mineworkers' actions provoked the police to act in a way that ensured that to protect their own lives a fair number of mineworkers had to be injured or killed in these incidents. "…The mineworkers will be painted as savages. Yet, the fact is that heavily armed police with live ammunition brutally shot and killed over 35 mineworkers…" (Amandla, 2012).

Of importance in the Amandla article is the claim that Labour Broking is immoral; "Mineworkers are employed in extreme conditions of poverty, often living in squalor in squatter camps without basic services. The mineworkers are often employed through labour brokers and informalised without decent work conditions" (Amandla, 2012).

FINDING A SOLUTION

It is estimated that in excess of 950 000 workers are in the employ of labour brokers. These workers help reduce the employment rate, decrease the levels of poverty and make a contribution to the economy (Nel *et al*, 2012: 117).

The high unemployment rate and poverty levels presently facing South Africa necessitate that a solution to the labour broking issue be found to suit employees, employers, trade unions and the economy. A complete banning as expounded by the trade unions cannot be a realistic solution.

Legislation as a solution

The South African Labour Relations Act (1995) currently regulates the labour broking industry. The Constitution of South African provides for the rights of citizens of the country. These rights extend to the right of employment and the right to fair labour practices. The protection of these rights is essential.

An area that needs attention is that temporary services workers should be protected more stringently from unfair dismissals. Also, the limited regulation of labour brokers results in inexperienced labour brokers entering the labour market on an equal footing with their experienced counterparts and exploiting workers and causing untold damages to the sector. A way of addressing these occurrences is to adhere to the Employment Services Bill which provides a regulatory framework for the operation of private agencies to ensure that only temporary employment services (TES) firms registered with the Department of Labour are used. “It is essential for businesses to align themselves with labour brokers able to show compliance with legislation and registered with the various industry institutions such as the Federation of African Professional Staffing Organisation and the Confederation of Associations in the Private Employment Sector” (Tulleken, 2012).

It would be essential through the Employment Services Bill that:

- Registration of labour brokers be enforced through the appropriate professional body and the Department of Labour
- Both the labour broking firms and the company employing the labour brokers are held jointly responsible for the rights of the workers
- The rights of workers employed by the labour brokers be protected through the Labour Relations Act
- The workers employed by labour brokers enjoy similar benefits that are afforded to full-time employees in the company to which they are contracted.

Lessons from other countries as a solution

South African legislators and stakeholders should take cognizance of the experiences of Namibia. The Namibian courts while recognizing the rights of individuals citizens and their right to economic activity, did not side with the call to ban labour brokers. A cautious approach to regulate the activities of labour brokers rather than an outright ban was taken. The regulation of the labour broking environment through the Constitution, Labour Relations Acts, registration through the professional bodies and the Departments of Labour, are ways in which other countries have addressed the issue (Naidoo, 2012).

Universities as part of the solution

As institutions of higher learning universities should be showing the way both in theory and practice. Universities as learning centres, that include legal and industrial relations departments, can investigate the problem with labour brokers and provide defendable workable solutions that could be acceptable to both employers and employees.

CONCLUSION

The union and others who have made the call for the banning of labour broking, have rightly pointed out the ills and discrimination suffered by workers in this situation, yet have not provided solutions that would be beneficial to all parties concerned.

Close on to a million workers, depend on the employment provided by labour brokers which forms part of the temporary employment services firms. These individuals who would otherwise be denied access contribute to the economy and help decrease the levels of poverty.

Consequently, there is a stronger case for regulation as opposed to banning.

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PERSONAL FINANCIAL PLANNING FOR HOUSEHOLD POVERTY ALLEVIATION IN KENYA

W.G. Odhiambo[1] & P. le. Roux[2]

ABSTRACT

After Kenya's independence in June 1963, the Government of Kenya (GoK), in its first formal development planning initiative developed Sessional Paper number 10 of 1965 in which poverty, ignorance and disease were identified as major impediments to development. These three dimensions have been at the center of GoK's development initiatives. Since then, poverty has been at the center of development programmes by the GoK as demonstrated by poverty alleviation and development programmes rolled out by the GoK so far including the District Focus for Rural Development; Social Dimensions of Development (SDD) programmes; the National Poverty Eradication Plan (NPEP); Poverty Reduction Strategy Paper (PRSP); Economic Recovery Strategy Paper (ERS) and Vision 2030. This paper seeks to give a new direction in the successful search for a poverty alleviation solution at the household level.

This paper advances a hypothesis that the fight against poverty is failing due to the macro-based approach adopted by the GoK.

This paper advances a hypothesis that the fight against poverty can succeed if a micro-based approach focusing on the household is adopted. The paper further advances a personal financial planning model which is hypothesized to be a solution to household poverty.

Keywords: Financial planning; Poverty, and Poverty alleviation; Household.

INTRODUCTION AND BACKGROUND TO THE PROBLEM

At Kenya's independence in 1963, the GoK identified *illiteracy, disease*, *ignorance* and *poverty* as the main problems to be addressed in the post-independence era. The government's aim then was to ensure that Kenya achieved sustainable national development (GoK, 2001: 1). A government policy on poverty reduction, as stated in *Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya* (GoK, 2001: 2), tried to use regional and gender dimensions in tackling poverty. Since then, poverty and unemployment have been the subjects of National Development plans, Sessional Papers, Presidential Commissions, Task Forces and studies by civil society groups in Kenya, but the problem of poverty persists to date (GoK, 2001: 2).

The World Summit for Social Development (WSSD) held in March 1995 in Copenhagen (in which Kenya was represented) came up with a resolution requiring all governments to commit themselves to an ambitious set of goals. These goals were, among others, eradication of poverty; the achievement of Universal Primary Education (UPE); various aspects of health for all; and the social integration of disadvantaged people (GoK, 2001: 1). In line with these resolutions, the GoK developed the *National Poverty Eradication Plan (NPEP)* in 1999. The main objective of this plan was to help Kenya eradicate poverty and its causes by the year 2015 (GoK, 1999b: 1). The NPEP focused on four thematic areas, namely, *poverty reduction; reduction of unemployment; social integration and the creation of an enabling economic, political, cultural and legal environment* for social development. Ironically, at the global level, not much had been achieved on this front such

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that in September 2000, the United Nations General Assembly adopted the Millennium Declaration by coming up with Millennium Development Goals (MDGs). The MDGs include *eradication of extreme poverty; achievement of universal primary education; promotion of gender equality; reduction of child mortality; improvement of maternal health; combating HIV/AIDS and other major diseases; ensuring environmental sustainability, developing global partnership for development and human rights* (GoK, 2005b: 22). These MDGS had the same target year of 2015 like the WSSD. The MDGs were aimed at fighting poverty, accelerating human development and facilitating gradual but effective integration of the developing world into the global economy (GoK, 2005b: 19). All these goals have a critical dimension to the concept of poverty. The formulation of MDGs is evidence of the persistence of extreme poverty in developing countries.

Kenya's experience of poverty has not been different from that of other parts of the world. The Welfare Monitoring Survey of 1994, which placed the absolute poverty at Kenya Shillings (Kes) 978.27 in rural areas and Kes 1 489.63 in urban areas, showed that the incidence of poverty in Kenya was 47% in rural areas and 29% in urban areas (GoK, 1999a: 12).

A critical evaluation of government reports such as *Sessional Paper No. 10 of 1965; National Poverty Eradication Plan 1999-2015* (GoK, 1999b: 89-91); *Economic Recovery Strategy Paper* (GoK, 2003: 30-40) shows that all efforts to fight poverty have been focused on *macroeconomic* approaches. In other words, they concentrated on what the GoK needed to do to alleviate poverty.

The Poverty Reduction Strategy Paper (GoK, 2001: 1); Economic Recovery Strategy for Employment Creation and Poverty Reduction (GoK, 2003: 1) and the current Vision 2030 development policy framework are all based on *macroeconomic models.* These methodologies focused on fundamentals and macro-economic variables that affect people in general, instead of focusing on variables that are more pronounced at the individual or household level. The macro approach stresses broad-based economic variables and pays very little attention to the individual or micro issues. The GoK poverty alleviation approach begins with surveying the macroeconomic elements responsible for poverty then follow up with development and choice of national poverty alleviation strategies. Once the strategies have been implemented, an impact assessment is carried out by either development partners or the GoK itself.

Based on the evidence of poverty levels despite GoK efforts, two critical questions emerge. Firstly, why are poverty levels on the rise in Kenya? Secondly, why has the poverty alleviation efforts not yielded the desired results? These questions lead to the hypothesis that the macro based approach to poverty alleviation adopted by GoK has been ineffective. This hypothesis then leads to a supposition that successful poverty alleviation in Kenyan requires a paradigm shift. There is a need to look at poverty eradication through a well-structured micro approach that focuses on households. The focus must be on analysing the micro factors or aspects of poverty rather than the macro issues. This paper therefore develops a personal financial planning model that will help household heads to alleviate their household poverty. This model is then tested using empirical evidence.

One of the main concerns in Africa, and specifically in Kenya, is poverty and the efforts to counter it. In Kenya, this problem has persisted despite the alleviation efforts by both the GOK and donors. There is a need to develop a methodology to successfully fight this problem.

LITERATURE REVIEW

The search for an appropriate definition of poverty is an ongoing debate. Many choose to define poverty in their own way for the convenience of what they want to do or study. Klaas and Hagenaars (1988: 213) observe that the choice of one specific definition has a major consequence on the resulting population, besides the fact that the definition has two dimensions. Firstly, the identification of the poor, and secondly, aggregation of poverty gaps of different individuals to establish an overall index of the extent of poverty. Alcock (1993: 564) concludes that the conceptual discussions of poverty tend to be biased towards an action-driven definition.

Klaas and Hagenaars (1988: 213) and Hyer and Williamson (1975), agree that permanent income should be the main basis for the definition of poverty. When income is considered, then poverty can be defined as either income below a specific threshold or as earning below what is relatively considered average in the environment.

Hyer and Williamson (1975: 253), citing Townsend (1970), define poverty in terms of five resources, namely current cash income; capital assets; occupational fringe benefits; social service benefits (such as subsidised education and housing), and private income. Lack of these resources is considered poverty. Laderchi, Saith and Stewart (2003: 247) identify four approaches to defining poverty, namely monetary approach, capability approach, social exclusion approach, and the participatory approach.

The capability approach bases the definition of poverty on economic development where the main preoccupation of an individual is to expand his human capabilities besides just seeking to maximise utility (Laderchi *et al*, 2003: 248). The capability approach therefore defines poverty as deprivation in the space of capabilities or failure to achieve certain minimal basic capabilities. Here, "basic capabilities" are the ability to satisfy certain crucially important functioning up to certain minimally adequate levels" where functioning refers to the ability to earn a comfortably living (Laderchi *et al*, 2003: 253).

The social exclusion (SE) is defined as a "process through which individuals or groups are wholly or partially excluded from full participation in the society in which they live" (Laderchi *et al*, 2003: 257). This implies that an individual who cannot fit in the "normal living standard" of the general society is then classified as poor. Poverty is therefore attributed to characteristics of any group such as age, race, and ethnic categories. This definition has limited focus on an individual's capabilities or challenges imposed by that individual's own environment.

The participatory approach proponents criticise the fact that in the three approaches above, the poor are classified by external agencies with limited involvement of the affected groups. The participatory approach, the victims participate in their own classification based on three modes of classification: those associated with self-determination and empowerment, those associated with increasing the efficiency of programmes and those emphasizing mutual learning (Laderchi *et al*, 2003: 260). Rainer (2002: 341) identifies three dimensions of poverty: (i) availability of essential resources for basic needs; (ii) financial and other means of poor individuals and groups; and (iii) physical, intellectual, social, and cultural status and position of poor individuals and groups. The severity of poverty is therefore a collective gap between availability of the essential resources (i) and individual ability to meet the basic needs [(ii) + (iii)].

These diverse definitions of poverty are testimony to the lack of a universally agreed upon conceptualisation of the phenomenon. It also recognizes that judgment of what is perceived to be poverty is determined by social perceptions and environmental influences. It is further influenced by an individual's cultural predispositions, race, language, social status, self-confidence, and psychological influences. The multi-dimensional approach was advanced by the UNDP. It is based on the agency's definition of development, which refers to "both the process of widening people's choices and the level of their achievement of well-being" (UNDP, 1999: 9). The UNDP therefore defines poverty as deprivation of opportunities which are most basic to human development.

This study adopts the multi-dimensional definition of poverty by the UNDP (1997: 15) because it captures all aspects necessary for a household to live a quality life, attain freedom and financial stability. The definition ensures that the study is broad enough to capture all issues that will be useful in developing micro perspectives to poverty alleviation.

RESEARCH DESIGN AND METHODOLOGY

The study used a descriptive research design aimed at exploring a new approach to household poverty alleviation based on the household as the focal point for the success in poverty alleviation.

It will primarily involve a discovery of the necessary characteristics for developing an effective micro-based household poverty alleviation methodology.

This is a study of two regions of the Republic of Kenya. The Central and Lake regions, also formerly known as Central province and Nyanza province respectively. These regions were chosen based on their relative poverty levels. The Central region has the lowest or 31% incidence of poverty over the last decade, while The Nyanza region has had the highest or 65% poverty prevalence in Kenya over the same period (GoK, 2003: 1). The Nyanza Province is the poorest in Kenya with five out of ten poorest constituencies in Kenya. The Central Province is the richest with nine of the richest ten constituencies in the country.

Study population

The study population was all the households in the two regions have a total of 1 892 559 households, almost equally distributed, occupying 25 767 square kilometers, where the Central region occupies 13 220 square kilometers, while the Lake region Province occupies 12 547 square kilometers as shown in Table 1.

The Lake region has the lowest life expectancy with 46% of its population classified as likely to die before their 40th birthday while the Central region has the highest life expectancy in the country (GoK, 2005a: 15).

Table 1 Population distribution by district and area size

	Province and District	**Male**	**Female**	**Total**	**No. of HHs***	**Land Area** (Sq Km)	**Density** (Persons per Sq. Km)
	Central Province	**1 828 616**	**1 895 543**	**3 724 159**	**924 545**	**13 220**	**282**
	Kiambu	369 101	374 909	744 010	189 706	1 324	562
	Kirinyaga	226 665	230 440	457 105	114 439	1 478	309
	Muranga	164 690	183 634	348 304	84 900	930	375
Richer	Nyandarua	235 052	244 850	479 902	104 401	3 304	145
	Nyeri	322 512	338 635	661 156	168 786	3 356	197
	Thika	323 479	322 234	645 713	171 569	1 960	329
	Maragua	187 128	200 841	387 969	90 744	868	447
	Nyanza Province	**2 104 306**	**2 287 890**	**4 392 196**	**968 014**	**12 547**	**350**
	Gucha	221 249	239 690	460 939	89 776	661	698
	Homa Bay	136 728	151 812	288 540	67 040	160	249
	Kisii Central	234 448	257 338	491 786	100 315	649	758
Poor	Kisumu	248 735	255 624	504 359	123 341	919	549
	Kuria	73 989	77 898	151 887	28 839	581	261
	Migori	247 131	267 766	514 897	113 930	2 005	257
	Kisii North	239 851	258 251	498 102	99 701	896	556
	Rachuonyo	145 793	161 333	307 126	68 152	945	325
	Siaya	220 997	259 187	480 184	117 955	1 520	316
	Suba	75 167	80 499	155 666	33 987	1 055	147
	Bondo	113 583	125 197	238 780	56 607	987	242
	Nyando	146 635	153 295	299 930	68 371	1 168	257

Source: GoK , 2005a: 19-21

*HHs refers to Households

Sampling and sampling design

The study used stratified sampling design to sample districts, locations. The villages were randomly sampled in each location. The study then adopted the GoK's Kenya National Bureau of Statistics (KNBS) household's clusters in each village for both rural and urban areas. An equal number of 500 households were sampled from each of the two regions. The tool for data collection was the questionnaire. The main issues the questionnaire focused on are household size; household economic status and specific methods each uses to alleviate poverty and household's success in poverty alleviation. The questionnaires were administered by either the researcher or his assistants. The assistants were trained on how to effectively administer the questionnaire.

The interview technique was predominantly used, because some of the households were either illiterate, semi illiterate or lacked the time to fill in the questionnaires. The researcher and the assistants filled in the questionnaires as the interview was in progress. Interviews were also less costly due to the expansive nature of the target areas. Researcher or research assistants only made one trip and interviewed the respondents and then left with duly filled in questionnaires. Probing for in-depth knowledge also gave invaluable additional information during these visits. Interviews allowed the researcher or the assistants to clarify unclear issues within the questionnaire. This technique also allowed for further probing to clarify issues to the respondents and also to maximise the percentages of responses. The researcher was also able to observe other forms of relevant data. Where the household heads are not available, an alternative household in the cluster area was identified as a replacement. The scope of the study was limited to households in the Central and Lake regions in Kenya.

Data was analysed based on the study objectives. Techniques used included descriptive statistics or measures of dispersion and measure of central tendency, content analysis, correlation analysis to determine the nature and extent of the relationship and chi-square to test of independence.

RESEARCH FINDINGS

The study targeted a total of one thousand households drawn in equal proportions from both the Lake and Central regions in Kenya, however, a total of 802 households successfully responded to the study. This represents an 80% response rate. In order for the study to be reliable, at least 60% of all the questions in the questionnaire had to be answered in order for it to be analysed. Ninety-five questionnaires did not fulfill this condition, and therefore, they were left out in the analysis. A total of 707 questionnaires were therefore analysed representing approximately 71% of the targeted sample size. Seventy-one percent was considered adequate for purposes of generalization. Households from the Lake region 56% of the 707 questionnaires analysed while the remaining 44% were households from the Central region. This difference in response is attributed to the fact that residents of the Central region were uncomfortable with the study. The fact that there were increased cases of crime in the region caused by members of a traditional sect known as Mungiki during the period of study was a string contributor to the reported response rate. Members of this sect were extorting money from households based on their income and wealth levels and therefore most residents of this region were unwilling to respond to the study since it touched on issues relating to finances and the levels of financial stability.

Respondents' gender

The study generally revealed gender since out of the 707 respondents, 51% were male, while the remaining 49% were female. The Lake region recorded gender imbalance with 66% male respondents. This imbalance is attributed to the fact that during the data collection exercise, wives declined to respond to the study and referred the research assistants to their husbands. This is because traditions in the Lake region demand that the husband, as the head of the household, should deal with all matters concerning household finances and related financial stability. In the Central region, 53% of the respondents were female forming the majority of the participants. This gender difference in response could be attributed to the fact that in the households in the Central region are relatively more liberal and that there is a higher number of female headed households compared to the Lake region.

The gender issue did not significantly affect the study since the target respondent was the household head who could be either a woman or a man. Either a wife or a husband could respond in the study in the case of married couples therefore, the gender of the respondent did not matter as long as he or she was a household head.

Respondents' age

The findings show that 65% of the respondents in the Lake region were aged between 16 – 30 years of age compared to the Central region where 59% were aged 31 – 50 years old. This implies that the Central region's respondents are relatively more mature compared to those from the Lake region. This finding conforms to the fact that the Lake region has been deeply affected by HIV/AIDS and so majority of the relatively mature population have died leaving a larger elderly and youthful part of the population. This finding also means that response from the Central region, as a successful case in poverty alleviation efforts, will be drawn from relatively mature respondents. This is good for the study since the findings will be drawn from respondents who have enough experience leading to more practical and relevant findings.

Education level of respondents

Education, like gender, is a critical component in poverty elevation studies. Out of the 707 respondents, 27 respondents did not reveal their level of education. The remaining 96% respondents disclosed their highest level of education which gives a good judgment of the actual study population. Fifty-three percent in the Central region had secondary level of education compared to 39% in the Lake region. There was an 8% difference in the respondents with primary level education with 51% of all the respondents in the Lake region reporting attaining primary level of education compared to 38% in the Central region.

Table 2 Relationship between education and household financial stability

	Perceive household as financially stable?				**Total**	
	Yes		No			
Highest level of education	N	Percentage	N	Percentage	**N**	**Percentage**
Primary	11	7%	72	15%	**83**	**13%**
Secondary	96	57%	203	43%	**299**	**46%**
Certificate	23	14%	72	15%	**95**	**15%**
Diploma	39	23%	72	15%	**111**	**17%**
University degree	16	9%	56	12%	**72**	**11%**
Total	**169**	**100%**	**475**	**100%**	**644**	**100%**

Source: Survey data

The findings in Table 2 show that there is a strong relation between household financial stability and the highest level of education of the head of the household. This finding is not unique since theory argues that one of the ways of reducing poverty is to enhance the level of education of households. These findings also reflect the reality on the ground. In Kenya, primary education is free while at secondary level, tuition fee is free since it is financed by the GoK. Most Kenyans therefore leave formal education at secondary level. This is why the highest level of concentration is at secondary level as shown in Table 1. A correlation coefficient of 0.678 was attained when a correlation analysis was carried out between level of education and household financial stability. It is therefore true to conclude that as the highest level of education of the household head increases, household financial stability increase and therefore education is a critical component in poverty alleviation for each household.

Respondent's marital status and sources of income

The study findings show that among the married respondent's, the Central region recorded the highest response at 51% compared to 40% in the Lake region. This implies that the study will contain more single people's ideas in the Lake region compared to Central region. This is attributed to the fact that HIV/AIDS has had a significant impact on the family in the Lake region.

The study further sought to establish household's main sources of income. Among the households interviewed, 87% of households in the Central region drew their main income from either salary or self-employment compared to 67% in the Lake region as shown in Table 3. Teachers and civil servants formed over 63% of the formally employed respondents from the Lake region compared to 58% from the Central region.

Table 3 Respondents' main source of income

	REGION					
	Lake		Central		**TOTAL**	
	N	Percentage	N	Percentage	**N**	**Percentage**
Salary or wages	153	67%	75	33%	**228**	**100%**
Income from own business	142	48%	156	52%	**298**	**100%**
Assistance from family	38	27%	103	73%	**141**	**100%**
Assistance from groups	**5**	**26%**	**14**	**74%**	**19**	**100%**

Source: Survey data

When the employment status of respondents in the two regions was compared and tested to establish any significantly difference, the chi square test results shown in Table 4 showed a Chi-Square test *p-value* of 0.003 which is greater than the critical value of 0.001.

Table 4 Chi-Square test on formal employment status

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.662(a)	9	.003
Likelihood Ratio	28.599	9	.001
Linear-by-Linear Association	3.883	1	.049
N of Valid Cases	230		

The study further evaluated the nature of self employment activities undertaken by respondents in the two regions. Eighty-eight percent of the Central region's respondents were involved in businesses such as farming, vending and tailoring compared to 77% of those in the Lake region.

The Chi-Square test to establish if there was a significant difference in the nature of businesses operated by respondents in the two regions revealed a *p-value* of zero which is less than the 0.001 critical values as shown in Table 5.

Table 5 Chi-Square test on self employment status

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	53.600(a)	8	.000
Likelihood Ratio	63.711	8	.000
Linear-by-Linear Association	10.816	1	.001
N of Valid Cases	236		

A concern is that if residents of the two regions operate similar businesses, would they differ significantly in terms of the incidence of poverty?

In order to answer this question, the study sought to test the variables in the conceptual framework. The starting point for effective poverty alleviation and attainment of household financial security is the world view of the household head. This world view starts with understanding of the opportunities and challenges in the environment. The study therefore sought to establish how heads of households understand the opportunities and challenges within their environment.

The study first sought to establishes household's perception about their access to infrastructure and economic opportunities. In order to reduce the analysis to critical infrastructure, factor analysis was carried out on the collected data in order to establish critical infrastructure. The findings from the factor analysis were appropriate since the Kaiser-Meyer-Olkin measure was 0.764 as shown in Table 6. This value indicated that patterns of correlations are relatively compact, and therefore, factor analysis would yield distinct and reliable critical infrastructure for household poverty alleviation (Field, 2005: 650).

Table 6 KMO and Bartlett's Test on importance of infrastructure

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.764
Bartlett's Test of Sphericity	Approx. Chi-Square	1696.986
	Df	45
	Sig.	.000

Any infrastructure with eigen values greater than one (Field, 2005: 633) from the factors analysis output was considered critical. Three critical types of infrastructure were identified on the basis of the rotated component matrix as shown in Table 7, namely access to education opportunities as well as opportunities for accessing income whether in the form of formal or self-employment and availability of hospitals for good health care.

Three categories of infrastructure emerged from the factor analysis as shown in Table 7, namely education related infrastructure covering both basic and tertiary institutions; good health facilities and road infrastructure. Access to these factors is important to a household seeking to engage in successful poverty alleviation strategies and efforts. Further analysis was therefore carried out on these factors.

Table 7 Factor analysis output on important infrastructure

Important Infrastructures	Component		
	1	2	3
University education	.875		
Access to colleges	.861		
Access to self-employment opportunities	.786		
Access to primary education		.833	
Access to secondary education		.815	
Access to water and sanitation facilities		.628	
Access to formal employment	.538	.625	
Access to health care			.865
Access to tarmac roads			.786
Technical Training			.645

When a correlation analysis was undertaken for the key infrastructure, there was a strong correlation of 0.83 between primary and secondary education while the correlation between University and college education was 0.76. This study therefore took primary and university education as close substitutes of secondary and college education respectively. This is due to the fact that primary education is basic in Kenya and also accessible under the free basic education programme. Further, even those undertaking college education sometime are studying for degree or end up in the universities.

The study sought to establish the relationship between success in household financial stability and the critical infrastructure identified.

Culture and poverty alleviation

One of the objectives of this study was to establish whether culture significantly affected poverty alleviation efforts by households in the two regions. The study recorded almost 93% response rate on this issue from the 707 respondents. The study further sought to establish the relationship between culture and household financial stability from both financially stable and non-financially households. The findings in Table 8 show that 64% of all the 657 households who affirmed to this fact believe that culture affects poverty alleviation efforts of households. The interesting issue is that 71% of the non-financially stable households affirmed the effect of culture on poverty alleviation efforts. This could be due to the fact that these households could have suffered most from the bad effects of culture.

Table 8 Relation between culture and household financial stability

Do cultural practices affect poverty alleviation?	Perceive household as financially stable?					
	Yes		No		Total	
	N	Percentage	N	Percentage	N	Percentage
Yes	80	45%	340	71%	420	64%
No	96	55%	141	29%	237	36%
Total	**176**	**100%**	**481**	**100%**	**657**	**100%**

Source: Survey data

Fifty-five percent of the 657 respondents who affirmed to culture as a contributing factor to poverty identified cultural restriction on property rights as a significant contributor to household poverty levels. As shown in Table 9, 53% identified elaborate burial ceremonies while 31% and 39% of the respondents pointed out cultural norms on wealth management and gender biases respectively as major cultural contributors to household poverty levels in their localities.

Table 9 The effect of culture on poverty alleviation

Cultural Factor	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Cultural restrictions on property rights	392	55.4%	315	44.6%	707	100.0%
Cultural norms on wealth management	220	31.1%	487	68.9%	707	100.0%
Gender biases in family financial management	275	38.9%	432	61.1%	707	100.0%
Elaborate burial ceremonies	372	52.6%	335	47.4%	707	100.0%

Source: Survey data

Household financial stability

The study first sought to establish the number of respondents who considered their households financially stable. The study findings in Table 10 show that out of the 707 respondents, 20 respondents did not give their household's financial status.

Table 10 Household financial stability

Household's Region	Perceive self as financially stable			
	Yes		No	
	Frequency	Percentage	Frequency	**Percentage**
Lake region	49	25%	307	**62%**
Central region	144	75%	187	**38%**
Total	**193**	**100%**	**494**	**100%**

Source: Survey data

Twenty-eight percent of the 687 respondents who disclosed their household financial stability classified their households as financially stable. Central region had the highest proportion of financially stable household's at 75%.

All 687 households were asked what they considered their households considered important for attainment of household financial stability. The findings summarized in Table 11 show that over 70% of household heads who perceived their households as financially stable mainly focused on financial planning, smaller family sizes, business incubation and access to micro-finance institutions for loans as the critical factors necessary to ensure household financial success.

Table 11 Factors promoting household financial stability

	Perceive self as financially stable					
	Yes		No		TOTAL	
Contributing Factors to Financial Stability	N	Percentage	N	Percentage	**N**	**Percentage**
Goal setting	156	74%	54	26%	**210**	**100%**
Budgeting	150	75%	50	25%	**200**	**100%**
Formal employment	105	39%	165	61%	**270**	**100%**
Investment training	86	35%	158	65%	**244**	**100%**
Use investment advisors	91	66%	46	34%	**137**	**100%**
Low dependency	116	68%	54	32%	**170**	**100%**
Engage in solidarity economy	93	67%	45	33%	**138**	**100%**
Smaller family sizes	115	75%	39	25%	**154**	**100%**
Good medical plans	100	66%	52	34%	**152**	**100%**
Business incubation	109	77%	33	23%	**142**	**100%**
Access to micro-finance	**119**	**73%**	**44**	**27%**	**163**	**100%**

Source: Survey data

Household heads who listed their households as financially unstable listed access to training opportunities and formal employment as factors necessary for household financial stability.

Factors listed by both successful and non-successful households were subjected to factor analysis to reduce them to the most critical ones. The findings from the factor analysis were appropriate since the Kaiser-Meyer-Olkin measure was 0.764. This value indicated that patterns of correlations are relatively compact, and therefore, factor analysis would yield distinct and reliable critical success factors (Field, 2005: 650). Any success factor with eigen values greater than one (Field, 2005: 633) from the factors analysis output was considered critical for the purpose of this study.

Six critical success factors emerged from the factor analysis. These factors can be generalized into access to good medical care; financial planning; business incubation and access to micro-finance opportunities as well as cooperatives; maintaining small family sizes in order to ensure that each household member is take care of properly and finally involvement in self employment.

Households heads who listed their households as financially stable had also laid more emphasis on these critical factors as shown in Table 12. These factors can therefore be assumed to be practical and workable and should be followed by any household head wishing to attain financial stability.

Table 12 Critical factors for household financial stability

Critical success factors	Component					
	1	2	3	4	5	6
Importance of proper budgeting	-.162	-.001	.335	-.105	.757	.162
Importance of low dependency	-.060	.228	.434	-.232	-.688	.114
Importance of formal employment	-.028	-.146	.314	.706	-.165	.437
Importance of self-employment	.094	.090	.056	.003	.128	.907
Importance of Technical training	.724	.316	.081	.037	.035	.386
Importance of formal education	.458	-.137	.006	.809	-.153	-.097
Importance of investment advise	.500	.672	.253	.053	-.119	-.051
Importance of use of investment advisors	-.016	.943	.065	-.018	.070	.104
Importance of Cooperatives	.125	.532	.069	-.087	.707	.142
Importance of small family sizes	-.260	.312	.065	.752	.352	-.110
Importance of good Medicare	.862	-.037	.324	.030	-.024	-.057
Importance of business incubation	.429	.126	.773	.048	.000	.198
Importance of access to micro-finance	.155	.107	.821	.186	.127	-.028

Source: Survey data

Households were asked to list some of the challenges their households face in their effort to ensure financial stability and alleviate poverty. Table 13 gives a summary of the findings. Heads of households who reported financial stability at the household level listed poor access to capital as the main challenge to their household's poverty alleviation efforts. This could be attributed to the fact that these households considered self employment as the main source financial stability.

Table 13 Challenges to household poverty alleviation

	Perceive household to financially stable?				Total	
	Yes		No			
Laziness	19	27%	51	73%	70	100%
Poor business performance	11	31%	25	69%	36	100%
Lower formal education	19	15%	108	85%	127	100%
Low income levels	3	14%	18	86%	21	100%
Poor access to capital	150	63%	88	37%	238	100%
Poor infrastructure	138	26%	395	74%	533	100%
Unemployment	0	0%	7	100%	7	100%
Lack of cooperation	0	0%	1	100%	1	100%
Poor planning	3	33%	6	67%	9	100%
Bad weather	88	29%	213	71%	301	100%

Source: Survey data

Financially unstable households listed laziness, lack of formal education; poor infrastructure, poor planning and bad weather as the main challenges on their household's poverty alleviation efforts. These households seem to blame external environment as opposed to internal factors within their own control. The conceptual framework adopted this study assumes that each household examines the both internal and external environment and then adopts a strategically viable poverty alleviation activity. The environment must not be blamed in totality.

A critical look at the critical success factors in Table 11 shows that they require each household to take an individual initiative to attain. Good budgeting, business incubation, self employment and good medical care require that each household takes a keen interest and take the decisions to act as an individual initiative as opposed to depending on the government. Households must exploit opportunities available for entrepreneurship training and involvement in solidarity activities such as borrowing and saving from micro finance institutions and cooperatives in order to attain good capital for starting up or expanding their businesses.

A closer look at the factors revealed by the factor analysis output in the study shows that attention must be external factors such as socio-economic and political environment for success. These external factors play a critical role in influencing the critical factors identified. For instance, a good budget can only work in a situation where socio-economic and political factors have been borne in mind.

Each household's internal factor also dictate how successful they can attain financial stability or otherwise. A household exploits businesses opportunities in the market place or can even take advantage of the challenges within the environment to set up profitable business ventures by marrying their strengths with the opportunities or challenges in their immediate environment. Internal factors include race, level of education, age, gender. These factors are as critical as the external factors.

RECOMMENDATIONS AND CONCLUDING REMARKS

The first conclusion is that education is a critical component of effective household poverty alleviation. Although education is provided for at the macro level since it is mostly provided for by government, there is need for each household head must struggle to enhance education of each member of the household.

The study findings show that most financially stable households listed self-employment as a critical economic activity for attainment of financial stability in Kenya. Households must therefore plan to start businesses if they want to ensure long- term financial stability.

A further analysis of categories of infrastructure and the relationship between these infrastructure and household financial stability showed that education related infrastructure covering both basic and tertiary institutions; good health facilities and road infrastructure are important for household poverty alleviation activities. Education is therefore extremely important for each household's poverty alleviation effort. The household must also ensure they get better medical care and access to good road infrastructure. This is finings contradicts the conceptual framework since it lists macro-factors as important for household financial success.

Six critical success factors emerged from the factor analysis. These factors can be generalized into access to good medical care; financial planning; business incubation and access to micro-finance opportunities as well as cooperatives; maintaining small family sizes in order to ensure that each household member is take care of properly and finally involvement in self employment. These findings show that each household must first make a conscious effort to plan its poverty alleviation strategy in order to attain financial stability. This plan must include ensuring each member of the household has access to good medical care and education. Families must focus on having enough children they can take of in order to ensure that the problem of heavy dependency does not affect the family. Household head must then involve themselves in business in order to ensure long term financial stability.

Heads of financially stable households listed poor access to capital as the main challenge to their household's poverty alleviation efforts. In order to overcome this challenge, each head of a household must focus on preparation of good financial plans complete with good budgets, and also get involved in cooperative and micro-finance institutions to access capital for setting up and enhance their income generating activities.

Financially unstable households listed laziness, lack of formal education; poor infrastructure, poor planning and bad weather as the main challenges on their household's poverty alleviation efforts. Each head of a household must develop a culture of hard work, planning and focus on self employment among members of the household to ensure effective poverty alleviation. This can be attained if the household heads stopped blaming the government and the environment and instead focus on how they can exploit internal strengths to exploit opportunities emerging from the environment. This can be achieved through education and constant examination of the environment to project the effect of socio-economic and political factors on the environment.

The major recommendation of this study is that members of households should change their attitudes towards work and family responsibility. Household heads should adopt the culture of better work ethics, responsible living, improved self-esteem and entrepreneurship. They should adopt the personal financial planning in the model to improve their capabilities and those of their households and then they will succeed in alleviating their household's poverty by analyzing opportunities and challenges in their environments and then come up with more practical strategies for tackling poverty complemented by self-employment and better budgeting at the household level. This is compliance with the conceptual framework adopted this is study.

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Appendix I

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	526	27.126	27.126	3.526	27.126	27.126	2.059	15.840	15.840
2	131	16.390	43.516	2.131	16.390	43.516	1.949	14.989	30.828
3	786	13.737	57.254	1.786	13.737	57.254	1.863	14.330	45.158
4	225	9.421	66.675	1.225	9.421	66.675	1.833	14.101	59.259
5	097	8.438	75.113	1.097	8.438	75.113	1.773	13.640	72.899
6	013	7.795	82.909	1.013	7.795	82.909	1.301	10.010	82.909
7	94	4.566	87.474						
8	76	3.664	91.139						
9	94	3.031	94.169						
10	92	2.243	96.413						
11	23	1.717	98.129						
12	36	1.045	99.174						
13	07	.826	100.000						

Extraction Method: Principal Component Analysis.

Appendix II: Counties

A. Lake region Counties

1. Siaya
2. Kisumu
3. Homabay
4. Migori
5. Kisii
6. Nyamira

B. Central region Counties

1. Nyandarua
2. Nyeri
3. Kirinyaga
4. Murang'a
5. Kiambu

REVENUE SHARING REGIMES AND CONFLICT PREVENTION IN NIGERIA BETWEEN GOVERNMENT AND PRIVATE SECTOR

E.E. Akpanuko[1]

ABSTRACT

*How equitable is resource sharing in different countries and communities? This question has been the basis for violent conflict in Nigeria in general (Boko Haram) and in the Niger Delta Region of Nigeria, in particular (Niger Delta Militants). The Nigerian case is a paradox of poverty and violent conflict in the midst of the abundance. In between this scenario is a complex and varying formula for the distribution of oil revenue only, while revenues from other resources are wholly owned by the region in which they are found. The Niger Delta region has suffered several years of neglect and environmental degradation from oil exploratory activities. The multinational companies' operating in this region have not been helping matters. What is the way forward for peace and who is responsible? These are the issues addressed by this paper. It traces the history of the problem, analyses the developments in the region and presents a case for **Strategic Government-Private Partnership** built on accountability.*

Keywords: Conflict; Revenue; Resource sharing; Partnership; Equity; Development.

INTRODUCTION

In capturing the conflict situation in the world at large, the following questions can be raised:

- Why do we have ethnic conflicts in different parts of the world at a time where there is tremendous growth in education and modernization?
- What accounts for the intra-country civil disturbances?
- Why do countries disintegrate?
- Why are the behavioral tendencies of the minority/majority ruling class and how acceptable are they to the other party (ies)?
- How equitable is resource sharing in different countries and communities?

The question – How equitable is resource sharing in different countries and communities? – underscores the problem of conflict and if answered; provides solutions to other questions. But because it is not answered, conflict – both violent and non-violent exist. This negates economic development, trigger ethnic tension and engender loss of lives and properties; causing untold human suffering and wrecking havoc in socioeconomic and environmental terms (Bennett, 2002; World Bank, 2000).

These conflicts present itself with ethnic undertones and as a result of failed governance (Bennett, 2002) and poor corporate social responsibility of the private sector enterprises that reap the much benefit of peace (Killick, 2002). While the responsibility of fostering peace and conflict prevention (CP) lies primarily with the government, other societal factors have a role to play, especially the private sector. Economic failure is closely linked to political failure initiated by ethnic crises that results from the desire to control a nation's resources; and inequitable distribution of the resources is always the root cause of civil unrest (Korten, 1995).

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Can the private sector contribute to the prevention of these conflicts? Should the burden and responsibility of conflict prevention be that of government alone? The private sector (Companies) while having little or no influence over a given country's economic policies and infrastructures, they nonetheless have great influence over the allocation of economic and financial resources as a result of their business operations (Bennett, 2002; World Bank, 2000; Killick, 2002; Nelson, 2000; Kuhn, 2002). Indeed in many countries around the world, poverty and inequality are not necessarily due to lack of resources but rather, lack of access to resources generated by the private sector.

The Nigerian case presents a paradox of poverty and inequality amidst plenty and varieties of sharing formula. Faced with multiple crises and violent conflict that manifests in different forms (religious, ethnic and marginalization, economic and political), the nation seek means of mutual existence in a heterogeneous society. These raise the question – What is an equitable means of sharing resources and how can it be achieved?

To address this all in one problem, the paper is explained in two sections:

(a) Lessons from Nigeria revenue sharing regimes, and

(b) The strategy (not tried in Nigeria) – The how?

LESSONS FROM NIGERIA'S REVENUE SHARING REGIMES

Nigeria, a nation in chaos and on the brink started out as four regions transformed by the need to resolve conflict into twelve states in 1967, 19 states and 301 local governments in 1976, 21 states and 449 local governments in 1987, 30 states and 589 local government in 1991 and 36 states including Abuja and 774 local government areas in 1996. Bequeathed a contentious federal system by the United Kingdom at independence in 1960, the nation and over 250 ethnic groups are saddled with a dysfunctional system of centralized ethno-distributive federalism, always engaged in frenzied competition to control the consumption of existing revenues. This competition has been noted as the major source of conflict (violent and non-violent) with ethnic undertones (Suberu, 2001; IPCR, 2004; Mbeke-Ekanem, 2002; IPCR, 2004).

To reduce the manifesting conflict progressively several revenue allocation committee, commission and decrees were put in place to provide an equitable formula for sharing the national "cake" among the region and tiers – North, West, East, Midwest and Federal, States and Local government. The first being the Phillipson Commission of 1946 established by the colonial masters in their unitary system and three others – Hick-Phillipson Commission of 1951, Chick and Raisman commission (1953) and Raisman commission of 1958, before independence. These commissions based their revenue sharing on derivation, 50% to the province area, 15% to the central government and 35% to others. After independence – the formal sowing of the seed of ethno-resource conflict – the issue was still lingering and after the manner of the colonial masters several commissions were established.

Between 1960 and 1979, in nineteen years, there were four different revenue commissions – the Binns commission 1964, Dinna commission 1968, Aboyade commission 1977 and Okigbo commission 1979. Between 1979 and 1994 many ad-hoc changes and amendments were introduced by the military. Interesting to note that; after the discovery of oil, the principle changed to population, size, equality of states and derivation was no longer an important issue. Why the many unsatisfied conflict prone formulae and number of states and local government?

The answer is based on an understanding of the institutional design governing different sections which explains why some groups are more powerful than others (Bates, 1981; Ashwe, 1986). The rules of the game (the politics) of national cake distribution are mostly honoured when breached and many individual actors circumvent institutional designs to enrich themselves and their constituencies (Herbst, 2001). Nigeria's case presents the above.

Before the 1970s there was relative peace, but only the struggle for power, which necessitated the control of resources; power without resources does not last, thus things were changed to allow for both. By 1970 oil replaced agriculture changing the locational-directional flow of resources to centre. The oil producing area (states) becomes the oil Mecca of Nigeria. This brought developments and was taking away resources-power from those in power. To strip the minority of this resources power, Awolowo's doctrine with the support of the majority Northern area, introduced the indigenization decree and a policy of onshore-offshore dichotomy. This allows 60% ownership of foreign companies to Nigerians taken over by the west and the decree gave total ownership of oil produced offshore to the centre and only 1 – ½% of royalty to producing states (Mbeke-Ekanem, 2002).

The creation of twelve states out of the four regions in 1967 increased the pressure for equitable allocation of revenue from national resources. As dissatisfaction in the revenue allocation mounts and to completely deny the minority (South east) of any right to their resources; the land used decree of 1978 was enacted. This gives the central government, controlled by the North and West, ownership of every piece of land, which implies all the national resources. Thus, shifting the distribution principles; from derivation to population size and equality of states.

This development gingered the creation of more states from the old regions to increase the share of revenue received from the distributable pool. At the end of 1962 census exercise, Northern Nigeria was half a million less than the south and the result was rejected by Abubakar and the British representation, Warren was fired. The 1963 census was called for, which shows the under-counting of the North by 8.5 million and Nigeria was 60.5 million (a figure believed to be too high and was scaled down to 55.66 million) and the North balloon to 31 million. With the protest of the south, the North was scaled down to 29.8 million while the East, South and Midwest remain as they were in 1962 census at 12.4 and 2.5 million. The west increased from 7.8 million in 1962 to 10.3 million in 1963. This result met violent protest but since the North and the West had their increases the protest was bounced and this led to the 1965 election controversy in the West and the aftermath of those doctored figures for increase revenue and other benefits of population (number) led to 1966 coup by Nzeogwu and all the military prophets that followed and their revenue distribution – "distortion" – formulas. Agreement (an instance is the Aburi agreement) were made to be honoured when breached. This remains the rule of the game.

The principles of horizontal allocation between states changed rapidly and continuously as shown in Table 1 (see page 56), resulting in conflict after conflict and declaration, after declaration, from regions and/or ethnic grouping to free themselves and seek for justice. Each declaration has resource distribution as key words. The first being the Biafra declaration of secession on May 30, 1967 by Ojukwu to be followed by a declaration of secession of the west by Awolowo as agreed. But Awolowo did not declare (again the rule of the game, agreement honoured when breached). Instead he (Awolowo) took a dual position in Gowon's administration as minister of finance and a civilian head of government.

This led to a 30 months civil war to unite Nigeria which ended on January 14, 1970. Thus Gowon became an acronym for unity **"G**o **O**n **W**ith **O**ne **N**igeria." That was just the beginning of not more civil wars but violent ethnic conflict in struggle for resources control. The revenue from the oil in the 70s was wasted in events like FESTAC – First Worldblack and African Festival of Arts and Culture.

Those left out were the minorities from whose land the looted resources were exploited. The oil companies continue to operate insensitively, often times leaving the people with completely devastated environment. Without pipe-borne water, no schools, no health facilities nor electricity; since what determines control was number or money. The minorities are completely locked out while the majority continues to prosper through formulated systematic revenue distribution – distortion and looting. The minorities were tagged troublemakers in questioning government and private sector (oil companies) injustices and demanding control over their resources. For instance in 1970 a major oil spillage occurred in the village of Ibubu, in Ogoni land, as a clean-up measure for millions of gallons crude covering several hectares of farm land, Shell BP decided to set fire to the crude. How just is this action to the environment? The fire that burned for weeks created craters of six to ten feet deep and a soil crust laden with tar of more than ten feet deep. If plant can never grow even after 30 years, what happens to the ground water? What about fishing, the major occupation of the area? In Akwa Ibom State, Eket, several spillages have been occurring but the worst occurred in June 1995 and 40,000 barrels in January 1998 believed to be one of the worst in the world (Mbeke-Ekanem, 2002).

After years of unanswered protest to Shell and the Nigerian government the stage was set for various other declarations.

The Ogoni declaration was made in bills in 1990. They declared as follows: under the umbrella of MOSSOP:

> ….over 30 years of oil mining, since 1958 has left the people with: (i)No representation ….in all institutions of the federal government. (ii)No pipe borne water (iii) No electricity (iv) No job opportunities (v) No social and economic project of Shell/ government.….that the people wish to manage their alter… (http://www.mosop.org/ogoni_bill_of_rights.html)

In response, in October 19, 1992 Decree No. 23 1992 establishing the oil mineral producing area development commission (OMPADEC) was promulgated by the government, with the primary aim being the rehabilitation of the environment and people of the oil producing areas.

In Akwa Ibom the struggle for crumbs, for who gets what, in terms of the meager loyalty on land and the utter neglect continually generated communal clashes and violent conflict. In January 1993 the two communities in question came “face to face”. Okposo, the disputed location was set ablaze. Explosives were used to blow up homes – where did they get them from? Fishing equipment and properties worth millions of Naira and lives were lost.

Before the committee to settle the first conflict resumed the worst happened in June 28 1993, Ibeno was attacked by Eket and Esit Urua kindred. As the fighting persisted evidence of strong military backing was uncovered. Production of oil was halted. That prompted the government to send the Nigerian Army to quell the crises. Millions of naira worth of properties and scores of lives were wasted again.

The Niger delta area’s situation becomes volatile by seconds. Delta state had their own fair share of the worst ethnic clash in the country between Ijaw and Itshekiri, all with resource control undertone. The weapon used was acquired to face the federal government to avoid the Ogoni-like confrontation (Mbeke-Ekanem, 2000: 203) after discovering that quiet diplomacy does not hold water. Properties were destroyed and lives were lost on March 25 1997. On Saturday 24 October Shell was dragged in as it shut down its flow station and cut down production by 20%. By mid-October 1998 the two oil company in the area, Shell and Chevron, which did nothing to develop the area, were forced to shut down (508 000 barrels crude oil per day). The Ijaws under the banner of the Niger Delta Oil Producing Communities Development Organization (NIDOPCODO) and Environmental Right Action in Warri filed a law suit against Shell BP, stopping production and requesting for compensation to four communities due to environmental degradation caused by incessant oil spills. In

May 1997, it was ruled that Shell should pay N30 million to the communities. By the end of May 1999, the Warri war took a multi-ethnic dimension, involving the Urhobos. About 500 people were dead, with over 50 government soldiers, no fewer than 700 houses burnt and over 300 000 people displaced, 30 Shell workers and a dozen expatriate were kidnapped, production of oil decline, forcing Shell BP, Elf and Chevron to declare force majeure (see Appendix I).

The declaration did not end as there was no end in sight. On December 11, 1998, the Ijaw youth numbering over 5000 assembled in Kaima in Bayelsa State and issued the following declaration, that the **"cheat"** is enough. But rather than revisit issues, on November 1999, Odi in Kolokuma/ Okputuma local government area of Bayelsa State was invaded by Nigerian army troops between 3 000 to 5 000; a number not seen since 1967-70 civil war. Not less than a thousand lives was lost. Odi was leveled. The then Senate President was dumbfounded at the havoc done by the so-called Democratic Government of Obasanjo. Their only crime is; owning resources and demanding for a fair compensation for its exploitation. The Niger Delta Development Commission (NDDC) concept was introduced. Its success is under question given the continued conflict. This initiative is marred by disputes over payments by government and complaints that it is not adequately reporting its activities or allowing local communities sufficient control over its funds (Bennett, 2002).

During September 20, 1999, President Obansanjo commissioned a revenue sharing formular committee – Hamman Turker commission. In 2004, September 20, a new formula was arrived at with federal government having 53.69%, state 31.10% and local government 15.21%. It is worthy of note that this distributable pool does not include revenues from other mineral resources except crude oil. Other resources are owned 100% by the respective states. It is sad to note that this formula is bound to generate a whole new set of conflict.

THE THEORIES AND THE ROAD NOT TRIED

Most of the existing literature on conflict and political economy of resource dependent states conclude or sometimes assume that the economic and political forces generated by inverse flow in export volume and revenue in natural resource-dependent states are so powerful that they distort any type of political structure. The relentlessness of these structural pull generated by oil exports persistently distort the best intention (if any) to sow the oil revenue but instead results in economic deterioration, conflict and political decay. Some assign importance to state design while others argue that the economic sector is not well organized (Karl, 1997: 222; Shafer, 1994: 3; Frieden, 1991: 225).

Most of the recommendation centers on changing resource and sectoral dynamics of these states. Collier (2000: 1080) argues that economic diversification and poverty reduction are important in conflict prevention and recommends deregulation, improved transportation and reduction of barriers to information flow, but no suggestions on reforms in government institutions that might reduce conflict. Also Herbst (2001: 3) notes that for countries at risk of conflict the question of proper institutional design is exceptionally important because it may be that changes in political dynamics surrounding government revenue are more tractable, than changing the basic structures of the economy at least through the medium term. Diversification of developing countries portfolio is exceptionally difficult and may be dependent on a host of issues outside the control of any government. In Nigeria, Ashwe (1986) noted that the rules of the game are critical to the outcome of political conflict.

Even in the unlikely event that resource dependence has dominated most institutional arrangement to date, there is still the possibility that countries could develop new institutional arrangement that would ameliorate or eliminate the correlation between resources and conflict.

These inform the road not tried – partnership between government and the private sector through corporate social responsibility programme.

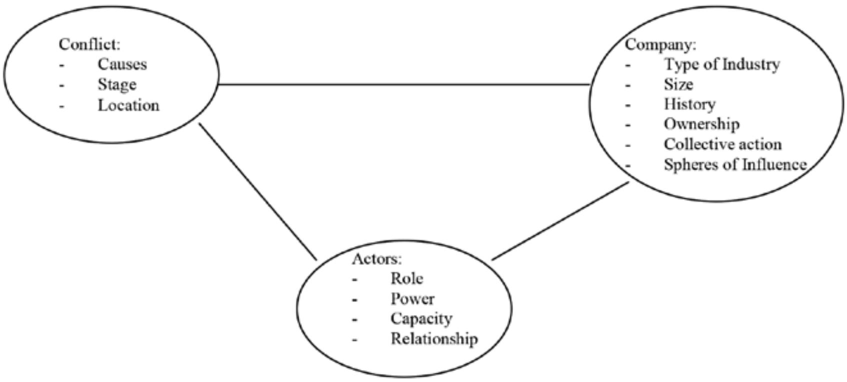
Nelson (2000) outlines five principles underlying the commitment of the private sector:

- Strategic commitment
- Analysis
- Dialogue and consultations
- Partnership and collective action
- Evaluation and accountability (including sustainability)

These principles suggest a generic framework for guiding the process of multi-stakeholder initiatives. The process is not rigidly chronological or independent stages in a process, but more akin to a jigsaw puzzle.

Strategic commitment is a willingness to engage in the debate and basic recognition of partnership. It requires those who embrace the concept and can influence attitude of others; persuading the skeptics. The analysis is illustrated in the following diagram (Figure 1).

Figure 1 Proposed analysis of business and conflict partnership



This analysis is the foundation on which multi-stakeholders initiative can be built. It is a precursor to dialogue but an objective of them. Dialogues are one of the key means by which all sectors come to a mutual understanding of each other's standpoint, interest, agendas and concern as well as of the issues themselves. In this type of initiative, at least, the most useful dialogue often comprise of people who would not otherwise meet and may have strong concerns about doing so.

Partnership presumes a shared concept of the problem and mutual recognition of each participant's destructive and complimentary role. This requires an implicit understanding of the word partnership rather than necessarily the tangible output of shared activity. Evaluation and accountability relates not only to reflection and compliance but also to forward planning and being proactive. In this circumstance the values of multi-stakeholders become clear. This shared approach to common problems enables a more radical exploration of the role of companies.

SUMMARY AND CONCLUSION

The conflict situation in the Niger Delta of Nigeria presents itself in diverse form but can be traced to the advent of oil and lack of a fair institutional framework of revenue distribution, where some exist, it is created to be breached and bedeviled with unscrupulous legislature that circumvent the true state of the "Cake Sharing" formulae. The residents of this resource area suffer the exploitation effect without adequate indemnity. Pollution, loss of property and lives to violent clashes, loss of soil fertility and negative effect on health are their reward. To them oil have actually become a curse.

The theories suggest various measures, some feasible and others not. But given the pros and cons of existing literature a new approach – the untried road – has been suggested. The drive for peace must be beyond government, and the private sector to other stakeholders – the multi-stakeholders approach. This approach involves five principles; Strategic Commitment, Analysis, Dialogue and Consultation, Partnership and Collective action and evaluation, accountability and sustainability. This process guarantees peace and prevents conflict, thus promoting political stability and the evolution of true federalism.

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Appendix 1

A CATALOGUE OF ESCALATING VIOLENCE IN THE NIGER DELTA 2003 – 2006

1. 2003 at Irri Isoko south local council, a traditional ruler was alleged to have sold the rights of the community to Agip Oil. This sparked off violence. And the end of the imbroglio, no fewer than ten persons died and properties worth millions of naira was vandalized, including the palace of the traditional ruler who took to his heels in the heat of the crises.

2. 15th January 2003: Indigenes of Ohoror Uwheru community in Ugbelli North local council were attacked by a detachment soldiers from the joint security task force "Operation Restore Hope"

3. 23rd March 2003: while the security task force was on patrol off Escravos River, youth attack the team with 17 speedboats at Oporosa on the Escravos Creek killing three soldiers and one Naval Rating.

4. 22nd March 2003: Youth struck at the TotalFinaElf tank farm in Oponani village and killed five soldiers and destroyed property worth billions of naira.

5. 2nd May 2003: Barely 24 hours after the state house of assembly election, youth brandishing AK47 pump Rifles and other light weapons attacked the Naval base, leaving two Naval Ratings severely injured.

6. 7th November 2003: 8 Mobile police men were reportedly killed by youths between Otuan and Oporoma in southern Ijaw local government area of Bayelsa state.

7. April 2004: 5 persons including 2 Americans were killed by Militant youths. They were among the 9 people traveling in a boat along Benin River, west of Warri. When they came under what was described as "Unprovoked Attack". The 2 American Expatriates were on the staff list of CheveronTexaco.

8. January 2004: Suspected Itsekri Militants invaded some communities in Okpe Kingdom, killing 17 people and injuring 3 others.

9. 14th April 2004: Ijaw youths attacked and killed 4 children and a 90 year old community leader, Madam Mejebi Eworuwo, in Koko, head quarters of Warri North local council, Delta State.

10. 23rd April 2004: About 9 members of the joint security task force "Operation Restore Hope", in charge of security in Warri were killed by militant Ijaw youths.

11. 2nd November 2004: for several hours, youths of Igbudu and soldiers of the joint task force clashed in Igbudu area of Warri, Delta state.

12. 18th November 2004: Ijaw youths from Odioma community in Brass council in Bayelsa State, protesting an alleged violation of a memorandum of understanding (MOU) by Shell Petroleum Development Company (SPDC), shut down and occupied its 8,000 Barrel per day flow station.

13. 22nd November 2004: at least 17 youths of Ijaw extraction were confirmed dead as soldiers deployed to guard a flow station belonging to an oil servicing firm shot sporadically into a crowd.

14. 28 November 2004: Ijaw youth clashed with soldiers at Beneseide flow station near Ojobo in Bayelsa state over breach of MOU.
15. 23rd December 2004: the youths in Ogbe-Osewa and Ogbe Ilo quarters in Asaba clashed over a land dispute. Over 100 houses were ransacked, with property running into millions of Naira destroyed.
16. 23rd December 2004: at Ekpan, Uvwie local council of Delta state youths clashed over the appointment of Unuevworo (Traditional head) of the community.
17. 24th December 2004: Militant youths kidnapped 16 Oil workers, including a Yugoslav at Amatu community in Ekeremoh local council of Bayelsa state. They were kidnapped from a vessel identified as Seabulk, owned by an oil servicing firm, working with SPDC.
18. 26th December 2004: Alleged similar breach of MOU by SPDC lead to the abduction of a Croatian worker, Mr Ivan Roso, at the company's sea eagle floating crude oil production facility.
19. 21st December 2005: Explosion rocked Shell Pipeline in Niger Delta.
20. 22nd December 2005: Fire raged in Shell installations causing 13 deaths.
21. 12th January 2006: Pirates took four expatriates hostage.
22. 16th January 2006: Militants Attacked another Shell platform and touched houseboats.
23. 16th January 2006: 14 soldiers killed in Niger Delta shoot out.
24. 18th January 2006: Soldier and Bayelsa Militants engage in gun duel.
25. 18th January 2006: Shell cut output by 115 Barrels per day.
26. 19th January 2006: Federal Government Open talk with militants.
27. 29th January 2006: Oil workers threaten to pull out of Niger Delta.
28. 15th August 2006: Obasanjo order for security service to use "force for force" against Niger Delta Militants.
29. 7th October 2006: Militant captured a barge of diesel fuel and kidnaps 25 Shell workers.
30. 3rd October 2006: 18 militants stormed Eket in Akwa Ibom state, and kidnapped 7 expatriate workers at an Exxon-mobile facility.
31. 5th October 2006: Army of security forces allegedly razed the Ijaw village of Elem-Tombia in Rivers State.
32. 11th December 2006: More than 500 young people representing about 500 communities and the 40 or so Ijaw clans, met in the town of Kiaiama to enforce the Kiaiama declaration.
33. 30th December 2006: Troops open fire on a 1000 strong protest march in Bayelsa Capital killing at least 3 people and wounding dozens, more that 20 people were reported killed in subsequent confrontation. A week after the first killing, estimate of the number killed by troops ranged between 26 and 240, and more that 90 houses were burned down.

Source: The Guardian 13th February 2005 p. 26 and various issues from December 2005 to January 2006 and other issues of The Punch and ThisDay

Table 1 Revenue sharin2: formula before 1960 and After

Year	Commission/ Committee	Type of Government	LGA/ States /Region	Federation	Principles
1948 - 52	Phillipson Commission	Unitary	(North 36%, West 26%, East 38%) of20%		derivation, even progress and population
1952–53	Hicks - Phillipson	Unitary (But the principle of derivation need and national interest was introduced)	50% of tobacco and 100% of duty on motor fuel on basis of derivation, capitalization grant on basis of needs 100% grant for the cost of regional police force. 50% cost of native authority police force, 100% grant for education.	50% of tobacco and remains of capitalization and motor fuel (given the fact that the derivation was relative to consumption)	Derivation, needs and natural interest
1954–59	Chick	Self Government to regions	50% of general import and excise duties. 100% of import duties on motor spirit. 100% of personal mcome tax. 100% of mining rents/royalties. Central market board reserves were shared on principles of derivation given the break up: North $46\frac{2}{3}$% (£70m), East 20% (£30m), West $33\frac{1}{3}$% (£50m)		Derivation compatible with needs of the centre and region to fiscal autonomy
1960–65	Raisman	Federalism	Derivation: 30% of import duties (other than tobacco and motor fuel). 50% of mining rents/royalties. Distributable pool: 30% of mining rents and royalties, 30% import duties except those of wine, beer and spirit, motor spirit and diesel oil and tobacco – thus, North 40%, West 31%, East 24%, Southern	70% mining rents/royalties 70% imports duties	derivation and distributable pool base on needs
			Cameroon 5%		
1966–67	Binns	Federalism	Derivation: Same as above. Distributable pool , 35% mining rented royalties and 35% of import duties. Thus: North 42%, East 30%, West 20%, Midwest&%	65% of mining rents and royalties 65% of import duties	Derivation, need financial comparability
1967, military intervention changed the political environment and 12 states were created and sharing the distributable pool was problematic.					

1966	Allocation of revenue Decree NO. 67 of 1966	Military and federalism	Abrogation of 1965 Act and change of dates of operation to 1st April, 1966		Derivation needs balance development rmmmum national standards
1967	The constitution (Financial Provision) Decrees NO. 15, 1967	Military and federalism	The North's 42% was divided equally among the six (6) states and the west and east among the states newly created on the basis of population.	Same	Derivation, needs population and equality.
1970	Constitution distributable pool account Decree 1970	-do-	Only 60% instead of 100% of export duties, 50% instead of 100% of duty on motor fuel and 50% of excise duty revenue. derivation: 45% of rent and royalties.	The federal government got more. 40% export duties, 50% motor fuel, 50% excise duties, 50% of mining rents and royalties of 50% to states on derivation	Derivation, needs, equality and population
1971-74	Off-shore-oil revenue Decree NO. 91971	-do-	20% of On-shore-oil revenue	All off-shore-oil revenue April!, 1971	Same as above
1975-76	Constitution (Financial Provision, etc) Decree NO. 6, 1975	-do-	20% of on-shore oil revenue, mining rent and royalties Sharing: same as in 1971 basis	80% on – shore oil revenue, mining rent and royalties. 100% off-shore oil revenue, mining rent and royalties. Distributable pool: 35% of import duties (except motor spirit, diesel oil, tobacco wine and beer and potable spirit). 100% of duties on motor spirit, 50% of excise duties and 100% export duties on produce, hides and skin.	Same as above
1977	Aboyade Committee (This report was rejected by the constituent assembly of 1978)	-do-	**LGA** 100% **STATE** 30% and 20%of On-shore, mining rents and royalties	**FEDERAL** 60% of totally generated revenue **Principle** -Equal access to developmen t opportunitie s. -National mining standard fo integration. -Abso tive capac! . -Fiscal efficiency and revenu tax effort.	**Recommended** % 25 22 20 15 18 **Accepted** % 27 28 20 13 12

1979	The constitution (section 272)	Military-federalism	Allocation to LGA was through government discrepancy grants which vanes N100m 22–77 N250m 77–78 N150m 78–79 N300m 79-80	Allocation of the distributable pool 20% on–shore mining rents and royalties		Equality - 50% Population - 50%
1980	Okigbo	Civil-federalism	10% 5% of total state revenue –state–LGA joint Account	30%	53% and special fund of7% distributable as follows: Initial development of federal capital territory – 2.5% Special petroleum of the mineral producing area 20%. Ecological problem 1,0%. Revenue equalization 1.5%	min. responsibility of government - 40% population 40% social development 15% Internal revenue effort 5% Same as in states and LGA
1981	Allocation of revenue (Fed. Act) Act NO. 1, 1981	Civil-federalism allocation		Nullified By supreme court (use was made of 1978–79 system)		
1982	Allocation of revenue (Fed. Act) Act NO.1, 1982	Civil-federalism allocation	10% shared based on Okigbo's principle splus 10% from state contribut ton	35%	55%	Of the 35% to states: 1.0% paid into ecological fund. 3.5% mineral producing states (2.0% direct to states, 1.5% to federally – administered for oil producing area development). 30.5% shared in accordance to Okigbo's formula. 40% min. responsibility of government (equality of states). 40% population.m15% social development 5% internal revenue effort
1984-89	Allocation of	Military and		It created two separate funds to transfer state government allocation		

	revenue (Fed. Act) Amendment Decree NO. 36, 1984	federalism		and to empower the federal government to administer and apply proportion specified in the Decree, 2.5% special funds was introduced and states funds reduced to 32.5%		
1990-91		Military-federalism	15%	30%	50% and 5% special funds	Equality of states 40% Population 35% Special development 20% Internal revenue effort 5% Land mass 10%
To March 1992		Military-federalism	20%	25%	50% and 5% special funds	Equality of states 40% Population 30% Special development 10% Internal revenue effort 10% Land mass 10%
March 1992 To 1999			20%	24%	48.5% and special funds 7.5%	Equality40% Population 30% LandMass 5% Terrain 5% Internal revenue effort: Ratio 2.5% Equality 7.5% Special development: Primary school enrollment 2.4% Direct secondary/commercial emolment 0.8% Inverse secondary/commercial emolment 0.8% Hospital beds 3.0% Water supply spread 1.5% Rainfall proportion 1.5% The special funds comprised of FCT: 1.0% Derivation 1.0% OMPADEC 3.0% Ecological 2.0% Statutory stabilization0.5%
1999	Haman - Turker	Civil-federalism	15.21%	31.10%	53.69%	

SUPPORTING SMALL, MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA

S. Tsoabisi[1]

ABSTRACT

The Local Government sphere in South Africa faces several cogent developmental challenges. Several interventions have been introduced to confront such challenges as poverty, unemployment and skills shortage, with partial success. In this article, a conceptual framework is proposed for small, medium and micro enterprises (SMMEs) in South Africa. The literature review includes an analysis of documents issued by four municipalities as well by the former National Department of Provincial and Local Government. In this regard, an explanation of the concept of SMMEs is provided so as to contextualise the study. Apart from the lack of funding, SMMEs appear to suffer from lack of information, efficient production technologies, inadequate use of management and control systems. To further contextualise this study, the debate on local economic development (LED) in the South African local government sphere is presented to highlight the current challenges. Common characteristics of LED and SMMEs are also enunciated so as to establish the nexus. Finally, drawing from the above context and discussions, a conceptual framework is articulated and presented, which is intended to assist municipalities to ensure that viable SMME strategies are developed.

Keywords: Municipalities; Local Economic Development; Small, Medium and Micro Enterprises.

INTRODUCTION

The challenges of developing countries including South Africa centre on how to ensure that development interventions are effective so that the majority of citizens benefit from the economic activities of the country. This is because sustainable economic activities are necessary for the wellbeing of society. South Africa has provided numerous initiatives in response to developmental challenges. Interventions to promote local economic development include initiatives such as public-private partnerships as well as promotion of small, medium and micro enterprises (SMMEs). In this article, only the concept of SMMEs receives attention. The purpose of this article is to propose a conceptual framework for municipalities in supporting SMMEs. The article is not intended as an analysis of whether SMMEs are successful as service providers, but rather whether a conducive environment has been established for SMMEs to succeed. South African Cities or Municipalities such as the City of Tshwane Municipality and Amathole District Municipality have established sections/departments/units that administer SMMEs as a sub-unit of Local Economic Development (LED) and alternatively, as an economic development department. Nel (1998) noted that the term ‘economic development’ is used in preference to LED, which may confuse the actual understanding of LED as a supported national programme that municipalities are required to adopt, customise and implement. The description is necessary as the concept of SMMEs is used in the context of LED implementation.

The concept of SMMEs is explained to clarify the point of departure. Since SMMEs are embedded in LED, it becomes the responsibility of municipalities to ensure that the economic development challenges are responded to within a regulated and supported framework of SMMEs. In this regard, an LED strategy is formulated by municipalities to support the establishment of SMMEs within and by municipalities. The common characteristics of LED and SMMEs are also explained.

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Finally, a conceptual framework for SMME establishment and support is provided to indicate what municipalities should consider when adopting and implementing a SMME strategy.

LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

The establishment of an LED strategy by the former Department of Provincial and Local Government as an overarching policy framework is necessary for the development of local communities (DPLG, 2006). In this strategy, reference is made to the South African Constitution of 1996 and the White Paper on Local Government of 1998. The implication of this legislation is that the LED function of municipalities is not to create jobs directly, but to facilitate an overall economic and social environment that promotes the creation of job opportunities. In response to its provincial economic challenges, the Gauteng Provincial Legislature has passed the Gauteng Enterprise Propeller Act 5 of 2005, to provide non-financial and financial support, and to co-ordinate stakeholders for the benefit of SMME's in the Gauteng Province. This has led to the establishment of the Gauteng Enterprise Propeller (GEP) as a provincial agency to give effect to this ordinance. The GEP, like the municipalities, serves as a facilitator in supporting sustainable small enterprise development, establishing guidelines for SMME development as well as providing advice, information, analysis and support for SMME policy implementation amongst other things. However, the establishment of the GEP has not been linked directly to the municipalities in Gauteng to ensure that LED and SMMEs become functional areas. The management of GEP therefore requires more attention to facilitate the way municipalities assist SMMEs within Gauteng Province. This discussion is intended to help provide a context for the understanding of the concept of SMMEs in South Africa.

To understand the role of municipalities in LED, the White Paper on Local Government of 1998 puts forward four interrelated characteristics of developmental local government, namely: maximising social development and economic growth; integrating and coordinating; democratising development; and leading and learning. While there is a close relationship between these four different characteristics, it should be emphasised that social development and economic growth as well as the democratisation of development should be regarded as key SMME features for sustainable local economic development. The White Paper also provides a framework within which municipalities must develop their own strategies for promoting social and economic development of communities. Developmental outcomes as mentioned and identified in this White Paper include the provision of household infrastructure and services; creation of liveable, integrated cities, towns and rural areas; local economic development; and community empowerment and redistribution.

Local economic development (LED) is a policy towards economic development that allows and encourages local people to work together to achieve sustainable economic growth and development. This policy should be aimed at bringing economic benefits and improved quality of life to all residents in a local municipal area. Human, Marais and Botes (2008) view LED as a function of local government from an economic sense as required to create viable conditions conducive to the success of business activities.

LED is concerned with the creation of an environment that will engage stakeholders in implementing strategies and programmes. LED policy should be aligned with the country’s macro-economic strategy, which is focused on re-entering the global market, providing a climate which is amenable to international investments, enhancing the role of the private sector, and reducing the role of the state. The word ‘local’ in local economic development points to the fact that political jurisdiction at local government level is often the most appropriate place for economic intervention as it carries the accountability and legitimacy of a democratically elected body. LED is about communities continually improving their investment conditions and business enabling environment to enhance their competitiveness, retain jobs and improve incomes. This is essentially what the understanding of the democratisation of development should be about. To ensure that LED policy may be translated into deliverables, the development of LED strategy within municipalities with a provincial and national alignment is imperative.

Human *et al* (2008) promote a strategic approach to the development of local economies and a shift away from narrow municipal interests focussed only on government inputs into ad-hoc projects. Inn Effective strategic planning ensures that priority issues are addressed and limited resources are utilised to the maximum. Once an LED strategy is initiated, there is a need to ensure that its implementation is realised. In the context of this article, how SMME initiatives thrive will depend on this LED strategy.

In supporting the above notion, the five-step planning process as developed by the World Bank is detailed below, in which an attempt is made to apply the context to the concept of SMMEs in South African local government:

Stage One: Organising the effort

A community considers the LED policy planning process by identifying the local people, local public institutions, local businesses, local community organisations and other local groups of interest in the local economy that could establish and run SMMEs. The skills and resources that each one of these stakeholders brings to the strategy process provide a critical foundation for success. A resource audit is a necessary input to the strategy, and should include the identification of financial, human and capital resources that can contribute to LED strategy.

Stage Two: Conducting the local economy assessment

The aim of the local economy assessment is to identify the local community's strengths and weaknesses, including its human resource capacity, local government's friendliness to all types of SMME activities, and the opportunities and threats facing the local economy. The goal of assessment is to create an economic profile of the communities and other regional, national and international competitors within the local economy.

Stage Three: Developing the LED strategy

Most importantly, the LED strategy and action plans must be finely assessed against the staff resource capacity to carry them out, as well as budgetary constraints. The strategy's action plans should be incorporated into the work and budgetary programme of the local government and other stakeholders. The aim is to leverage strength, overcome weaknesses, exploit opportunities and deal with threats to the SMMEs.

Stage Four: Implementing the LED strategy

Strategy implementation is driven by the LED action plans. Ongoing monitoring is provided through formal structures identified and created in step one. Evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives through SMME activities. In undertaking strategy implementation, it is important to identify and establish the appropriate institutions SMMEs may use to carry out the plans.

Stage Five: Reviewing the LED strategy

Effective monitoring and evaluation techniques could help to quantify outcomes, justify expenditures, determine enhancements and adjustments, as well as develop good practices. The LED strategy should be reviewed at least annually to ensure that it remains relevant to the various LED options including SMME initiatives. It may be that the initial conditions have changed or that the assessment was incorrect for the local conditions. The LED strategy that is intended to address

SMME needs should evolve continuously to respond to the ever-changing competitive market environment.

According to Rogerson (2008), LED needs to be seen as having the following dimensions in order to evolve sufficiently and respond to the SMME approaches:

- Existence at the policy level, that is, municipality's decision to be more business-like, or to encourage procurement and investment.
- Existence at an institutional level, which is having a job centre or being a Section 21/non-profit company in terms of the Companies Act 71 of 2008.
- Existence at the project level, that is, it should operate as a defined, focused undertaking. For example, the establishment of a chicken co-operative company could be ideal.

Organising LED within the different spheres of government listed above is intended to give meaning to how the concept of SMMEs could be expressed in municipalities. It is necessary to highlight that, since the SMMEs are embedded in LED, municipalities would require innovative approaches to satisfy the economic developmental needs of its community. This could be useful in realising the implementation of the SMME concept. In realising the implementation of LED strategy to improve economic conditions of its community, the City of uMhlathuze has provided an exemplary strategy for implementation during the period 2008 – 2011.

An outline of pertinent challenges that could hamper SMME development and success was undertaken while possible remedies and the role of the municipality in developing SMMEs were addressed. These include start-up and venture capital, local business centres, reforming the tendering policies, establishing a database, as well as monitoring and evaluating SMME activities. To further understand the organisation of LED strategy as well as satisfying SMME needs, Xuza and Swilling (2008) proposed a consideration of institutionalising the different roles of stakeholders in municipalities. The intention of presenting LED strategy and its institutionalisation is to ensure that its implementation approaches to issues such as SMMEs are undertaken within a guided framework. Xuza and Swilling (2008) further allude to the notion that institutional arrangement and implementation of LED should be done with the following in giving further effect to SMME initiatives:

- Non-governmental organisations: One role of NGOs might be to find external resources other than those of government to support the local economic development projects of a municipality. In the application of SMMEs, NGOs could assist individuals and cooperatives with entrepreneurial skills and business ideas.
- LED units: The creation of LED funds by government has been intended to support community projects that were politically endorsed by the municipality. This prompted the majority of municipalities in South Africa to create LED units to support SMME initiatives within the municipality.
- LED forums: Participation of LED stakeholders such as NGOs, institutions of higher learning and the business sector serves an important role in ensuring that LED activities such as SMME initiatives within the municipality are monitored locally.
- Donor agencies: The involvement of donors in the development of South Africa is essential. However, this should be treated with caution, since such involvement is largely seen as a short-term solution for long-term problems. This is due to the limited amount of money that can be dispensed. In this regard, the local municipality should be able to engender sustainability in the established SMME projects.
- Development agencies: The formation of agencies could serve as an important initiative to sup-

port LED at all community levels for different activities. For example, the Industrial Development Corporation (IDC) provides support and seed funding for the expansion of SMMEs in South Africa.

The above institutional arrangements could also give meaning to the implementation of LED strategy realised through SMMEs as argued in this article. While this article advocates that SMMEs are inherent to LED, a theoretical analysis indicates that a distinction could be drawn between these two (LED and SMME) variables. However, in this regard, the relationship between LED and SMMEs, highlighting common characteristics warrants a brief overview.

SMALL, MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA

The National Framework for LED in South Africa aims to support the development of sustainable local economies through integrated government action. This government action is developmental and stimulates the heart of the economy which comprises those enterprises that operates in local municipal spaces. The framework is underpinned by an appreciation of the evolving practice of LED internationally and is based on the unique South African context and challenges.

The promulgation of the National Small Business Act, 1996, gave formal recognition to the existence of the small business in South Africa. This recognition served as a basis for the establishment and promotion of small businesses by all spheres of government. The recognition discussed in section 3(1) (a-e) of the NSB stipulates that a National Small Business Council be established to fulfil the following functions:

- To represent and promote the interests of small business, with emphasis on those entities contemplated in the National Small Business Support Strategy; and
- To advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business.

Since the notion of small business has been formally recognised, the challenges to be overcome in improving economic development and growth are a legion. This article focuses on the role of local government and its policy interventions to address developmental challenges for small business. This is because the creation of LED units and other methods on the institutionalisation of LED in local government requires an understanding of the different forms this implementation could take, including SMME development. During the initial stages of the development of LED policy and strategy in 2002/03 by the former Department of Provincial and Local Government, LED activities were already credited with the establishment of SMMEs in various communities. These included several women-driven entrepreneurial initiatives. Accordingly, Rogerson (2008) concurs that SMMEs have been acknowledged as an application of LED policy from its inception and formalisation in South Africa.

Visagie (1997) espouses the recognition and value of the SMMEs in the generation of new employment and competitiveness, in which, the Government must endeavour to bring small, medium and micro-enterprise into regulatory framework for labour standards. The South African municipalities are facing the enormous challenge of poverty, which requires interventions to improve the conditions of the poor. The introduction of the SMME concept requires that the municipal role be clarified, not as a business owner, but as a facilitator of an environment conducive to the development of business initiatives by community members. Rogerson (2008) provides examples of SMMEs in most African countries which include handicrafts, speciality food outlets and tourism. This identification is necessary, because SMME policy should support specific sectors within a particular municipality. Rogerson (2008) further quotes a study by the World Bank (World Bank and Cities of Change Initiative, 2000) regarding value chains within a particular area of SMME operation, such as tourism, to ensure that there is an understanding of the business environment. In this regard, municipalities are expected to become the major role-players in local economic development (LED) in creating an opportune policy environment to facilitate SMME activities in the following ways:

- Creating employment opportunities;
- developing infrastructure in a way that provides business opportunities for local communities;
- encouraging co-operatives to help the community become active in the local economy;
- promoting economic development and growth through strategies that create a conducive environment for investment;
- developing and sustaining the main economic sectors; and
- promoting the development of small businesses and enterprises; namely, small, medium and micro enterprises (SMMEs).

The above discussion confirms that municipalities are confronted with major developmental challenges, which require urgent attention. The intention is to identify the location of SMME strategy in the context of LED functions. This means that as indicated by the former Department of Provincial and Local Government, municipalities are required to create an environment that promotes LED and encourages SMME initiatives. However, municipal SMMEs are not always linked to LED activities. For example, the State of the City Budget Speech by the Mayor of the City of Tshwane highlights the intention to consolidate SMME projects with Tshwane women and cooperatives without any mention of the LED as a unit or activity (Ramokgopa, 2009). The term SMME is used in South Africa to refer to small businesses or enterprises. Any entity, whether or not incorporated or registered under any law, consisting mainly of persons operating small enterprise concerns in any economic sector, and established for the purpose of promoting the interests of small enterprises.

One of the challenges faced by SMMEs in South Africa remains their inability to maintain effective presence within the economic system for a relatively long period of time. A need exists to investigate the existence of SMMEs and how they can promote LED. However, as earlier discussed, this is not the focal point of this article. The presence of supporting entities in the economic system and the vitality of this role suggest that SMME programmes and projects should reasonably operate in a favourable environment created by municipalities. The primary role of municipalities is defined in the Constitution of the Republic of South Africa, 1996 (the Constitution), as the 'promotion of social and economic development' and reinforced in the White Paper on Local Government of 1998 and other associated legislation such as the White Paper on Municipal Service Partnerships of 2000 and the Municipal Systems Act 32 of 2000. Sections 152(c) and 153(a) of the 1996 Constitution states that a municipality must "structure and manage its administration, budget and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community".

It is the aim of the South African government through legislation and other policies to support the development of sustainable local economies through integrated government action. This developmental action stimulates the heart of the economy, which consists of a collection of enterprises including cooperatives that operate in local municipal areas. In this regard, LED strategy is not about what municipalities do, but more critically what the three spheres of government do together with municipalities in supporting the generation of local economies through functional and effective SMMEs. In order to unpack the notion of SMMEs within municipalities in the context of this article, it is necessary first to understand the conceptualisation of local economic development as applied in this article.

RELATIONSHIP AND COMMON CHARACTERISTICS OF LED AND SMMEs

Local economic development and SMME concepts have various characteristics in common. The discussion of the common characteristics of LED as seen in public-private partnerships, as well as SMMEs such as food outlets used in municipal programmes illustrates the bond between them, since they are more related than distinct. This analogy explains the nature of their power and influence, and the contributions they can make to the economy of South Africa. The common characteristics identified include several areas such as the following:

- Strategic intervention by municipalities;
- transforming or restructuring the manner in which municipalities conduct their business;
- focusing on development; and
- consultative and multi-sector in orientation, which both reflect the operation of a municipality.

While the promotion of SMMEs is identified as a cornerstone of or being inherent to LED, the interplay between municipal LED strategies as bandwagons and the existence of SMMEs is clear. This is because LED strategies are required to offer both municipalities and the private sector (including SMME initiatives) the opportunity to work together to improve the local economy. This interplay should be aimed at enhancing competitiveness of various SMMEs and should encourage sustainable growth that is inclusive and participatory for the community. On one hand, LED strategy should be understood to be a result of actions and interventions of local government and the constant improvement and integration of national priorities and programmes in the local sphere (Nel, 1998). On the other, SMME development and operation should be construed to be an outcome of LED strategy aimed at enhancing the living conditions of communities. This understanding emphasises the notion of LED strategy providing a bandwagon for SMMEs.

According to Rogerson (2008) LED processes and business cycles at times operate on different scales with varied implications, while there are some commonalities when devising policies and strategies. Hence, project development within the LED sphere, in particular within emerging areas, needs to incorporate the needs of SMMEs during the start-up phase. For example, the need is not only for business advice and support, but also for the provision of business infrastructure, because this is generally inadequate in many municipal areas both poor and rich, although to differing degrees. Some of the additional common characteristics tying LED and SMMEs in South Africa could include the following as espoused by Rogerson (2008):

- Community participation and involvement in decision-making:

  Community participation is aimed at inspiring confidence in the local economy and mobilising resources for the advantage of local communities. This is intended to enhance the management and implementation of economic development strategies that are participatory, realistic, feasible and viable for development opportunities. The fact that a strong community participation culture within municipalities has not taken place outside party political influence means that SMMEs are faced with enormous pressure to ensure inclusion of the general community.

- Efforts to encourage establishment of community owned businesses:

  The aim is for citizens to be resourceful, skilled and able to take full advantage of economic opportunities. They are innovative and able to participate in and/or establish, run and grow thriving enterprises. They produce locally made and branded products for the domestic and international market that are of high quality and appeal to the needs of different consumers. Despite support from the government to ensure that SMMEs are owned by local cooperatives, this has not been sufficiently realised, as many of the businesses are largely owned by indviduals within municipalities.

- Strengthening municipal in-house capacity in facilitating local business growth:

  Most municipalities have embraced LED strategies and are implementing fully-fledged supply-chain management policy to govern decision-making in their procurement processes. Through these policies and strategies, municipalities have strategically channelled resources and support to promote SMME development. The main challenge, however, is to develop and implement sound monitoring systems to guide measuring of performance against outcomes achieved.

- Maintaining sound Intergovernmental Relations (IGR) with the provinces and relevant national government departments:

Coordinated structural planning within the context of the integrated development planning (IDP) process is necessary. This could offer the potential to link economies and accelerate growth directly by public-private sector investment and through facilitating the strategic development of a competitive advantage. The performance of a local economy is dependent on both effective local governance as well as the input of national and provincial spheres of government in local spheres. An example is the establishment of the Small Enterprise Development Agency (Seda) by the National Department of Trade and Industry. The involvement of both provincial and local government is necessary in the establishment and sustained support of SMMEs. However, the challenge is always how to manage the interplay among these stakeholders. This remains a major challenge since intergovernmental relations in South Africa has not been a success story. Challenges including duplication of resources and lack of coordination of activities have not been fully addressed thus far.

While the above discussion may be regarded as a paradox in that SMMEs are a sub-sector of LED and cannot exist without LED, the above lessons highlight additional common characteristics shared by the concepts of SMMEs and LED. It is imperative to indicate that this (SMME as a sub-sector of LED) should not always be the case. Municipalities should adopt innovative approaches to ensure that some SMMEs' activities are independent variables from LED at times. This could increase the sophistication of SMME projects and avoid their over-simplification, which could decrease innovation and contribution to local economic growth. To further consolidate the argument regarding the need to understand the concept of SMMEs as distinct from LED as described above, a conceptual framework for the improvement of SMME initiatives within municipalities is discussed below.

CHALLENGES FACING SMMEs

Small, medium and micro-enterprises are considered the engines of growth in developing countries. SMMEs have played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. However, in considering the situation of African countries, there are several impediments that have to be removed in order for SMMEs to flourish. Kim (2011) alludes to the notion that the strong presence of Asian SMMEs in Africa and increasing competition have negatively affected local SMMEs. Most notably, according to Kim (2011), African countries lack the governmental capacity necessary to properly support the development of local SMMEs. It is pointed out that African Governments impose harsh regulations on local SMMEs. Kim (2011) provides an example of SMMEs in Ethiopia which complain that regulations are too tight. It is also difficult to obtain a license. Additionally, proof of premises and requirements for large amounts of capital and high qualifications stifle growth. SMMEs are heavily taxed.

Kim (2011) further provides examples around Ghana in which emerging SMMEs tried to enter the oil market. However, it is said that the existing legal system provided a more favourable environment for international companies. Consequently, it became impossible for local SMMEs to compete with international firms that have greater know-how and capital. The Ghanaian SMMEs raised concerns on the bidding process which seem to favour foreign companies. Information about contracts is not made available to local providers and perceptions on the lack of transparency.

Xuza and Swilling (2008) provide critical elements and challenges facing the South African SMMEs in this manner:

- Financial management:

  Financial management is a crucial field within the environment of SMMEs that presents potential obstacles and challenges. Management competence is often determined by the availability of management and financial information. Lack of financial sources is often reported as the major obstacle for businesses including lack of financial planning and control, bookkeeping and profit realisation. Hence, a proper financial history and business operation is crucial for the success and recognition by potential financiers.

- Production and operational issues:

  The following operational aspects may impact on the success of the SMMEs, namely lack of management skills and ethical conduct and practices, lack of proper quality control in the production process, lack of capacity and skills planning, problems with the suppliers of resources and limited attention to developing suitable products or services. Still, there remains the possibility that business managers would reward themselves with bonuses and incentives before a turnaround profit is realised.

- Access to technology and market:

  A change in the socio-political sphere has brought some changes in the market economy. Entrepreneurs needed to be technologically aware and understanding the business systems and operations. Innovations and upgrading of existing systems needed a boost. Marketing factors such as poor location and structures, inability to interact with potential clients and customers and lack of customer-friendly approach also impact on the success and elevation of SMMEs.

- Fraud and theft:

  Recognising the important role and existence of the SMMEs, it is crucial to look at negative consequences of fraud on their businesses. Despite their important contribution to the socio-economic development of South Africa, many SMMEs are exposed to the high cost of the fraud occurring in corporate South Africa. Appropriate measures such as internal controls and whistle-blowing must be put in place to curb the scourge. Procedures and mechanisms must be put in place to alleviate the problem and sustain the business operations.

- Inadequate management:

  This particular problem is broad but includes weaknesses in terms of business knowledge, a lack of management skills, poor or inadequate planning, and inexperience. There is an over-reliance on the single ownership manager of most small firms and there is reluctance to move away from this managerial tendency on the part of the owner-manager. This result and translates into poor human resources practices where no new qualified staff is hired or authority and responsibility delegated to other employees.

SMALL, MEDIUM AND MICRO ENTERPRISES: A CONCEPTUAL FRAMEWORK PROPOSITION

Considering the pivotal role that municipalities are required to play in establishing conditions conducive to SMME development, it is necessary to understand and propose viable approaches for the South African municipalities. This understanding is premised by the fact that the introduction of the concept of SMMEs has not substantively benefited poor people in South Africa. This is despite municipalities in general having introduced the formalisation of LED units which have initiated SMME projects in local communities. A conceptual proposition customised for the South African local government could assist in the improvement of economic conditions in this regard. In order to ensure functional SMME initiatives that respond to the developmental agenda of the government in South Africa, several aspects that should be heeded are identified and explained below:

SMME development and implementation strategy

The strategy serves as an implementation of LED, which supports the concept of SMMEs. Municipal initiatives and programmes must seek to ensure that adequate support and delivery mechanisms exist across the entrepreneurship continuum. This means that every phase from pre-start-up to start-up, business survival, growth and expansion, and turnaround of ailing businesses should be carefully planned.

Implementation challenges

Poor implementation remains the most important feature of economic projects for most municipalities in South Africa. A key question has been whether government must provide finance directly to address the requirements put forward by the private banking and financial service sector in supporting the development of SMMEs.

Human resource services

De Coning (1992) believes that human resource services include, amongst others, specific services such as SMME training, advice, mentorship and institutional arrangements which are key for SMMEs advancement. One of the key challenges of these SMMEs is their inability to attract and maintain a qualified workforce for securing productivity and profitability. This usually occurs because workers are often unskilled and/or inexperienced. The SMME strategy should seek to provide training opportunities for needy members of the community.

SMME community co-operation

Visagie (1997) embraces that traditional and not-so traditional SMMEs have not considered implications of valuing and managing a diverse workforce and unwritten rules are still skewed. A strategy is required for managing diversity which take into consideration the effects on an SMMEs of cultural, racial, gender, age and other kinds of diversity.

Financial services

Financial services represent the overall process involved in securing basic financial products such as loans, grants and donations. SMMEs need to engage in the establishment of relationships with appropriate financial service providers. The SMME strategy should make provision for the SMME projects to ensure viable and sustainable initiatives.

Infrastructure services

Infrastructural services include services associated with the provision of basic information and communication technologies (ICT) infrastructure, as well as physical infrastructure. Some providers may offer SMMEs the opportunity to undertake their activities within appropriate business premises conducive to productivity. Therefore, the establishment and support of SMME initiatives could provide much needed assistance to meet the local challenges of economic development.

The conceptual framework is proposed to help South African municipalities take a proactive stance in attempting to understand the concept of SMMEs. This could serve as a necessary basis for municipalities to facilitate conditions suitable for SMME establishment and support, to promote sustainable local economic growth. Municipalities have the potential to influence their economies by contributing directly or indirectly to job creation in their areas of jurisdiction. However, it is not the primary responsibility of municipalities to create jobs, but rather to facilitate conditions for job creation.

CONCLUSION

The purpose of this article is to describe how the concept of SMMEs is used in the South African local government as an application of LED. This article indicates that the readiness of local government to adopt the concept of SMMEs and apply it as an LED strategy has not been sufficient to respond to the developmental challenges they face. The creation of LED units and other institutional components do not sufficiently support SMMEs in South African local government. It is also fair to believe that one needs to have customers in the market place who would want to buy the goods and services on offer. One of the main factors in the success of any small business is the existence of a real business opportunity. It is not enough that the business opportunity exist, but of more importance is the manner in which the opportunity is exploited or seized. Therefore, the article concludes that, inter alia, the improvement of infrastructure, such as technological applications and transport should be incorporated as part of the SMME implementation strategy.

The Department of Trade and Industry (DTI) has established the Small Enterprise Development Agency (SEDA). This should be the key vehicle for localised enterprise support. This should be complemented with a network of sector specific business support service providers. Best way of achieving this should be explored by SEDA with the aim of ensuring that access to relevant support is broadened and localised. It is critical that municipalities develop strategic relationship with SEDA and provide necessary information to their communities. It is equally important that Seda utilises the municipalities and information services to extend the reach and range of its services. The Small Enterprises Development Agency (Seda) should be perceived to be a local initiative that is owned and driven locally.

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THE IMPLICATIONS FOR ZIMBABWE OF A HARMONISED COMESA AND SADC CUSTOMS UNION ON ZIMBABWE

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ABSTRACT

The implications of the formation of a customs union on revenue and imports are ambiguous and depend on a number of factors. The theoretical ambiguities give rise to the need for empirical studies that generate information for the particular customs union that is under consideration. This study uses the Tariff Reform Impact Simulation Tool to evaluate the impact of COMESA/SADC customs union on Zimbabwe. The findings of the study reveal that the customs union imports increase by 0.2%. The country will witness a decrease of tariff and total revenue by 8.6% and 3.3%, respectively. VAT and excise duties emerged as significant contributors to Zimbabwe's revenue. The study also revealed that Zimbabwe is losing 51.8% of expected revenue through excessive exemptions. It is therefore important for Zimbabwe to put in place austerity measures meant to improve revenue collection from other sources such as value added tax and income tax and cut unnecessary tax exemptions if the import tariff revenue loss is to be curtailed.

Keywords: Customs Union; Revenue Implications; Imports; Zimbabwe.

INTRODUCTION

In recent years, regional integration became a dominant feature of international trade with countries belonging to at least one bloc. In addition to the boom in numbers, the past 10 years have also witnessed qualitative changes in regional integration arrangements (Schiff & Winters, 2003; Khorana, Kimbugwe & Perdikis, 2009). Lamy (2011) underscored that in the last two decades, the number of RTAs has increased more than four-fold, to around 300 active agreements today. According to Salvatore (2007), regional trade agreements begin with the establishment of a free trade area (FTA) followed by a customs union. In Africa, the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), in particular are no exception to this phenomenon.

COMESA was initially established in 1981 as the Preferential Trade Area for Eastern and Southern Africa (PTA) (COMESA Secretariat, 2011). Zimbabwe is one of the founding members of COMESA since its inception as the PTA (Ministry of Industry and Commerce (MOIC), 2012b). Other member states are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda and Zambia. The regional group established an FTA in 2000 and went on to launch a Customs Union in June 2009 in Victoria Falls, Zimbabwe (COMESA Secretariat, 2009).

The Southern African Development Coordination Conference (SADCC) was established in 1980 comprising nine member states namely Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Southern African Development Community (SADC) replaced SADCC in August 1992 (SADC, 2002). To date, SADC has fifteen member

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states namely Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe, Namibia, South Africa, Mauritius, Democratic Republic of Congo, Madagascar and Seychelles (SADC, 2010). The major objectives of SADC are to promote economic cooperation and integration among member states. Politically, SADC seeks to strengthen regional solidarity, peace and security. To stimulate trade integration in 2000 SADC members started to implement a Trade Protocol aimed at establishing a free trade area within eight years from its ratification (SADC, 2002). Based on the implementation of agreed tariff phase down commitments, SADC attained Free Trade Agreement in January 2008 although the actual launch of the SADC FTA was done in August 2008 (SADC, 2008).

In 2007, SADC ministers of trade adopted a Model of Customs Act which was designed to set up the SDAC CET (SADC, 2008). In the interest of harmonisation of trade agreements for simplification of trade and easy trade facilitation, the ongoing discussions on SADC customs union CET is mirrored by COMESA CET. Hence, this study used the same CET in both SADC and COMESA to evaluate the impact of SADC and COMESA customs unions on revenue, welfare, trade creation and diversion, imports and exports. The SADC customs union failed to take off in 2010 as programmed. Progress in setting up a customs union in SADC is moving at a snail's pace as member states, especially South Africa, "or big brother", is worried by its implication for new industries. The main challenge with the establishment of a customs union in SADC is the overlapping membership of the Department of International Relations and Cooperation (DIRC). Almost all SADC member states, with the exception of Angola and Mozambique, belong to existing customs unions (DIRC, 2012). The establishment of a SADC customs union has to be carefully considered at this stage as the implications are that SADC member states may then have to choose which customs union they want to belong to and may have overall implications for the SADC. Technically, a member state cannot belong to more than one customs union because of the Common External Tariff (CET). Hence, in recent years there have been serious discussions on the need to harmonise trade protocols between COMESA and SADC in order to improve trade facilitation.

The formation of the customs union is complicated. The SADC/COMESA customs union will assist in levelling the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third-world countries, which should assist the region in advancing its economic development and poverty reduction agenda. Further to this, the customs union will promote cross-border investment and serve to attract investment into the region, as the enlarged market, with minimal customs clearance formalities, would be more attractive to investors than the smaller individual national markets (EAC, 2004). In addition, the customs union will offer a more predictable economic environment for both investors and traders across the region, as regionally administered CET and trade policy will tend to be more stable (EAC, 2004).

However, a customs union brings with it serious challenges especially to weak economies like Zimbabwe. Makochekanwa (2012) noted that tariff revenue contributes to more than a third of national revenue in these countries. Zimbabwe, in particular, imposes multiple taxes which makes it very expensive to import yet the economy is still coming out of a decade-long economic decline and its industries depend on imports. Hence, any move to liberalise trade has severe consequences for these countries. Brenton, Von Uexkull, Saborowski & Staritz (2009) also argues that developing countries, especially in low-income areas, face serious revenue challenges if they liberalise their economies. The revenue situation is worsened by the fact that in most developing countries tariffs are an important source of tax revenue because of the weakness of the domestic tax base and of other tax instruments (Brenton *et al,* 2009).

On the contrary, however, Waglé (2011) suggests that trade liberalisation pays for itself over time. According to Waglé, the conventional wisdom reported in tax policy advice to developing countries over the past 30 years has been that domestic consumption or income taxes are superior to import duties because the former can meet the government's revenue target with lower rates, a wider base, and without a protectionist bias. However, this can only work in countries with strong and sophisticated domestic tax collection instruments. This is underpinned by economic theory. Trade taxes introduce a wedge between foreign and national prices which distort the allocation of resources by encouraging activities in sectors that are viable only at prices above the world average (Waglé, 2011).

For Zimbabwe, the adoption of a harmonised customs union has serious implications for its economy which went through a decade-long economic decline, from 1998 – 2008. The economy has not yet fully recovered with most of its industries producing at an average rate of 43% of capacity utilisation (MOIC, 2012b).

To make matters worse, the country has to make a major downward adjustment on its import tariffs. Generally, Zimbabwe's MFN national tariff regime is designed in such a way that capital goods attract duty rates of 0 – 5%, raw materials, 0 – 5%, intermediate goods, 10 – 25% and finished goods are charging at least 40% (Zimbabwe Revenue Authority (ZIMRA), 2012). This tariff regime is aimed at promoting industrialisation and economic growth by taxing (customs duties) the factors of production less and heavily taxing finished products to protect domestic industries especially those still in the infancy stage. However, the tariff structure shows a huge departure from the COMESA/SADC CET which has a maximum CET rate of 25%. The country's tariff structure is widely dispersed with some tariff lines as high as 100% compared to 25% dispersion under the COMESA CET.

An analysis of Zimbabwe's national tariffs shows that only 19% of the total tariff lines comply with the COMESA/SADC CET rates. The remaining 81% require some adjustments which imply a significant change in the country's trade and tariff policy landscape. Studies conducted by the COMESA Secretariat (2003), showed that the key tariff bands in terms of contribution to customs duty for Zimbabwe were 5%, 25%, 40% and 60%. These bands contributed a total of around 70% of customs duty collectable in 2002.

It is apparent from the implementation of the COMESA/SADC CET that it will definitely have an impact on Zimbabwe in terms of customs revenue and imports. In view of the above discussions, the following research questions emerged: is the customs union likely to lead to loss of revenue in Zimbabwe? Is the customs union likely to increase in imports? Can domestic sources of revenue mitigate revenue loss?

OBJECTIVES OF THE STUDY

The study seeks to achieve the following main objectives:

- To examine quantitatively the statutory and collected revenue implications of the proposed COMESA/SADC CET on Zimbabwe;
- To examine the impact of COMESA/SADC customs union on VAT and excise duties;
- To examine the impact of the proposed COMESA/SADC CET on Zimbabwe imports; and
- To come up with appropriate policy options for Zimbabwe that can be used in negotiations and policy formulation.

LITERATURE REVIEW

This section looked at selected literature on economic integration and specifically on the welfare and revenue implications of a customs union. The assessment will cover both theoretical and empirical literature.

Economic Integration theory

The impetus for regional economic integration draws its rationale from the standard trade theory which states that free trade is superior to all other trade policies. Economic integration refers to a move by member states trading together reducing or eradicating all forms of trade barriers (Salvatore, 2007).

Peters (1979) identified various forms of economic integration in a sequence starting with the least restrictive set of associations. The least limiting form of association is represented by trade preferences or partial scope agreements focussed on liberalisation of trade in specific commodities or sectors. A typical example is a Preferential Trade Agreement (PTA). With PTA countries agree to reduce tariffs only on some product categories while higher or non-discriminatory tariffs still prevail on all other product categories.

A free trade area is the second level and most common type of economic integration in which members remove all barriers on trade (tariffs, quotas and non-tariff barriers) among themselves but retain their independent external tariffs. This is followed by a customs union which is the third form of integration. It allows free trade among its members and adopts a common external tariff against countries outside the customs union.

The most advanced type of economic integration is an economic union which goes further than the common market by harmonising or even unifying the monetary and fiscal policies of member states.

Static and dynamic benefits of a customs union

In theory, the formation of a customs union is associated with some static welfare effects and dynamic benefits. One of the benefits is the administration savings from the elimination of customs officers, border patrols for trade among member states (Salvatore, 2007). The removal of economic barriers among member states will result in a better division of labour and consequently in an increase in production and prosperity. The elimination of trade barriers among member states is also associated with increased competition which stimulates development through efficiency and utilisation of new technology.

Many countries are too small to separately support activities that are subject to large economies of scale. This might be because insufficient quantities of specialised inputs are available, or because markets are too small to absorb the sales necessary to cover costs (EAC, 2004). The formation of a customs union offers one route to overcome the disadvantages of size, by pooling resources or combining markets thereby forming a critical mass. The larger market brings countries into closer contact and competition with each other.

Revenue and welfare effects of a customs union

The earliest customs union theory generally believed that any economic integration that represents a movement towards freer trade should be beneficial and welfare enhancing. It is believed that free trade maximises world welfare. A customs union reduces tariffs and is therefore a movement towards free trade hence it was believed that a customs union decreases government revenue (Vinar, 1950).

Empirical literature

A number of studies were carried out by the World Bank in recent years aimed at investigating the impact of various trade agreements using the Tariff Reform Impact Simulation Tool (TRIST). These studies were commissioned in Bolivia, Burundi, Ethiopia, Jordan, Kenya, Madagascar, Malawi, Mozambique, Nigeria, Seychelles, Tanzania and Zambia by the World Bank in 2009. The research was undertaken by Hamilton in 2009.

In Mozambique, Hamilton (2009) examined the impact of a complete tariff liberalisation on imports from Southern Africa Customs Union (SACU) members using the TRIST model. The model projected a short-term fall in tariff revenue of 38.3% as well as a reduction in total revenue by 13.5%. Imports are not projected to be heavily impacted (decrease of 1.0%) (Hamilton, 2009). Hamilton (2009) used the TRIST model to hypothesise complete tariff liberalisation on imports from EAC member states on Burundi. According to Hamilton (2009) the short-term impact of this reform is projected to involve revenue losses of 8.1% (tariff revenue) and 3.4% (total revenue). Hamilton (2009) noted that imports are expected to increase marginally by 0.5%.

Brenton *et al* (2009) using the TRIST model, observed that Malawi and Zambia's revenue is expected to increase by 26.2% and 24.6%, respectively, if a COMESA customs union is implemented. However, Brenton *et al* (2009) estimate the potential tariff revenue lost around 40% to 50% in low income countries caused by exemptions.

Hamilton (2009) also investigated the impact of a COMESA FTA on Ethiopia. The results suggest that an elimination of all tariffs on goods from COMESA FTA countries results in a fall in tariff revenue by 4.8% as well as a reduction in total revenue by approximately 2.4%. According to Hamilton (2009), imports are not projected to be heavily impacted (increase of 0.2%).

Karingi, Siriwardana and Ronge (2005) analysed the likely implications of a COMESA FTA and of a COMESA customs union using the Global Trade Analysis Project (GTAP) model and the GTAP 5 database. The study involved five countries namely Malawi, Tanzania, Uganda, Zambia and Zimbabwe. The welfare results of the COMESA customs union showed that all member countries would benefit in terms of real incomes from the customs union with Zimbabwe's real GDP expanding by 0.79% points. On the total effects on welfare of the implementation of the customs union, the results indicated that all countries will gain with Zimbabwe having a welfare gain equivalent to US$10.4 million. The study did not, however, touch on the revenue implications of the customs union. This study therefore bridges the gap by empirically analysing the revenue implications of the COMESA/SADC customs union.

Castro, Kraus and Rocha (2004) conducted a study on the trade and revenue impacts of the East African Community (EAC) Customs Union using a partial equilibrium model and 2002 data. The results of the study suggested a modest increase in regional trade flows, an increase in third country imports for Kenya and Tanzania, and a decline in third country imports for Uganda. They also conclude that the implementation of the Customs Union will lead to increases in producer and consumer welfare for Kenya and Tanzania economies driven by the reduction in import prices. The region as a whole will experience a modest decline in customs revenue.

A similar study conducted by Okello (2008) concluded that while the EAC customs union would generate more trade among the member countries, Kenya's manufacturing sector remains far more advanced than other member countries and may spell doom for Uganda in the short and medium terms.

From the above discussion, it is apparent that the impact of a customs union on imports and revenue is ambiguous from a theoretical point of view. This therefore calls for the need to evaluate the impact of COMESA/SADC customs union on Zimbabwe. The TRIST model has proven to be a useful tool in evaluating the impact of trade reforms on statutory revenue, collected revenue and other domestic sources of revenue such as VAT and excise duties which other models such as WITS/SMART and general computable has failed to do. In this regard, the TRIST model is adopted in this study.

MODEL FRAMEWORK

A Tariff Reform Impact Simulation Tool (TRIST) developed by the World Bank was used in this study. TRIST which is a spreadsheet tool, was developed by the World Bank to enable policy makers in client countries to analyse the adjustment implications of trade reform (Brenton *et al*, 2009). The thrust of the tool according to Brenton *et al* (2009) is to provide better estimates of the impact of changes in tariffs on government revenues, imports, protection and prices. TRIST uses a country's revenue authority's reported data for imports and collected duties from the tariff, VAT and excise tax at the tariff line (HS 8 digit) level, broken down by trading partner groups (Brenton *et al*, 2009). The use of the TRIST model allows for the identification of tariff exemptions and the trading partner specific collection rates for tariffs, VAT and excise duties (Brenton *et al*, 2009). This provides for more accurate projections than when using statutory tariff rates.

The model is applied in a partial equilibrium framework which is static and does not take into account second round effects. This study's major objectives are centred on first round effects of trade policy reforms. This study therefore adopted the TRIST model based on its advantages shown in table 1 which enables the research to address the research questions posed in this study.

Table 1 Advantages of TRIST

Accuracy: Projections are based on customs data on revenues (from tariffs, VAT, excise and other taxes applied at the border) actually collected at the tariff line level, broken down by user defined trading partner groups and selected products. This improves the accuracy of tariff reform simulations by taking into account tariff exemptions and trading partner specific collection rates.
Transparency: The whole tool is set up in Excel and formulas and calculation steps are visible for the user. It is open-source in the sense that users are free to change, extend or improve according to their needs.
Simplicity: TRIST incorporates a simple partial equilibrium model of importing. The underlying modelling is intuitive and simulations can be made by anyone once the appropriate tariff scenarios have been entered.
Policy Relevance: TRIST allows projection of the impact of tariff reform on total fiscal revenue (including VAT and excise) and results are broken down to the product level so sensitive products or sectors can be identified.
Flexibility: TRIST can incorporate tariff liberalisation towards any group of trading partners. User defined tariff scenarios can be added, for example to incorporate a sensitive product list into the liberalisation schedule. It is also possible to enter multiple successive liberalisation steps and project both their individual and cumulative impact.

Source: Brenton *et al* (2009)

DATA REQUIREMENTS AND DATA PREPARATION

In order to implement a TRIST for Zimbabwe, detailed and complete data on import transactions for the most recent year, that is, 2012, was used. This data was made available from the Zimbabwe Revenue Authority (ZIMRA) with the assistance of COMESA Secretariat who extracted it from the ZIMRA Asycuda system. The empirical analysis used a new data set extracted from unpublished Zimbabwe customs records for the calendar year 2012. In addition to the date when the import shipment was processed, the data set lists the value of each import in United States Dollar inclusive of cost, insurance and freight (c.i.f.) and tariffs levied on that import.

The data used in this study was taken from 2012 information and used the following for each of the transactions:

- Product type (using the harmonised code);
- Customs Procedure Code (CPC), used to identify the customs regime under which goods enter the country;
- Origin of the goods (trading partner);
- Value of the import transaction;
- Value of tariff collected on the transaction (collected tariff);
- Value of tariff that should have been collected on the transaction (statutory tariff);
- Value of VAT collected on the transaction; and
- Value of excise tax collected on the transaction.

The study checked for consistency of entries and adjusted the data set as follows. Among all import transactions at least 1% of total imports dropped. Goods entering the country under customs procedure codes which do not compete in the local market were dropped. These are mainly diplomatic and governmental imports that are tax-exempt.

Not all goods that enter a country actually become part of its market. Some goods may pass through the country in transit and will not be taxed. Other categories of goods fall under Export Processing Zones and are therefore immune to import tariffs. Government imports and imports by foreign embassies or international organisations were also excluded from import duties even though they enter the country for exclusive use of the public sector. Naturally, no tariffs or other taxes are paid on these goods, so including them would lead to an overestimation of exemptions and an underestimation of protection of the domestic economy. Thus, in this study, the CPC codes were used to identify such imports and delete them from the dataset.

For applied tariff rates, the study constructed a variable for applied tariff rate (tariff revenue/imports). The import tariff was used to identify outlier values. In this case, a number of observations have applied tariff rates of more than 1 000%, way above the highest *ad valorem* tariff rate applied by Zimbabwe tariff schedule (40%). A possible reason for very high *(ad valorem)* applied tariff rates can be the presence of a specific tariff (that is, a tariff that is applied per unit of an import rather than on its value) on very low value items.

To address this anomaly, verification with ZIMRA was done so as to determine whether there are indeed specific tariffs on the goods in question or whether these observations reflect data entry errors. Where there was doubt, this data was excluded to avoid distortion of the TRIST results.

A total of 143 import trading partners of Zimbabwe in 2012 are organised in ten groups: (1) India; (2) China; (3) COMESA FTA; (4) COMESA non FTA, SADC non COMESA; (5) United States of America; (6) Kuwait; (7) the European Union; (8) United Arab Emirates; (9) Japan and (10) the rest of the World (ROW). The baseline scenarios assume an export substitution elasticity of 1.5, domestic substitution elasticity of 1, and import demand elasticity of 0.5.

SIMULATION SCENARIOS

This study used the following tariff reform scenarios:

- Considered a full COMESA/SADC customs union. Zimbabwe imports from all other trading partners will pay duty at rates governed by the common external tariffs of 0% on capital goods, 0% on raw materials, 10% on intermediate goods and 25% on finished goods.
- COMESA FTA – these are member states in COMESA who have implemented the FTA with Zimbabwe. As a result, trade between Zimbabwe and these countries will be duty free for the

agreed tariff lines. These countries are Zambia, Sudan, Mauritius, Malawi, Egypt, Madagascar, Kenya, Burundi, Rwanda, Libya, Comoros, Seychelles and Djibouti.

- COMESA non FTA, some member states in COMESA have applied for reprieve (derogation) to implement the COMESA FTA. The countries considered in this study which are part of the COMESA non FTA are Democratic Republic of Congo, Uganda, Swaziland, Ethiopia and Eritrea.
- SADC non COMESA, the study took this as another trade partner whose trade with Zimbabwe will not enjoy preferential treatment from COMESA. SADC non COMESA are member states which are in SADC but not in COMESA. These are South Africa, Botswana, Angola, Tanzania, Mozambique, Lesotho and Namibia. This trading partner group for Zimbabwe considered to hypothetically evaluates the role of the countries on Zimbabwe trade if there is no harmonisation of trading protocols considering that South Africa, for example, is the biggest economy in Africa.
- The EU is included as a Zimbabwe trading partner in this study. Twenty-seven member states which were considered under the EU regional group are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.
- Other major trading partners with Zimbabwe, which include USA, China, United Arab Emirates, Kuwait, India and Japan were included in this study to evaluate the impact of various tariff reforms on Zimbabwe. The list of Zimbabwe's major trading partners seemed to have left out traditional partners such as South Africa, Zambia and the United Kingdom because these countries are already covered under SADC non COMESA, COMESA FTA and EU, respectively.
- The last Zimbabwe trading partner is classified under the rest of the world (ROW). ROW includes all countries outside the list above. As a result, this study included all Zimbabwe trading partners even those outside the WTO in evaluating the impact of trade policy reforms on Zimbabwe.

After defining tariff reform scenarios and model parameters, the study undertook that simulation of trade policy single Excel Import responses to tariff changes are modelled in a partial equilibrium framework. The base year used in this study is 2012.

After simulation, the following results are expected excluding the impact on output and employment since there was no data for such analysis:

- Imports by product and trading partner;
- Tariff surcharge and VAT revenue by product and trading partner; and
- Applied tariff rates and price changes by sector.

RESEARCH FINDINGS

Discussion of empirical findings on the impact of COMESA customs union on imports, statutory revenue, collected revenue, VAT and excise duties in Zimbabwe is explored in this section.

The impact of a combined COMESA and SADC customs union

Table 2 summarises the overall implications of a harmonised COMESA and SADC customs union in terms of its effect on imports, import tariff revenue and total tax revenue which include other domestic sources.

Table 2 The impact of revenue and imports on Zimbabwe of a COMESA and SADC CET (US$ million)

Details	Value US$
Impact on imports:	
Imports pre CET	6,857.061
Imports post CET	6,869.678
Change in imports	12.617
% change in imports	0.2%
Impact on Revenue:	
Tariff revenue pre CET	467.538
Tariff revenue post CET	427.1623
Change in tariff revenue	-40.376
% change in tariff revenue	-8.6%
Total Tax Revenues on Imports	
Total revenue pre CET	1,327.474
Total revenue post CET	1,283.006
Change in Total revenue	-44.469
% change in Total revenue	-3.3%
Total Tax Revenues on Imports and Domestic Production	
Total tax revenue pre CET	1,327.474
Total tax revenue post CET	1,283.006
Change in total tax revenue	-44.469
% change in total tax revenue	-3.3%
Collected Tariff rate:	
Collected applied tariff rate pre	6.8%
Collected applied tariff rate post	6.2%
% change in collected applied tariff rate	-8.8%

Source: Authors' own calculations based on TRIST simulations

The implementation of a harmonised custom union is expected to drive up Zimbabwe imports marginally by 0.2%, that is, US$12.617 million to US$6.870 billion. This outcome is consistent with the findings of Hamilton (2009). Hamilton using the TRIST model on the implication of SADC FTA on Tanzania observed that imports were expected to increase by increase of 0.2%.

Tariff revenue, revenue collected from imports for Zimbabwe would decline by 8.6% if a COMESA/SADC customs union was applied (Table 2). One possible explanation is that most of the imports coming from COMESA/SADC constitute Zimbabwe's major imports and they will be coming through duty free. Hamilton (2009) also used the TRIST model to estimate the impact of SADC FTA on Tanzania. The results of the model suggest a short-term fall in tariff revenue by 8.8% as well as a reduction in total revenue approximately 2%.

Likewise, total revenue was on the downward trend as well after a COMESA customs union was instituted. Total revenue declined by 3.3%. This time around domestic revenues such as VAT and excise failed to compensate for the loss in tariff revenue although the impact of the customs union was small.

Impact of COMESA CET Zimbabwe on imports by destination

Overall, Zimbabwe imports increased by 0.18%, that is, US$12.62 million. With the rest of the world, that is, countries which are outside classification shown in table 3, Zimbabwe imports dropped by US$5.36 million after adopting COMESA/SADC CET.

Table 3 The impact of COMESA CET on Zimbabwe imports by source (US$ million)

Partners	Imports Pre CET	Imports Post CET	Change US$	% Change
Rest of the World	324.95	319.59	(5.36)	(1.65)
COMESA FTA	454.78	455.52	0.75	0.16
COMESA non FTA	22.84	22.99	0.15	0.64
SADC non COMESA	3,284.41	3,287.89	3.49	0.11
EU	1,501.45	1,505.99	4.54	0.30
USA	554.01	1,505.99	951.98	171.83
China	290.69	286.95	(3.74)	(1.29)
UAE	77.31	78.42	1.11	1.44
Kuwait	152.71	152.71	(0.0)	(0.00)
India	106.98	105.40	(1.58)	(1.48)
Japan	86.93	88.08	1.16	1.33
Total	**6,857.06**	**6,869.68**	**12.62**	**0.18**

Source: Authors' own calculations based on TRIST simulations

Zimbabwe imports from COMESA FTA rose by US$0.75 million. The result confirms with economic theory. A removal of import tariff lowers import costs, and as such economic agents' appetite for imports rises. However, it is disheartening to note that Zimbabwe trade within COMESA despite its ambitious drive to promote its trade in COMESA still remains very low in comparison with its trading partners and its trade in SADC.

Zimbabwe imports from the EU, USA, SADC non COMESA countries (member states in SADC which are not in COMESA such as Mozambique, Botswana and South Africa), United Arab Emirates (UAE) and Japan rose by US$4.5 million, US$952 million, US$1.1 million and US$1.2 million, respectively. The increase in imports can be attributed to the alignment of tariffs in line with the new requirement of 0% for capital goods and raw materials, 10% for intermediate goods and 25% for finished goods. As a result, some product categories will witness a massive decline in import duties, for example, heavy trucks which were previously at duty rate ranging from 60% to 80% will come in duty free under the COMESA/SADC nomenclature.

Countries with notable exports to Zimbabwe include India and China with a registered decline of US$1.6 million and US$3.7 million, respectively (see Table 2). The decline of imports from China and India could be as a result of the increase in the cost of imports. Zimbabwe major imports from these countries are traditionally textiles which used to attract import duty ranging from 0 – 5%. Since cloth falls under intermediate goods will see its import duty raised to 10% to conform to the COMESA/SADC CET.

Impact of the COMESA CET on Zimbabwe Revenue

This section discusses the statutory revenue, actual revenue collected, VAT and excise revenue.

Impact on statutory revenue

Statutory revenue is the revenue which the government expects to receive if all imports are levied relevant import duties without concessions. In this case, according to Zimbabwe statutes raw materials and capital goods are not expected to contribute to national revenue. Imports of intermediate goods and finished goods are expected to contribute towards import revenue.

Table 4 Impact of a COMESA CET on revenue: statutory revenue (US$ million)

Categories	STR Pre CET	STR Post CET	Change US$	% Change
Rest of the World	25.23	25.80	0.58	2.29
COMESA FTA	37.76	37.73	(0.03)	(0.07)
COMESA non FTA	0.64	0.68	0.04	5.51
SADC non COMESA	563.98	561.59	(2.39)	(0.42)
EU	97.98	99.73	1.75	1.79
USA	164.78	170.89	6.11	3.71
China	31.79	33.27	1.49	4.67
UAE	8.78	9.45	0.67	7.64
Kuwait	5.98	5.98	0.0	0.01
India	6.08	6.03	(0.046)	(0.76)
Japan	27.06	27.84	0.78	2.88
Total	**970.06**	**979.01**	**8.95**	**0.92**

Source: Authors' own calculations based on TRIST simulations

Zimbabwe's revenue before COMESA CET stood at US$970 million. The country's revenue is expected to rise to $979 million after adopting COMESA CET. The increase in revenue by US$9 million, that is, 0.92% is propelled by a marginal increase in imports after adopting the COMESA/SADC CET.

Major sources of revenue to Zimbabwe by destination in descending order are SADC non COMESA countries, United States, EU and Japan (see Table 5). Zimbabwe revenue from SADC non COMESA countries stood at US$564 million. However, after the adoption of COMESA CET Zimbabwe revenue sheds US$2.4 million. Zimbabwe revenue on imports from the United States was US$165 million and rose to US$171 million after the implementation of the COMESA CET. By and large, imports from United States contributed to a surge in revenue of US$6 million. This is in line with a surge in imports from the United States.

Collected tariff revenue impact

Unlike the statutory tariff revenue which hypothetically shows what is due to the country in terms of revenue if no concessions are given, the collected tariff revenue is the actual revenue collected. Normally, there is a variance between statutory tariff revenue and collected revenue.

Table 5 The impact of COMESA CET on Zimbabwe revenue: collected tariff revenue (US$ million)

Categories	CTR Pre CET	CTR Post CET	Change US$	% Change
Rest of the World	17.56	20.83	3.27	18.61
COMESA FTA	2.13	2.12	(0.013)	(0.63)
COMESA non FTA	0.157	-	(0.157)	(100.00)
SADC non COMESA	193.04	191.39	(1.64)	(0.85)
EU	40.55	28.71	(11.84)	(29.19)
USA	153.29	127.80	(25.49)	(16.63)
China	24.69	24.37	(0.32)	(1.31)
UAE	7.38	5.62	(1.76)	(23.84)
Kuwait	0.00004	0.00005	0.00001	45.90
India	4.23	5.47	1.24	29.40
Japan	24.51	20.85	(3.66)	(14.93)
Total	**467.54**	**427.16**	**(40.38)**	**(8.64)**

Source: Authors' own calculations based on TRIST simulations

Zimbabwe revenue collected before adopting the COMESA CET was US$467.5 million. However, after adopting the COMESA/SADC CET actual revenue collected fell to US$427.2 million. This represents a US$40.4 million decline, that is, 8.6% of total revenue collected.

It is worth noting that the actual collected revenue is 51.8% lower than the statutory revenue expected. The result suggests that Zimbabwe's borders are porous. Most goods could be smuggled into the country without paying the required import duty. There could be rampant corruption at the border. Senior government officials exempted from paying import duties could be abusing the system. This outcome is consistent with the findings of Brenton *et al* (2009) which estimated the potential tariff revenue lost was around 40% to 50% in low income countries.

Value added tax

Value added tax is a domestic tax instrument collected on all commodities traded within the country. For imports, all imported goods and services pay VAT in addition to import tariffs such as import duty and surtax. The inclusion of VAT in this analysis is to provide policy options available to the country in the face of a decline in government revenue caused by the removal of import duties.

Table 6 The impact of COMESA CET on Zimbabwe revenue: VAT (US$ million)

Categories	CTR Pre CET	CTR Post CET	Change US$	% Change
Rest of the World	22.43	22.22	(0.21)	(0.98)
COMESA FTA	21.04	21.08	0.042	0.20
COMESA non FTA	3.38	3.38	0.0	0.00
SADC non COMESA	314.68	314.60	(0.074)	(0.02)
EU	49.51	48.56	(0.96)	(1.93)
USA	100.34	98.42	(1.91)	(1.91)
China	38.95	38.46	(0.50)	(1.27)
UAE	8.76	8.70	(60,741.00)	(0.69)
Kuwait	0.0000701.00	0.0000695	(0.00)	(0.86)
India	6.13	6.07	(0.06)	(0.99)
Japan	16.05	15.70	(0.35)	(2.20)
Total	**581.28**	**577.19**	**(4.09)**	**(0.70)**

Source: Authors' own calculations based on TRIST simulations

To start with, using the TRIST model, policymakers can see the amount of VAT they stand to gain with and without trade reforms. In this regard, Zimbabwe VAT levied on all imports before a COMESA/SADC CET stood at US$581 million (see Table 6). The implementation of COMESA CET saw Zimbabwe revenue from VAT falling to US$577 million (see Table 6). Zimbabwe VAT revenue fell by 0.7%. Alfieri, Cirera and Rawlinson (2006) suggest that VAT revenue always declines whenever import tariffs are reduced because VAT is applied in cascade to other taxes and if the tax base is reduced because of reductions in prices and duties since VAT is applied in a cascading nature.

Major contributors to Zimbabwe VAT revenue are SADC non COMESA countries, United States, EU, China, COMESA FAT and Japan with contributions of US$314.6 million, US$98.4 million, US$48 million, US$38.5 million, US$21.1 million and US$15.7 million, respectively.

Excise duty

Excise duty is a domestic tax levied on selected products such as beer and tobacco aimed at discouraging over-consumption of those commodities on health grounds.

Table 7 The impact of COMESA CET on Zimbabwe revenue: excise duties (US$ million)

TRADING PARTNERS	CTR Pre CET	CTR Post CET	Change US$	% Change
Rest of the World	1.44	1.44	-	-
COMESA FTA	-	-	-	-
COMESA non FTA	-	-	-	-
SADC non COMESA	16.90	16.90	(0.0)	(0.00)
EU	238.38	238.38	(2.00)	(0.00)
USA	0.102	0.102	-	-
China	-	-	-	-
UAE	0.94	0.94	-	-
Kuwait	20.90	20.90	-	-
India	-	-	-	-
Japan	-	-	-	
Total	**278.66**	**278.66**	**(0.00)**	**(0.00)**

Source: Authors' own calculations based on TRIST simulations

The implementation of trade reforms had no impact on excise duties in Zimbabwe as the expected amount remained fixed at US$278.66 million. This represents 10% of the total tax revenue generated in 2012 in Zimbabwe. This outcome is consistent with the findings of Hamilton (2009) in Ethiopia. Hamilton revealed that Ethiopia's excise duties constitute 10.5% of the total tax revenue.

CONCLUSION

This study evaluated the implications of COMESA customs union on imports and revenue in Zimbabwe. A TRIST model was used to categorically separate the sources of revenue which the conventional trade analysis tools have failed to address.

The outcome of this study shows that Zimbabwe's imports are expected to increase by 0.2% if the country adopts the COMESA/SADC customs union.

With respect to revenue, Zimbabwe expects to realise a fall in import revenue and total revenue by 8.6% and 3.3%, respectively. The fall in total revenue was relatively marginal because of compensation in VAT and excise duties.

Zimbabwe offers excessive exemptions which have led to the country losing actual collected revenue of 51.8% of expected revenue. VAT was a major source of revenue in Zimbabwe contributing 40.3% of tariff revenue in Zimbabwe in 2012. Zimbabwe's trade performance in COMESA based on imports was lacklustre. The policy implications that can be drawn from this study are:

Fiscal authorities in Zimbabwe need to consider VAT and excise duties as an important trade policy instrument that can be used to mitigate loss of revenue due to trade liberalisation as suggested by Alfieri *et al* (2006). However, in order to make it work, the Government of Zimbabwe must consider building capacities of ZIMRA and relevant government departments to curb tax evasions. Digitalisation of tax collections in Zimbabwe is another means the government can implement in order to improve collection of domestic taxes in Zimbabwe.

The country needs to consider improving the collection of revenue from alternative sources such as VAT, personal and company taxes and excise duty in order to cushion itself against the revenue loss impact of the COMESA/SADC CET. The country could reconfigure the income tax bands so that they become more progressive thereby raising more revenue. Government could also consider widening the tax base by taxing the informal sector, which has been growing rapidly in the past years. In order to deal with dismal tax collections, Zimbabwe should review its tax exemptions and remove unnecessary concessions.

The agreement by member states to have a basket of sensitive products will help to reduce the revenue loss for Zimbabwe. In this regard, Zimbabwe's negotiators should push for sensitive products that will not be subjected to tariff reduction for some time. This is crucial as it gives member states the needed policy space to develop their sensitive industries before opening up to third-world country competition. For Zimbabwe the sensitive products basket should mainly be composed of finished products that are currently levied at high duty rates.

To cushion the impact of tariff reduction on those industries that are currently enjoying tariff protection, there is a need for the government to come up with an appropriate timeframe and sequencing of tariff reforms to comply with the agreed COMESA/SADC CET considering that the country is still recovering from a decade-long economic decline. The country should therefore request an extension of the transition period by a reasonable time so that it recuperates to build its competitiveness.

Zimbabwe should make use of the COMESA/SADC adjustment facility similar to the COMESA Fund which is designed to assist member states that will incur adjustment costs due to tariff reductions. The COMESA adjustment facility funded by World Bank, Africa Development Bank and the EU is a provision given by COMESA Fund to member states which demonstrate loss of government revenue emanating from tariff alignments to the COMESA CET. COMESA/SADC member states can expand this fund.

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THE RIGHT TO INFORMATION AND PUBLIC PARTICIPATION IN DEBT MANAGEMENT IN SOUTHERN AFRICA

D. Matanga[1]

ABSTRACT

It is possible to examine whether a correlation exists between the status of the right to access to information on one hand, and degree of inclusivity in public debt management on the other hand in Southern Africa.

The terms right to information, and access to information have been used interchangeably together with the term freedom of information as well. The right to information has been taken to mean the right to seek access and receive information held by public bodies or private bodies that perform a public function or utilise public funds.

More needs to be done in the region to ensure the relevant constitutional arrangements are included where they don't exist and that good quality access to information legislation is passed, or strengthened. Governments in the region must also sign and ratify instruments which support the right to access to information if they have not.

This article explores possible approaches to the right to information and public participation in debt management in Southern Africa.

Keywords: Public Participation; Public Debt; Debt Management; Citizen's Rights; Right to Information; Freedom of Information.

INTRODUCTION

Guaranteeing citizens' right to access information on public finance in general, and issues related to public debt management in particular, can help to avert the crisis of unsustainable debts which prevailed in the Third World in the 1980s. This disclosure should go hand in hand with a structured way for them to participate meaningfully in the decision-making related to the loan contraction process. This is particularly important for Southern Africa which is faced with resurgence in public debt, even after the implementation of creditor led debt relief programmes[i].

There is a growing realisation that although external factors contributing to the debt crisis in many African countries such as the lending policies of creditors are important, equal weight now has to be given to internal ones. In this view, studies show that the causes of this problem are also attributable to poor debt policy, a weak institutional and legal framework and lack of accountability, transparency and inclusiveness of the involved institutions in the loan contraction process in the indebted countries (Meja, 2005: 1). Greater movement towards inclusive and transparent processes are therefore promoted as best practice.

The poor ultimately owe the public debt and pay for it through taxes, as well as suffer its negative impacts in human development terms when it becomes unsustainable[ii]. These impacts justify full public disclosure of economic decisions made on citizens behalf by political elites. This is particularly important in instances where citizens may not be aware of past loans, or if the borrowed money was misused or had any developmental impact or not.

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UNDERSTANDING THE RIGHT TO INFORMATION/ACCESS TO INFORMATION

The right to information (RTI) is a right established in the context of freedom of information legislation or the freedom of speech. Put simply, this legislation not only governs the freedom of persons to *disseminate* information but also the freedom to *receive* such information from others. In the context of this topic, these rights lay the foundation for legal processes where citizens can request information held by governments freely or at minimal cost, barring standard exceptions.

The terms *right* to information, and *access* to information have been used interchangeably together with the term *freedom* of information as well. The right to information has been taken to mean, the right to seek, access and receive information held by public bodies or private bodies that perform a public function or utilize public funds[2].

The right to freedom of expression is recognized as a human right under Article 19 of the Universal Declaration of Human Rights (UDHR). The UDHR is however not a treaty, and is therefore not legally binding on any nation (Nel, Jansen & Deane, 2008: 56). It is however recognized as a right in international human rights law through Article 19 of the International Covenant on Civil and Political Rights (ICCPR). The article states in (2) that,

> *everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice*[3].

It is necessary to note that no right is absolute, and therefore there are circumstances when citizens cannot exercise free speech fully at law. These limitations and related circumstances are recognised in the ICCPR and indeed included in many countries' constitutions.

THE THEORETICAL BASIS FOR ACCESS TO INFORMATION

Two societal theories justifying free speech in this context, and are instructive in explaining how citizen's access to certain aspects of public finance may be beneficial are *Discovery of Truth* and *Participation in Democracy* (Nel *et al*, 2008: 49-50). These theories certainly resonate with calls by debt campaigners globally, for guaranteed citizen participation in public debt management.

Briefly the Discovery of Truth asserts that society must be exposed to many view points in a 'free market of ideas' (Nel *et al*, 2008: 49). Through this process, citizens are able to determine the truth from multiple viewpoints and make sound decisions on this basis. In Participation in Democracy on the other hand it is argued, "citizens should be freely informed about political problems in order to participate effectively in the working of the democratic process[4]. The two bases of this system are the idea that voters can only make intelligent decisions after being fully informed on one hand, whilst on the other it is understood that sovereignty of the people means public officials must operate as their servants" (Nel *et al*, 2008: 50).

PERSPECTIVES ON CITIZEN ACCESS TO PUBLIC DEBT INFORMATION

One area that must be promoted to guarantee citizen access to debt information is *public participation*, *inclusivity* and *information disclosure* when governments borrow (AFRODAD, 2011: 20-22). To achieve this, legislation on public finance must ensure that loan contracts and information on usage of borrowing funds is made available through a wide variety of media to

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[2]Email interview with media expert Patience Zirima on 21/6/ 2012.

[3]International Covenant on Civil and Political Rights Office of the United Nations High Commissioner for Human Rights http://www2.ohchr.org/english/law/ccpr.htm accessed 20/11/2012.

[4]Nel, S.S, Jansen, M. & Deane, T. 2008. *Communication law.* Only Study Guide for CML 101H Department of Criminal and Procedural Law University of South Africa, Pretoria page 51.

stakeholders such as specialised civic groups and parliamentarians.

The idea of public and transparent audits of past sovereign debts is also an idea also closely aligned to the call for citizen's access to information on public debt. Debt audits can be used as a step towards the repudiation of odious or illegitimate debts (Jubilee South, 2010). Illegitimate debts can simply be classified as debt incurred by illegitimate debtors and creditors acting illegitimately, for instance on debts incurred to strengthen a despotic regime, stolen through corruption, unused for intended purpose or damaging on the environment."[5]

Calls for debt audits, parliamentary and citizen participation and public disclosure of information are also echoed in the 2009 North South Platform on Sovereign, Democratic and Responsible Finance and by an inexhaustible list of other academics, organisations, platforms and movements.

It is noteworthy that such calls have resulted in some official investigations on public debt in the spirit of access to information. In 2007 Ecuador's government launched an official audit into past debts and repudiated illegitimate debts. Norway also announced plans to assess the legitimacy of debts to it by developing countries, making it the first creditor government to carry out an audit. This was in addition to their 2006 cancellation of debts owed by seven countries, of loans which they deemed a "development policy failure" (EURODAD, 2012).

The UN Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters commits signatories to guarantee the rights of access to information, public participation in decision-making for the achievement of sustainable development (UNITAR, quoted by Fall, 2003: 14). The reason for this is that citizens become empowered by having a voice in matters that affects them, giving them self determination (Kaiza, 2005: 19). Whilst the main signatories to this agreement are state members of the Economic Commission for Europe the convention does provide additional inspiration worldwide, for citizen access to information.

Lenders have also been criticised in the past for undemocratic lending practices characterised by lack of involvement of citizens in the related processes. To respond to this, the IMF and the World Bank introduced Poverty Reduction Strategy Papers (PRSPs) as documents required for countries to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. The process of drafting the PRSP process was expected to be consultative, with civil society involvement to encourage participation from the population. Whilst it is debatable whether these ideals were actually achieved in retrospect, it is indisputable that participation in such processes can only be achieved through guaranteed citizen access to information. As testimony to the importance of this issue the multilateral institutions above, in their 'Guidelines for Public Debt Management' now declare that "public participation in general, and public access to debt information in particular, is central."[6]

THE STATUS OF ACCESS TO INFORMATION IN SOUTHERN AFRICA

The number of countries which have access to information legislation globally increased from 12 to 90 between 1990-2012, with 16 countries in Africa including an express protection for the right in their constitutions; whilst 14 provide protection within the broader context of freedom of expression (Mohan, 2012: 3). Southern Africa had taken the lead in adopting the promotion of freedom of expression on the continent, but has now lost ground to other regions, particularly East Africa for several reasons. Major cause for concern is South Africa's promulgation of the

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[5]"The Illegitimacy of External Debts. The Case of the DRC" (AFRODAD 2004) page 4.

[6]Fall, A. *Best practices for poverty reduction and sustainable development: public participation in Africa.* Series No. 5 Geneva: United Nations Institute For Training And Research (UNITAR) page 14.

Promotion of Information Act (PAIA) previously known as the 'Secrecy Bill', which is widely perceived as rolling back progress on access to information (Mohan, 2012: 5). Existing access to information legislation in Angola and Zimbabwe is also not considered as progressive (Mohan, 2012: 5). Angola, South Africa and Zimbabwe scored 76, 111 and 72 respectively out of a possible 150 points, in the Global Right to Information Rating for 2011[iii]. Governments in the region are also generally secretive, and reluctant to release information to citizens (Media Institute of Southern Africa, quoted by Mohan, 2012: 5). Despite these challenges, it is noteworthy that Botswana, Malawi, Mozambique and Zambia are working on their own legislation. The laggards are Lesotho and Namibia (Mohan, 2012: 5).

In view of the above, it is important to take note that there are key platforms which are adding momentum to policy change that guarantees access to information in Africa. The African Commission on Human and Peoples' Rights (the African Commission) meeting at its 48th Ordinary Session, held in Banjul, The Gambia (November 2010) resolved on steps to secure the effective realization of access to information in Africa. In 2011 the African Platform on Access to Information Legislation (APAI) campaign was started to promote the right to access information throughout the continent (Mohan, 2012: 3-4). Other relevant instruments at global level have been mentioned above.

Figure 1 Global Right to Information Rating Map

Source: Centre for Law and Democracy (2012)

PUBLIC ACCESS TO INFORMATION ON PUBLIC DEBT IN SOUTHERN AFRICA

Legal provisions and procedures which affect public access to debt information in Southern Africa have been a mixed bag. Primary legislation on debt management exists as in the form of constitutional arrangements, and sections dealing with loan contraction and debt management are included virtually all SADC countries supreme documents. Namibia's constitution however does not refer to loan contraction and debt management processes explicitly (AFRODAD, 2011). As regards secondary legislation, most countries have public finance legislation or public loans and debt management legislation which support related constitutional arrangements (Kaiza, 2005; Luvanda, 2008; Muyakwa, 2005; Chadambuka, 2009). Mozambique was however found to be using internal regulations within key ministries and government departments (Mozambique) to manage loans.

The beneficiaries (citizens) are not formally recognised in these legal provisions as meaningful contributors to the loan contraction process in all the countries studied. Their elected representatives (the legislature) are also not fully involved in processes linked to loan contraction or used to rubber stamp proposed loans (Tsoka & Chinangwa, 2008: 17; Chadabuka, 2009). In some cases, CSOs were lacking in technical and financial capacity to track issues and engage meaningfully in the loan contraction and debt management process, despite the existence of organisations focused on budget tracking and debt management. They were characterised by weak leadership and lack of requisite skills to engage the government and creditors (Luvanda, 2008: 21; Kaiza, 2005: 22; Khembo, 2005: 25; Kabesel, 2007). In extreme cases, CSOs cited legal obstacles preventing them from engaging on the issue of loan contraction and debt management. The result is that government and creditors overlook them during consultations for new loans (Luvanda, 2008: 21; Kaiza, 2005: 22; Chadambuka, 2009). CSOs were however included as stakeholders under the PRSP process related to debt relief but this was considered as token (Khembo, 2005: 25; Tsoka & Chinangwa, 2008: 20).

ASSESSING THE LINK BETWEEN THE RIGHT TO ACCESS TO INFORMATION AND INCLUSIVITY IN DEBT MANAGEMENT IN SOUTHERN AFRICA

In view of the preceding background, it is possible to examine whether a correlation exists between the status of the right to access to information on one hand, and degree of inclusivity in public debt management on the other in Southern Africa. A crude and far from exhaustive attempt to do this is made in Table 1 below.

Table 1 Comparing the right to freedom of expression and information to inclusivity in debt management

Country	Constitution includes right to freedom of expression	Constitution includes express protection for right to access to information	Constitution includes certain limitations to right to freedom of expression	Constitution deals with loan contraction and debt management	Legal inclusion of CSOs in loan contraction and debt management	Prior gazetting of loan terms
Angola	Yes[iv]		Yes[v]	Yes[vi]		
Botswana	Yes[vii]	No	Yes[viii]	Yes[ix]		
DRC	Yes[x]	Yes[xi]	Yes[xii]	Yes[xiii]		
Lesotho	Yes[xiv]	No	Yes[xv]	Yes[xvi]		
Malawi	Yes[xvii]	Yes[xviii]	Yes[xix]	Yes[xx]	No[xxi]	No
Mauritius	Yes[xxxii]	No	Yes[xxiii]	Yes[xxiv]	No[xxv]	No
Mozambique	Yes[xxvi]	Yes[xxvii]	Yes[xxviii]	Yes[xxix]	No[xxx]	No[xxxi]
Namibia	Yes[xxxii]	No	Yes	No[xxxiii]	No[xxxiv]	Partly[xxxv]
Swaziland	Yes[xxxvi]	Yes[xxxvi]	Yes	Yes[xxxviii]		
Tanzania	Yes[xxxix]	Yes[xl]	Yes[xli]	Yes	No[xlii]	No
Zambia	Yes[xliii]	Yes[xliv]	Yes	Yes[xlv]	No	Partly[xlvi]
Zimbabwe	Yes[xlvii]	No	Yes[xlviii]	Yes[xlix]	No	No
RSA	Yes[l]	Yes[li]	Yes[lii]	Yes[liii]		
Seychelles	Yes[liv]	Yes[lv]	Yes[lvi]	Yes[lvii]		

Sources: Mohan (2012); Chadambuka (2009); Constitutions of the above countries (available on www.wipo.int)

A number of conclusions can be drawn from this comparison. Firstly it is clear that virtually all countries in Southern Africa guarantee the right to freedom of expression constitutionally. Specific countries even go the extra mile and include an express protection for the right to access to information in their supreme documents. Theoretically, these rights lie at the heart of the desire for inclusive and transparent debt management processes. These rights are however limited under specific circumstances in these constitutions, which also creates the theoretical basis for limiting access to information on debt.

Secondly, there is no legal inclusion of CSOs in loan contraction and debt management processes, if such inclusion is taken to signify respect by governments for public access to information. There is also no prior gazetting of the terms of loan contracts prior to their signing.

It can thus be concluded that the relationship between the right to access to government information in general on one hand, and public access to debt information on the other is tenuous, if non-existent in Southern Africa. This illustrates the existence of immense obstacles if countries are to achieve what civil society considers to be the ideal framework for good debt management in the region.

The implications of this conclusion need to be viewed against the backdrop of other existing challenges in the achievement of a truly transparent and inclusive loan contraction and debt management framework such as lack of capacity within CSOs and Parliaments mentioned above. It is therefore acknowledged that achieving access to information has to be viewed as part of a comprehensive package of measures.

ACCESS TO INFORMATION AND GOOD DEBT MANAGEMENT ELSEWHERE

An analysis of the relationship between access to information rights and the degree of inclusivity in debt management in Southern Africa would not be complete without a cursory glance at how the same issue plays out elsewhere.

The Eurozone has experienced a sovereign debt crisis that has made it difficult or impossible for some countries in the bloc to repay or re-finance their government debt without the assistance of third parties. In the midst of this crisis the IMF and EU have forced Spain, Greece, Ireland and other hardest hit countries to adopt austerity measures as a condition for receiving assistance, by cutting wages and pensions, public spending, shrinking welfare benefits, privatise public entities and liberalise markets, with huge social costs already being experienced.

An example is Spain where sovereign debt has gone from 35% of GDP in 2007 to almost 90% at the end of 2012 and is predicted to go over 100% of GDP in 2013[7]. In 2013 the country's budget interest payments came second (after public pensions) with 12% of the budget, with an increase of 34% from 2012. When interest and capital (all of debt service) is considered it is equivalent to 38% of the budget. Meanwhile, health expenses have gone down in 22%, education in 17.9% and women's equality policies in more than 35%[8]. Today, Spain is at the head of the European countries where more people are at risk of poverty (22% of population at poverty risk and 4% at extreme poverty. In sum this is 12.4 million people in Spain living under extreme poverty or at the poverty line). This data pales in significance in comparison compared to some Southern African states. However the key issue is not the loss of a "privileged" situation, but of a loss of rights according to some activists[9].

In Greece, this state of affairs has resulted in a campaign for the creation of a commission to audit the nation's public debt, with 52 280 signatures having signed on to a civil society led petition to press for this investigation at the time of writing. Campaigners accuse Greek policymakers of keeping stricken citizens in the dark on the state of the country's debt problems. Public access to information on public finance is generally guaranteed legally in Spain. However the mainstream media and policy-makers tended to deny what was going on with the real estate bubble that lies

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[7]Email interview with debt expert Iolanda Fresnillo (6/12/2012).

[8]Ibid.

[9]Ibid.

at the centre of that country's debt. Destabilised governments in Greece, Spain and other affected countries have dug in their heels in the face of such criticisms, often reacting with brutality in scenes reminiscent of the 'Arab Spring' against protesting citizens in scenes.

In a related matter, vulture funds are no longer just targeting developing countries and struggling Eurozone nations like Greece and Ireland could be next. A recent victim is Argentina, who recently had a naval ship impounded in Ghana by one such entity, which is suing it over unpaid historic debts. Argentina reached an agreement with its creditors in the 1990s to pay about a third of its debt. However vulture funds speculate by buying these debts cheaply and holding out by refusing to take part in these agreements then sue them to make exorbitant profits on the debts they have bought (Jones, 2012). The chief executive of one fund is quoted as admitting that vulture funds *'thrive on people being misinformed'* which raises further questions on citizens access to public debt and other related economic information held by political and economic elites. Vulture funds thrive on misinformation on whom the debt is really owed to, enabling them to take advantage of the situation, and ultimately, millions of unsuspecting citizens (Jones, 2012).

Based on the above that citizen voices for inclusive public debt management resonate on a global scale and need to be heard urgently it can be inferred that policy-makers need to consider the situation on a priority basis. Indebted countries in Africa and elsewhere are crying out for a leadership that listens to, and addresses concerns over economic governance in a transparent and inclusive manner.

RECOMMENDATIONS AND CONCLUDING REMARKS

It is clear from the foregoing that in Southern Africa there is a disturbing disjoint between existence of the right to information on one hand, and inclusivity in loan contraction and debt management process on the other hand. This suggests that the right to access information held by public bodies, in this case public debt information, has not been understood as a fundamental human right, guaranteed under international law both by governments and to an extent citizens.

More needs to be done in the region to ensure the relevant constitutional arrangements are included where they don't exist and that good quality access to information legislation is passed, or strengthened. Governments in the region must also sign and ratify instruments which support the right to access to information if they have not.

Governments must institutionalise inclusivity in loan contraction and debt management processes. This can be achieved through prior approval of loans and their terms by Parliament, public disclosure of the terms of proposed loans, full disclosure on usage of past loans and legal and institutional recognition of civil society in related processes. Such laws lay the foundation for, or support the principle of transparency and inclusive public finance management (AFRODAD, 2011).

CSOs with an interest in monitoring public debt can also start to use the right to access to information a special arena of engagement with governments in their campaigns. This means tuning into the relevant platforms at regional and local level to strategically locate the issue of transparency in debt and public finance management within the broader agenda of citizens' right to access to information. There are also unprecedented opportunities which exist to test current legislation on access to information to get detailed information on past debts.

Finally, both CSOs and Parliamentarians must build their internal capacity to analyse the accessed information so that the oversight or watchdog role is played effectively. It is one thing to get access to information held by public bodies on one hand, but quite another in terms of analysing the macroeconomic and social impacts of debt and prevent the occurrence of odious or illegitimate debts.

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Endnotes

[i]Notwithstanding the application of HIPC and MDRI, it is forecast that Sub Saharan Africa (SSA) external debt will continue to increase. SSA's external debt is estimated to rise to $326 billion in 2013, up from $208 billion in 2000. This situation corresponds to a significant increase in SADC's external debt, with specific countries showing worrying trends. After HIPC/MDRI the SADC region's total external debt stock had risen to $154,8 billion in 2010, up from the US$69.12 billion in 2001. This situation is complicated by the emergence of new lenders such as China, countries increasingly turning to domestic borrowing and the phenomenon of intra-SADC debts (Matanga, 2012).

[ii]The Third World debt crisis of the 1980s is illustrative of the linkage between unsustainable debt and decline in human development. Citizens in indebted countries suffered an opportunity cost on public investments in social sectors, as more and more money was used to service external debts. In addition to this, the IMF and World Bank insisted that these countries implement a prescribed set of economic policies to receive bailouts. These included cuts in public spending, introduction in user fees for public services such as health and education increase in sales tax and privatisation amongst others. See "The State of debt" by Jones (2012). Furthermore, although vast improvement was necessary in its formulation, in some countries debt relief under HIPC made funds available for higher poverty spending. See the case studies of Mozambique and Ghana in 'Defuse the debt

Crisis: Lessons to be learned from debt relief in the past' by de Bruijn and Rehbein (2011).

[iii]The RTI Rating is a system for assessing the strength of the legal framework for guaranteeing the right to information in a given country. It is limited to measuring the legal framework, and does not measure quality of implementation. At the heart of the methodology for applying the RTI Rating are 61 indicators. For each Indicator, countries earn points within a set range of scores (in most cases 0-2), depending on how well the legal framework delivers the Indicator, for a possible total of 150 points. The Indicators are drawn from a wide range of international standards on the right to information, as well as comparative study of numerous right to information laws from around the world (Centre for Law and Democracy).

[iv]Article 40 on Freedom of Expression page 16-17 and also Article 44 on freedom of the press.

[v]Article 40 (3) page 17 and article 57 on restrictions and 58 on Limitation or suspension of rights, freedoms and guarantees page 22

[vi]Article 162 (d) deals with the powers of the National Assembly to, "Authorising the Executive to contract and grant loans and other lending operations apart from floating debt operations, defining the general terms and conditions for such operations and establishing the upper limit for the guarantees to be given each year to the Executive, within the framework of approving the State Budget" page 60

[vii]Article 12 (1) on Protection of freedom of expression page 10

[vii]Article (12) (2) page 10

[ix]Subsection 123 page 45

[x]Article 23 page 8

[xi]Article 24 page 9

[xii]Article 23 page 8

[xiii]Section 122 (K) of the constitution cited in Kabesel, 2007 page 16

[xiv]Chapter II subsection (4) (i) page 5 and Chapter II (14) (1) page 12

[xv]Chapter II subsection II (14) (2) (a)

[xvi]Subsection 116 on Public debt

[xvii]Subsection 35 page 10

[xviii]Subsection 37 page 10

[xix]Subsection 44 (2) page 14

[xx]Subsection 174 (1) (a) and (d); subsection 174 (2); subsection 174 (5) (a)

[xxi]See Tsoka & Chinangwa (2008)

[xxii]Subsection 12 (1)

[xxiii]Chapter II (3) (b); Subsection 12 (2) pages 5 and 16

[xxiv]Subsection 109 (1) page 86

[xxv]Also see The Mauritius Public Debt Management Act No. 5 of 2008

[xxvi]Chapter II article 48 page 15

[xxvii]Chapter II article 48 page 15 and article 253 (1) page 85

[xxviii]Limitations imposed in Chapter III article 56 (2) and (3) page 18

[xxix]Article 179 (2) (p), Article 230 (2) (d) pages 59 and 77

[xxx]Online interview with expert, Dr Cumbi on 22/11/2012

[xxxi]Ibid.

[xxxii]Article 21 (1) (a) page 14-15

[xxxiii]Unpublished AFRODAD research on loan contraction and debt management in Namibia 2012

[xxxiv]Unpublished AFRODAD research on loan contraction and debt management in Namibia 2012

[xxxv]Only with respect to domestic debt, where the public will know about the terms and conditions for these instruments through public notices or prospectuses issued by the Permanent Secretary for Finance in terms of the State Finance Act, 1991 (Act 31 of 1991).

[xxxvi]Article 24 (1) page 22

[xxxvii]Article 24 (2) (b) page 22

[xxxviii]Article 205 page 97

[xxxix]Article 18 (a) page 18

[xl]Article 18 (b) page 18

[xli]Article 30 page 22

[xlii]See Kaiza, 2005, Luvanda 2008

[xliii]Article 20 (1) page 33-34

[xliv]Article 20 (1) page 33-34

[xlv]Article 120 page 97

[xlvi]For domestic debt; the Minister of Finance may prepare and publish a prospectus setting forth the terms and conditions of stock under the Loans (local registered stock) Statutory Instrument 459 of 1969

[xlvii]Subsection 20 (1) page 17

[xlviii]Subsection 20 (2) page 17

[xlix]Ministry of Finance Zimbabwe Public Finance Management Act (Chapter 22: 19) 2010

[l]Subsection 16 (1) page 6

[li]Subsection 16 (2) page 6

[lii]Subsection 32

[liii]Subsections 160 (2) (d); 230; 230 A; 214 (2) (b); 215 (1), 215 (3)(c) and 218

[liv]Article 22 (1) page 27

[lv]Article 22 (1) page 27

[lvi]Article 22 (2) page 27

[lvii]Articles 153 and 154 (3) (a) to (d) page 117

BOOK REVIEW

By H.H. Bartis

Newsome, D., Moore, S. and Dowling, R. 2013. *Natural Area Tourism: Ecology, Impacts and Management* (2nd Edition). Bristol: Channel View Publications

This book is aimed at academics and practitioners from the field of tourism, wildlife management and natural resource management, as well as senior undergraduate and post-graduate students. The book shows that knowledge of the Abiotic, Biotic and Cultural (ABC) attributes of a region is key to understanding the development of tourism in natural areas.

Chapter one covers the basics in terms of explaining the relevant concepts and provides a contextual background for the book and a useful basis for the novice reader.

Chapter two focuses on the link between ecology and tourism, given that tourism occurs in the environment. The ABC environments (ecosystems) lead to a range of niche tourism activities that need to be managed according to specific management approaches.

Chapter three takes an in-depth view of the environmental impacts of tourists, practising their various outdoor tourist activities. A number of these outdoor activities range from the more active activities such as mountain biking to the more passive activities such as bird watching. In addition, this chapter explains the social impacts of tourism, specifically those of local communities and of crowding.

Chapter four explores the necessity of visitor planning in a changing visitor environment. It acknowledges that tourism planning has been necessitated by society's increasing mobility, improved educational levels, particular lifestyle changes and advances in technology. In order to improve planning, a range of visitor planning frameworks is proposed, such as the Recreation Opportunity Spectrum (ROS), the Limits for Acceptable Change (LAC), a Visitor Impact Management Framework (VIMMF) and the Tourism Optimisation Management Model (TOMM). The chapter maintains that the lack of resources is a major challenge in certain countries, resulting in inadequate visitor planning.

In chapter five particular management approaches are dealt with that include protection of natural environments wherever tourism is practised. It highlights a number of practical strategies that could be adopted, and cites the regulatory and policy environments as key components in managing problematic issues.

Chapter six focuses on the tourism experience, with the interpretation of the environment taking centre stage. Tourism practitioners may agree that a quality experience is necessary to enhance the visitor experience. Hence, the interface between the tourists and the environment become relevant when there is no tourist guide to disseminate the information. The tourist usually has to take responsibility for the interpretation of the information and, as such, the manner in which the information is provided to the tourists is decisive in this context.

Chapter seven deals with monitoring and covers a broad area, ranging from monitoring roads and trail to water bodies. In addition, a number of monitoring techniques and approaches are expounded on and which may be useful in providing a foundation for those wishing to embark on further research in monitoring tourist activities and impacts.

Chapter eight provides a useful summary and emphasises the expanding field of ecotourism, as both a niche activity and a mass tourism activity. In both instances it requires planning, monitoring and management to ensure the optimal utilisation of available resources in order to minimise adverse impacts.

The book contains numerous case study materials of internationally renowned sites where ecotourism is practised. This enlightens the reader and provides perspective on a number of issues raised in the text. In addition, it broadens the appeal of the book and makes it suitable for an international audience.

Reviewer: Mr H.H. Bartis is Principal Lecturer and Head of the Tourism Department at the Nelson Mandela Metropolitan University. He lectures at undergraduate level and is also involved in the supervision of post-graduate students. He serves on the National Tourism Research Expert Forum (NTREF). His areas of expertise include: sustainable tourism, tourism education, heritage tourism, and tourism governance.

JDL JOURNAL POLICIES

Aims and scope

The Journal for Development and Leadership (JDL) is a peer-reviewed journal of the Faculty of Business and Economic Sciences at the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa. This journal is aimed at providing practical guidance and empirical evidence to researchers and practitioners specialising in Business and Economics and related fields.

The journal provides a communication forum to advance entrepreneurship, innovation, small business management and various disciplines in Business and Economics, as well as the application of the disciplines in practice. Its aim is the improvement and further development of these fields and it is designed to appeal to academics, researchers and practitioners.

A double-blind review process is followed, supported by a national and international Editorial Peer Review Board.

Full academic accreditation will be applied for at the DoHE when the set requirements have been met.

The mission of the Journal for Development and Leadership (JDL) is to be a dynamic and internationally-recognised academic journal of excellence that will stimulate sustainable development and leadership by generating and disseminating of cutting-edge knowledge and understanding.

It is envisaged that the JDL will serve as a platform for presenting information central to the concerns of academics, researchers and practtioners. In this manner, research will grow and simultaneously shape theories for future application in the relevant societal contexts.

The Journal is published bi-annually, in June and December by the Faculty of Business and Economic Sciences of the Nelson Mandela Metropolitan University.

The views expressed in the journal are those of the respective authors.

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The editorial policy includes taking cognisance of the journal's objective to advance all disciplines, fields and sub-fields within the Faculty of Business and Economic Sciences, such as those mentioned above and, in addition, the advancement of entrepreneurship, innovation, small business development, among others, as well as the application of the various, relevant disciplines in practice.

The primary purpose of the journal is to publish research articles in the various fields, to disseminate information and to serve as a publication vehicle for academics, researchers and practitioners. For example, practical papers, empirical papers, new approaches and techniques, case studies, and conceptual papers will be considered for publication, as well as book reviews and, when appropriate, conference papers.

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When submitting articles, authors have to agree that:

- ☐ They have not submitted and will not submit their article to another entity while the article is under review at JDL.
- ☐ They will only submit articles and empirical reports that have not been published previously.
- ☐ Their articles are prepared according to the prescribed style of JDL.
- ☐ Articles that have not been appropriately prepared according to the set guidelines will be returned to the authors prior to peer-reviewing.

Format

Font and font size should be Arial or Times New Roman in 12 pt font size. The margins should be 3cm left, 2cm right and 2.54 top and bottom of each page.

Abstract

The abstract should consist of approximately 200 words. should be in single spacing and should be in italics.

Keywords

Authors should identify up to five keywords, separated by a semi-colon on the title page that characterise the principal themes covered by the paper.

Language

Papers should be written in English (preferably South African English). (In MS Word go to Tools, Language, Set Language and then select "English, South Africa".)

Title page

This page should contain the title of the article and the name, affiliation, full address and contact information of every author. If the article is co-authored, then the name of the author to whom correspondence should be sent has to be marked with an asterisk (*).

Body

The article has to be typed on one side of the page only in 1.5 line spacing. Appropriate headings and sub-headings should be used to segment the article to enhance readability. The length of the article should not exceed 10 000 words of typed text (approximately 30 type-written A4 pages).

Headings

Headings and sub-headings should not be numbered. All headings have to be formatted in bold upper case, and sub-headings in bold lower case (for example, using initial capitals and the rest lower case). Sub-sub headings should be in regular lower case.

Manuscript contents

Articles should include: abstract, introduction, identification of a problem, aims of the study, method and sample, measuring instruments, procedure, followed by interpretation and articulation of the results.