



**THE UNIVERSITY OF ZAMBIA  
INSTITUTE OF DISTANCE EDUCATION**

**STUDY MATERIAL  
CVE 2020 MODULE**

**SOCIAL AND ECONOMIC DEVELOPMENT**

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## **ACKNOWLEDGEMENTS**

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## **INTRODUCTION:**

This module introduces you to basic concepts of public service delivery and management, the way functions and responsibilities can be assigned. It explores state-society relations, the state itself and helps you to identify a set of common organizational, administrative, legal, territorial and socio-cultural attributes of public authority. As prospective public managers you need to be conversant with Public service delivery processes, economics and entrepreneurship aspects of public life. Given this knowledge you will be equipped with tools of analyzing public Policy, relating it to the legal, organizational and administrative frameworks, and thereby evaluate the quality of public service delivery.

## **AIM**

This module aims at enabling you understand the nature of public service, how public service delivery should be managed and key basic concepts in economics and entrepreneurship.

## **COURSE OBJECTIVES**

By the end of the course students should be able to:-

- a) Define the public service
- b) Explain the difference between the public sector and the private sector
- c) Differentiate public goods from private goods
- d) Describe the various actors in public service delivery
- e) Explain the role of civil society organisations in public service delivery
- f) Explain basic concepts in economics
- g) Point out the essence of good governance in public service delivery and management
- h) Explain entrepreneurship and show its significance to the development of Zambia

## **COURSE CONTENT**

1. Definitions of concepts in public management
2. The public sector vs. the private sector
3. Public Goods and Private Goods
4. Agents of Public service delivery

5. The state and Development
6. Environment, Rural and urban Development Issues
7. Economics, Entrepreneurship, and Development

### **METHOD OF TEACHING**

Four hours of lectures per week

Three hours of lectures

One hour of tutorials

### **ASSESSMENT**

- |                                |     |
|--------------------------------|-----|
| 1. Continuous Assessment       | 50% |
| I. Test                        | 20% |
| II. Two Assignment of 15% each | 30% |
| 2. Examination                 | 50% |

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# **UNIT 1: THE PUBLIC SECTOR VS. PRIVATE SECTOR**

## **1.1 Unit Contents**

1. Differences between the private and the public
2. Definition of Public sector
3. Definition of Public Service
4. Public Goods and Private Goods
5. Sectors involved in public service deliver

**1.2 Aim:** This unit aims at making you conceptualise the Public and the Private

## **1.3 Unit Objectives**

By the end of this unit you should be able to:

1. Explain the differences between the private and the public.
2. Describe the Public sector
3. Define Public service
4. Show the relationship between Public Goods and Private Goods
5. Describe the sectors involved in public service delivery.

## **1.4 Introduction**

This unit introduces you to the study about Public Service Delivery. It discusses the way functions and responsibilities can be assigned. As an area of inquiry, it explores state-society relations, the state itself and helps you to identify a set of common organizational, administrative, legal, territorial and socio-cultural attributes of public authority. It also focuses on the interactions and interdependency between the state and society and that society provides crucial elements of support for a state to be effective, and that a state is critical to collective action in society. It draws your attention to the main roles of the state, as being to:

- Provide security for the members of its society
- Provide a stable economic environment.
- Promote a more equitable distribution of income/resources.
- Assure a more efficient allocation of resources, when markets fail.

To start examining these state- society relations we first of all describe the state as being the actor in service delivery by the public sector. We therefore start by explaining the differences between the public and the private.

### **1.5 What is the Difference Between the Private and the Public?**

In order to understand the concept of public service delivery, it is first important to understand the term public. We often use such terms as public interest, public sector, public opinion, public health, public administration and so on. The concept of public presupposes that there is an area or domain of life which is not private or purely individual, but held in common. Public dimension generally refers to 'public ownership' or control for public purpose. The public comprises that domain of human activity which is regarded as requiring governmental intervention or common action. However, there has always been a conflict between what is private and what is public. W. F. Barber in (Sapru, 2004: 3) argues that the public sector has the following ten key characteristics by which it can be differentiated from the private sector:

- (i) It faces more complex and ambiguous tasks;
- (ii) It has more problems in implementing its decisions.
- (iii) It employs more people with a wider range of motivations;
- (iv) It is concerned with securing opportunities or capacities;
- (v) It is more concerned with compensating for market failure
- (vi) It engages in activities with greater symbolic significance;
- (vii) It is held to stricter standards of commitment and legality;
- (viii) It has greater opportunities to respond to issues of fairness;
- (ix) It must operate or appear to operate in the public interest;
- (x) It must maintain minimal levels of public support above that required in private industry.

### **1.6 The public sector**

The public sector is that portion of society controlled by national, state or provincial, and local governments. It is that part of the economy concerned with providing basic government services. The composition of the public sector varies by country, but in most countries the public sector

encompasses universal, critical services such as national defense, homeland security, police protection, fire fighting, urban planning, corrections, taxation, public roads, public transit, primary education and healthcare for the poor and various social programs.

The public sector overlaps with the private sector in producing or providing certain goods and services. The extent of this overlap varies from country to country, state to state, province to province, and city to city. This overlap is most often seen in waste management, water management, health care, security services, and orphanages. Sometimes, service providers move from the public sector to the private (privatization). In other instances, a service may shift from the private sector to the public. Governments also routinely hire private corporations to provide goods and services for the public sector, a practice known as outsourcing . Examples include such tasks as construction, or maintenance of roads, bridges, etc.

### **1.7 The public service**

The public service covers all central/national ministries and departments (the civil service), police, military, local governments, parastatals and all statutory bodies established by the state. All those who work in these state institutions are public servants. The state by provision its constitution creates ministries and departments, and statutory provisions create public corporations and many other institutions to enable the state deliver services to the people. The size of the public service is not static, it can be made big or reduced depending on the state's conception of the magnitude of service delivery to be provided. Public service reforms are, therefore, just measures taken to streamline the public service in terms of size and institutional arrangements in order to make it deliver services efficiently and effectively. In unit 2 more discussion on the public service reforms will be done, but as for now you first of all need to know about the nature of public goods and private goods.

### **1.8 Public Goods and Private Goods**

Public goods come into prominence because of the existence of a condition called *market failure*. This market failure refers to the fact that the private sector provides services in order to make profit and that it is this profit orientation which makes it fail to provide to all sectors of

society. Therefore, the poor will not be catered for. It is the existence of public goods which makes it possible for all sectors of society to have access to services. To understand this it is helpful first to discuss what is meant by a private good or service. For this discussion, we need to, first, establish some definitions associated with goods and services.

- **Rivalrous** - the consumption/use of the good or service by one person reduces the availability of the good or service to another person.
- **Non-rivalrous** - the consumption/use of the good or service by one person does not reduce the availability or utility of the good or service to another person (these goods are often, but not limited to, intangibles).
- **Excludable** - any excludable good or service is one that someone can be prevented from accessing if they do not pay for it.
- **Non-excludable** - any good or service that someone cannot be prevented from accessing because of non-payment (or it is extremely expensive to exclude) Example: While our taxes go to fund the military, we do not, and cannot, deny national defense services to members of our society who have not paid taxes.

### 1.8.1 Private Goods

A private good or service has three main characteristics:

1. **Excludability:** Consumers of private goods can be **excluded from consuming the product** by the seller if they are not **willing or able to pay for it**. For example a ticket to the theatre or a meal in a restaurant is clearly a private good. Another example is the increasing use of **“pay-per-view”** as a means of extracting payment from people wanting to watch exclusive coverage of sporting events on television or the payment required to travel on a toll-road or toll-bridge. Another example of a private good is the use of **subscription-based services** on the internet. Some newspapers provide the bulk of their news stories on the internet as a **“quasi public good”**. Excludability gives the service provider (the seller) the chance to make a profit from producing and selling the product. With public goods, such excludability does not exist. When goods are excludable, the owners can exercise **property rights**.
2. **Rivalry:** With a private good, one person's consumption of a product reduces the amount left for others to consume and benefit from - because scarce resources are used up in producing and supplying the good or service. Driving one's car on a road uses up road space that is no

longer available at that time to another motorist. The greater the volume of traffic on the roads, the higher the likelihood of traffic congestion which has the effect of reducing the average speed and increasing the average journey time for each road user.

**3. Rejectability:** Private goods and services can be rejected - if you don't like the items available in particular shop, you can use your money to buy something else. You can choose not to travel. All private goods and services can be rejected by the final consumer should their tastes and preferences change.

### 1.8.2 Public Goods

As one might expect, the characteristics of pure public goods are the opposite of private goods:

**Non-excludability:** The benefits derived from the provision of pure public goods cannot be confined to only those who have actually paid for it. In this sense, non-payers can enjoy the benefits of consumption at no financial cost to themselves – this is known as the “**free-rider**” problem and it means that people have a temptation to consume without paying.

**Non-rival consumption:** Consumption of a public good by one person does not reduce the availability of a good to everyone else – therefore we all consume the same amount of public goods even though our tastes and preferences for these goods might differ

#### Examples of Public Goods

There are relatively few examples of pure public goods. Examples of public goods include flood control systems, some of the broadcasting services, public water supplies, street lighting for roads and motorways, and also national defense services.

The general protection that the police services provide in deterring crime and investigating criminal acts serves as a public good. Private protection services (including private security guards, privately bought security systems and detectives) are private goods because the service is excludable, rejectable and rival in consumption and people and businesses are often prepared to pay a high price for exclusive services. So, when we make different combinations of rivalrous/non-rivalrous and excludable/non-excludable goods, we get what are called public and private goods, as is shown in the matrix below.

	<b>excludable</b>	<b>non-excludable</b>
	<b>Private Goods</b>	<b>Common Goods</b>
<b>rivalrous</b>	A private good is both rivalrous and excludable; I own and drive my car. I paid for it, and I drive it. While I'm driving it, no one else can. And I don't let people who didn't pay for my car drive it	A common good is rivalrous but non-excludable; in other words the supply can be depleted, but people are not restricted in their use of the good. Common goods, because they are limited but largely available to all, are susceptible to the <i>Tragedy of the Commons</i> .
	<b>Club or Toll Goods</b>	<b>Public Goods</b>
<b>non-rivalrous</b>	A club or toll good is excludable, but non-rivalrous (at least to a point); this would involve things like subscriptions to DSTV, access to private parks, or even membership in the club	A public good is both non-rivalrous and non-excludable; you and I can enjoy this good at the same time without diminishing its utility, and we didn't have to pay for it to enjoy it. Public goods are things like breathing air or enjoying a national defense system.

## 1.9 Public goods and market failure

Pure public goods are not normally provided at all by the private sector because they would be unable to supply them for a profit. Thus the free market may fail totally to provide important pure public goods and under-provide quasi public goods. It is therefore up to the Government to decide what output of public goods is appropriate for society. To do this, it must estimate the social benefit from the consumption of public goods, though putting a monetary value on the benefit derived from public goods such as street lighting and defence is quite problematic. Effectively the cost of providing a pure public good to an extra user is zero, and this implies that, in order to achieve allocative efficiency, the charge for the product should be zero. Of course, in this situation, private sector businesses are unlikely to consider providing pure public goods because they will not be able to make any profit at a zero price, and many consumers can take a free ride on such goods because of non-excludability.

### 1.9.1 The case for government intervention in the case of public goods

The provision of pure public goods is therefore a cause of **market failure**. Left to the free market, public goods are **under-provided** and **under-consumed** leading to a loss of social welfare.

- The non-rival nature of consumption provides a strong case for the government rather than the market to provide and pay for public goods.
- Many public goods are provided more or less free at the point of use and then paid for out of general taxation or another general form of charge such as a licence fee.

State provision may help to prevent the under-provision and under-consumption of public goods so that social welfare is improved.

### 1.10 Quasi-Public Goods

Most public goods are non-pure public goods – these are also known as **quasi-public goods**. The main reason is that we can find ways and means of excluding some groups from consuming them. A quasi-public good is a **near-public good** i.e. it has many but not all the characteristics of a public good. Quasi public goods are:

- **Semi-non-rival:** up to a point, extra consumers using a park, beach or road do not reduce the amount of the product available to other consumers. Eventually additional consumers reduce the benefits to other users. Beaches become crowded as do parks and other leisure facilities.
- **Semi-non-excludable:** it is possible but often difficult or expensive to exclude non-paying consumers. E.g. fencing a park or beach and charging an entrance fee; building toll booths to charge for road usage on congested routes

### 1.11 Sectors Involved in Public Service Delivery

The Public Service in both the developed and developing world plays a vital role in providing public goods, such as defense, public order, property rights, macro-economic management, basic education, public health, disaster relief, protection of environment, and coordinating private

sector activity. A capable public service is essential for creating a favourable investment climate and facilitating people's participation in economic life. However, due to globalisation governments are facing increasingly complex and cross-cutting issues, such as economic volatility, climate change and migration. Public service delivery has, as a consequence, acquired new dimensions as governments need to respond not only to changes in the global environment but also to the demands of an active citizenry. The need to formulate integrated policies and their effective implementation becomes an imperative. Therefore, an adaptable and efficient public service that can anticipate emerging challenges and work in partnership with the private sector and civil society organisations is required. Therefore, role of the private sector and civil society organisations complementing the public sector in service delivery need not be overemphasised..

### **1.12 Unit summary**

In this unit you have learned about the Public Service and Public Service Delivery. You have seen the way functions and responsibilities can be assigned. You have also explored state-society relations, and organizational, administrative, legal, territorial and socio-cultural attributes of public authority. You have also seen that there are interactions and interdependency between the state and society and that a state is critical to collective action in society. Your attention has been drawn to the main roles of the state, namely: to provide security for the members of its society, to provide a stable economic environment, to promote a more equitable distribution of income/resources, and to assure a more efficient allocation of resources. That the state is therefore an organisation created by society itself for the purpose of delivering services to the community. The state is thus answerable to the people; it is a people's institution.

### **1.13 ACTIVITY**

1. What is the relationship between the state and society?
2. Explain the differences between the public sector and the private sector
3. Describe public goods and private goods
4. Identify the other sectors which complement the state in service delivery.

## **UNIT 2: Public Service Delivery Mechanisms and Processes**

### **2.1 Unit Contents**

1. Public Service Reforms
2. Decentralisation
3. Forms of Government Systems
4. Federal system vs. Unitary system
5. Good governance and public service delivery.
6. Civil society and Public service delivery

### **2.2 Aim:**

This unit introduces you to Public Service Delivery Mechanisms and Processes

### **2.3 Unit Objectives**

By the end of this unit you should be able to:

1. Identify actors in Public Service Delivery
2. Explain the role of civil society in Public service delivery
3. Define Public Service Reforms
4. Explain Decentralisation
5. Describe forms of Government Systems

### **2.4 Introduction**

This unit discusses public service delivery mechanisms and processes. It sets out by, first of all, discussing the public service reforms which are one of the measures states use to make public service delivery efficient and effective. Reorganizing the public sector is very essential because, in Zambia and in virtually every developing country, the public sector is the largest spender and employer, and it is the one which sets the policy environment for the rest of the economy. In cognisance of the foregoing most donor projects, in recent years, have supported public sector reform, because the quality of the public sector— accountability, effectiveness and efficiency in service delivery, transparency and so forth — is thought by many to greatly contribute to national

development. Public sector reforms entails recognizing that improving the efficiency of government counterparts is also essential for the effectiveness and efficiency of a country's public sector.

## **2.5 Public Service Reforms**

Efficient and effective delivery of public services is dependent on sound financial management, an efficient civil service and administrative policy, efficient and fair collection of taxes, and transparent and relatively corruption-free operations. It is, therefore, incumbent upon the leadership of any state to make necessary adjustments to its public service to put in place institutions, laws and personnel which will ensure efficient and effective delivery of public services. Arising from the foregoing the common trend in both developing and developed countries is that public service reforms are ongoing. However, most important to note here, is that due to globalisation, in most countries, public service reforms have become a challenging undertaking. This is so because globalisation has made governments encounter increasingly complex and cross-cutting issues, such as economic volatility, climate change and migration. Therefore public service delivery has, as a consequence, acquired new dimensions as governments need to respond not only to changes in the global environment but also to the demands of an active citizenry. Formulating integrated policies and their effective implementation would require an adaptable and efficient public service that can anticipate emerging challenges and ensure that potential strategies are adopted. To achieve this end most liberal democratic countries have designed their public service reforms on the basis of New Public Management(NPM) management techniques and practices, which are, consequently, increasingly becoming a global phenomenon. Given this scenario, an explanation of what NPM is all about becomes an imperative.

### **2.5.1 New Public Management (NPM)**

New public management (NPM) management techniques and practices are drawn mainly from the private sector. Reforms based on NPM shift the emphasis from traditional public administration to public management. Key elements include various forms of decentralizing management within public services, increasing use of markets and competition in the provision of public services, and increasing emphasis on performance, outputs and customer orientation. NPM reforms have been driven by a combination of economic, social, political and technological factors. A common factor

among countries taking up the NPM option has been the experience of economic and fiscal crises, which triggered the quest for efficiency and for ways to cut the cost of delivering public services. Such crisis of the welfare state has provoked questions concerning the role and institutional character of the state. Important to note is that in the case of most developing countries, reforms in public administration and management have been driven more by external pressures and have taken place in the context of structural adjustment programmes. Other drivers of NPM-type reforms include the ascendancy of neoliberal ideas from the late 1970s, the development of information technology, and the growth and use of international management consultants as advisors on reforms. Additional factors, in the case of developing countries, include lending conditionalities and the increasing demand for good governance. Until recently, NPM was largely seen as a developed country, phenomenon. However, since the 1990s there have been applications of variants of NPM techniques and practices in many developing and transitional economies.

- management decentralization within public services,
- downsizing,
- performance contracting,
- contracting out
- and user charges.

These are being applied in crisis states, but not in a very comprehensive and consistent manner. Downsizing and user fees have been most widely introduced, especially in Africa, and have been closely associated with structural adjustment programmes. Autonomous agencies within the public sector are being created in some countries. For example, during the 1990s Zambia, like many other developing countries, was affected by the democratization wind of change that swept through Eastern Europe, Africa, and the developing countries of Asia and Latin America. The effect of this democratization was that there was change from a one party political system, under the United Nations Independence Party-UNIP, to a multiparty political system, in 1991, under the Movement for Multiparty Democracy (MMD). This change in the political system was followed by pressures and calls for changes in the operations of the public service to make it efficient and responsive to the needs of the populace (Mukwena, 2001). This came in the wake of emphasis by the donors that the quality of governance affects development and that therefore the key to achieving economic

efficiency is to ensure that there is good governance and hence the need to change the role of the state from that of provider to that of enabler (Ayeni, 2002).

Under the IMF and World Bank driven Structural Adjustment Programme (SAP) the Zambian Government launched the Public Service Reform Programme (PSRP) designed to transform the public service into a leaner, efficient, cost effective, responsive and affordable organization capable of delivering quality services, and providing an enabling environment for private sector and individual participation in national development.

Although NPM practices seems to have been beneficial in some cases, for example, cost savings in contracting out various works, there are both potential for and real limitations to applying some elements in most developing countries. Experience of NPM in such states suggests that there are institutional and other problems whose persistence may be binding constraints on implementation. There are limitations in the ability to manage a network of contracts, the development of monitoring and reporting systems, and the governance and institutional environment. Lastly but not the least, it must be pointed out that while the new public management approach may not be a panacea for the problems of the public sector in crisis states, a careful and selective adaptation of some elements to selected sectors may be beneficial. In both developed and developing countries decentralisation, as a public service reform practice, has been widely adopted and used in order to ensure efficient and effective delivery of public services.

### **2.5.2 Decentralisation**

Decentralisation seeks to redistribute authority, responsibility and financial resources among different levels of government for providing public services. It is about the transfer of responsibility for planning, financing and managing public functions, from the central government to lower levels of government:

- field units of government agencies
- subordinate units or levels of government
- semi-autonomous public authorities or corporations,
- area-wide, regional or functional authorities

This means a redistribution of authority, responsibility and financial resources among different levels of government and beyond. Decentralisation, therefore involves the transfer by law and other formal actions, of responsibility, resources, and accountability from central government to lower levels of government; it involves a long political, fiscal, and administrative process ranging from deconcentration, delegation to devolution and even privatization (Olowu and Wunsch, 2004.).

### **Forms of Decentralisation**

Decentralisation has three major forms:

**Deconcentration:** shifting decision-making power to central government officials located outside the capital. The field offices are accountable for their decisions to the central ministry. The main objectives of deconcentration are to improve administrative efficiency, enhance service delivery and ensure adequate representation of the central government as well as supervision at the sub-national level. Deconcentration is considered to be the weakest form of decentralisation, although the opportunities for local input vary and sometimes strong field administrations can be found. Deconcentration, is characterised by the delegating of functions within the central government from higher to lower administrative levels, while power, policy making and control of funds remain with the centre.

**Delegation:** shifting responsibilities to semi-autonomous government bodies or NGOs, which will ultimately be fully accountable to the centre. This is a more extensive form of decentralisation. Responsibility for decision-making and administration of public functions is not wholly controlled by central government but is ultimately accountable to it (examples include public enterprises, housing authorities, autonomous school districts and regional development corporations). In the francophone context, delegation is generally seen as an instrument of deconcentration whereby the minister delegates tasks, responsibilities and resources to regional directors, who can then delegate to provincial directors or lower levels falling within the authority of the ministry. Delegation is the redistributing of executive powers to local government or newly created agencies. Under delegation, although local government or newly created agencies are technically and administratively independent, have relative autonomy, more

initiative in implementation and more responsible for results, the ultimate power and authority remain with the central government which determines broad policies and frameworks.

**Devolution:** shifting fiscal powers and decision-making responsibilities to subnational governments where sub-national governments are granted substantive decision-making authority. In a devolved system, local authorities have clear and legally recognised geographical boundaries over which they exercise authority and within which they perform public functions. They are accountable to their local constituency for their decisions. This form underlies most political decentralisation. In francophone countries, there is no special term for this form of political decentralisation.

**Devolution**, also called democratic or political decentralisation, is the transfer of tasks power and funds to local government or local bodies. This entails autonomy of local government and democratic control by democratically elected representatives. Under devolution the role of the centre is rule setting and monitoring. Democratic decentralisation is put in place through decentralisation reforms; i.e. those legal acts and administrative measures which initiate a transfer of responsibility (authority), resources (human and financial), accountability, and rules (institutions) from central government to local entities (Olowu and Wunsch, 2004)

**Divestment, or Privatisation:** A fourth form of decentralisation is divestment, or privatisation, in which public functions are transferred from government to voluntary, private or non-governmental institutions. Divestment occurs when governments contract out certain public services or administrative functions or when public services, like public transport or energy, are fully privatised to private companies. Privatisation is often accompanied by **deregulation**, which reduces legal constraints in service provision and allows competition among private suppliers for services previously provided by the government or regulated monopolies. Privatization involves the removal of state interest in public enterprises and the subsequent sale of such enterprises to the private sector. Privatization entails deregulation of what may be considered as government constraints with a view to enhancing efficiency in the conduct of business. However, privatization cannot be used by central government in the delivery of public services since local authorities cannot be privatized (Loloji, 2009.)

With these various forms of decentralisation at its disposal, the form adopted by a given country is dependent on the history and stage of development of that country. History and stage of development, therefore, define the existing mix of decentralisation, deconcentration, devolution and divestment. However, important to note is that within a country, the way tasks and responsibilities are assigned to different government levels can vary considerably from one sector to another, depending on the service it provides.

### **Assignment of Functions**

There are four ways a country's tasks and responsibilities are assigned to different government levels:

- 1.** Most countries determine the assignment of functions and expenditure responsibilities in accordance with the **Subsidiarity principle**, which states that a function should be performed by the lowest level of government that can do so efficiently. See also the European Charter of Local Self-Government in which the parties commit themselves to the Subsidiarity principle, saying that public responsibilities should preferably be exercised by the authorities closest to the citizens. The government should have adequate legal authority and management capacity to perform its assigned functions and it should be willing to pursue intergovernmental policies for promoting inter-jurisdictional cooperation. The notion that local government may be better able than a regional or central government to determine how a service is to be organised or delivered is a key part of this management principle. This can also help ensure that best practices can be identified through experimentation and then adopted by other jurisdictions.

- 2.** Functions should be assigned to that tier of government whose jurisdiction most closely approximates the geographical area of benefits provided by the function. For example, fire protection services benefit only the residents of the community located near the relevant facilities; while activities to prevent air or water pollution benefit larger regions or even a nation.

- 3.** Closely related to the previous point is the principle that takes into account the *heterogeneity*

*of preferences* that persons or groups living in different parts of a country may display for different amounts of certain services, a different quality of service (for a given amount) and/or a different approach to delivering public services. Under such circumstances, local governments can be the appropriate service provider if the border of the locality matches that of the social preference. Where this heterogeneity of preference crosses the line from acceptable to unacceptable is when it violates protections of human rights, civil liberties, the right of people and governments to freely associate and equal access to jobs and justice.

4. Public goods and services should be provided by the government that can best realise *economies of scale* in production of the good or service. Economies of scale refer to the unit cost of production. For any good or service, increasing the amount produced may result in increasing, decreasing or constant unit costs. Other things being equal, the type of government that can deliver a good or service at the lowest possible cost should provide that service (**Subsidiarity principle**). The **Subsidiarity principle** can be explained as follows:

- Public responsibilities shall generally be exercised, in preference, by those authorities that are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy
- Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law.

## **Capacity Development**

Capacity development in decentralisation processes is crucial not only because sub-national levels have to adapt to their newly assigned responsibilities in service delivery but also because the national government has to adapt to its new role. It must create conditions, set standards and supervise in order to create sustaining conditions for local government service delivery and to monitor quality and equity. The new tasks require new knowledge and skills as well as a shift in mindset in which national governments learn to let go and live with the consequences of

decentralisation. The central level may have to give up the direct provision of services and become better at developing broad policy goals and ensuring equal opportunities and access across the nation.

## **2.6 Forms of government systems**

The development of Democratic and Republican states the administrative aspect of a democracy can be centralized or decentralized. Often there is debate on which of these two could be the most suitable system of governance that nations should adopt to ensure efficient and effective public service delivery. It is in view of this that, to respond to the question as to which amongst them is better, we should shed some light on the different forms of government systems namely, **confederal**, **unitary** and **federal** systems and highlight the different aspects of such systems.

### **Confederate Government**

A confederate government is an alliance of independent states. A central organ – the confederate government – has the power to handle only those matters that the member states have assigned to it. Typically, confederate governments have had limited powers and only in such fields as defense and foreign commerce. In our own history, the United States under the Articles of Confederation (1781 to 1789) and the Confederate States of America (1861-1865) are examples of the form. Confederations are very rare in today's world. The European Union is the closest approach to a confederation today. In a Confederate government, the nation is made up of constituent states, each state having ultimate sovereignty. This form results in a national government which is more of an association - the central national government has no legal authority over its constituent state (regional) governments, other than the authority those states voluntarily give it (and can withdraw at any time). Confederations are really government-by-voluntary-consensus, with power being retained at the regional (state) level. At the state level in a confederation, most operate as a Unitary government themselves.

### **Advantages**

1. Keeps power at local levels preventing the growth of a large central government
2. Makes it possible for the several states to cooperate in matters of common concern and also retain their separate identities

## **Disadvantages**

1. Weakness of central government makes it unable to enforce laws or collect taxes
2. lack of unity and common laws

## **Unitary Government**

It is often described as a centralized government. It is a government in which all powers held by the government belong to a single, central agency. The central government creates local units of government for its own convenience. Most government in the world are unitary. Great Britain is an illustration of the type. A single central organ – the Parliament-holds all the power of the British government. Local governments do exist but solely to relieve Parliament of burdens it could perform only with difficulty and inconvenience a unitary state has a single ultimate sovereignty. a federal state has a dual location of sovereignty, with authority divided between government and regional governments. In a Unitary government, all sovereignty resides at the national level - thus, the national government is superior to, and controls all regional and local governments. In such a system, governments report in what looks like a military chain-of-command: local governments report to and are legally subservient to regional governments, which report to and are subservient to the national government. A unitary government has all power concentrated at the national government, which may delegate some of that power elsewhere, but which retains the ultimate say in which entity has that power.

## **Advantages**

1. Uniform policies, laws, political, enforcement, administration throughout the country
2. Less duplication of services and fewer conflicts between national and local governments
3. Greater unity and stability

## **Disadvantages**

1. Central government out of touch with local concerns
2. Slow in meeting local problems
3. If the central government gets too involved in local problems it may not meet the needs of all its citizens

## **Federal Government**

A federal government is one in which the powers of government are divided between a central government and several local governments. An authority superior to both the central and local governments makes this division of powers on a geographic basis; and that division cannot be changed by either the local or national level acting alone. Both levels of government act directly on the people through their own sets of laws, officials, and agencies. In the United States, for example the National Government has certain powers and the 50 states have others. This division of powers is set out in the Constitution of the United States. Federal governments are a blend of the above two opposites. Most federal systems divide up various responsibilities (sovereignty) into categories, then decide that either the federal (national), the state (regional), or local (town/city) government should be the ultimate sovereign in that area. Generally speaking, this division is based upon the impact of the topic in question: for responsibilities which impact the nation as a whole, the federal government is usually assigned supreme power, while for activities that are regional or local in nature, the regional (or local) government is assigned sovereignty. In all cases, government levels (federal, state, and local) are ultimately responsible solely to their constituent citizens, and do not legally report to another government. Thus, under a federal system, a town mayor has no legal responsibility to follow instructions from a state governor or a national president.

### **Advantages**

1. Federal unity but local governments handle local problems
2. Local government/officials have to be responsive to people who elect them
3. Central government can devote more time and energy to national and international problems
4. More opportunities for participation in making decisions – in influencing what is taught in the schools and in deciding where highways and government projects are to be built

### **Disadvantages**

1. Duplication of services
2. Citizens living in different parts of the country will be treated differently, not only in spending programs, such as welfare, but in legal systems that assign in different

- places different penalties to similar offenses or that differentially enforce civil rights laws
3. Disputes over power/national supremacy versus state's rights
  4. International relations – states may pass laws that counter national policy

## **2.7 Decentralisation in Unitary and Federal States.**

It is impossible to find any country which is absolutely Unitarian, or totally Federalist. The relationship between central and local government in both countries reflects a polycentric movement instead of Monocentric. It dynamically moves from a unitary continuum to the federalist continuum, and the other way round. Thus, there is no completely unitary state because every state is comprised of municipalities as decentralized units. Accordingly, the major task is to differentiate between a unitary state practicing deconcentration, a decentralized unitary state, and a federal state. Therefore decentralisation is possible in both unitary and federal states.

## **2.8 Unit Summary**

In this unit you have learned about the Public service delivery mechanisms and processes. You have seen the way functions and responsibilities can be assigned. You have explored public service reforms and seen that states use them as measures to make public service delivery efficient and effective. You now know that the public sector is the one which sets the policy environment for the rest of the economy and most donor projects, in recent years, have supported public sector reform, because the quality of the public sector greatly contribute to national development. You also appreciate that public sector reforms entails choosing appropriate government systems and improving the efficiency of government counterparts, both of which are essential for the effectiveness and efficiency of a country's public sector.

## **2.9 Activity**

1. What are public service reforms?
2. With reference to its origin and management principles explain what is meant by New Public Management (NPM).
3. Describe decentralisation and show why it s considered an important component of public sector reforms.

4. Pointing out the advantages and disadvantages describe the unitary, federal and confederate systems of government.
5. In your view is it possible to find an absolute unitary state?
6. Compare and contrast a unitary system with a federal system.

## **UNIT 3 THE STATE AND DEVELOPMENT**

### **Unit Content**

This unit covers the following topics:

1. The definition of development
2. Dimensions of development
3. Functions of the State
4. Measuring Development
5. Development Planning Co-ordination
6. End of unit activity
7. Unit summary

### **Aim**

This unit aims at introducing you to the concept of development so as to enable you grasp the relationship between the state and society.

### **Objectives**

By the end of this unit you should be able to:

1. Define the term development
2. List and explain the dimensions of development
3. Demonstrate how development can be measured
4. List and explain functions of the State
5. Explain development planning co-ordination and show why it is essential for national development.
6. Give a brief overview of the state's traditional role in development;
7. Discuss the dilemma of the state in a free society;
8. Show how the state can fulfil a very important role in empowerment.

### **3.1 Introduction**

This unit gives you the explanation of the term development; taking into consideration its various dimensions, how it can be measured, and how it is impacted upon by processes such as democratisation and globalization. The concept of development is neither new nor old; it is a continuously changing and dynamic concept. It has, since the beginning of civilization, been taking different shapes and dimensions (Sapru 1994:3). For example, the nature of development in the 20<sup>th</sup> century differs considerably from that which we are seeing in the 21<sup>st</sup> century. Though there is a generalized consensus, cutting across different regime types, that development constitutes the objective to which change should be directed consensus on what constitutes 'development' has remained a minefield of controversy (Olowu D. 1990:1). Olowu further observes that over the years, attempts have been made to characterize the development process based partially on the historical experience of the countries which are at present described as developed and the peculiar experiences of the third world nations themselves. The world is presently classified into developed and developing or underdeveloped countries. The Third World nations of Latin America, Asia and Africa constitute the developing or underdeveloped countries; and the nation of North America, Eastern Europe Japan are said to be the developed countries.

### **3.2 What is Development?**

Returning to the consensus on the meaning of development I would take what is opined in the Brandt Report (ICDID issues 1980 P. 48) which states that:

Development never will be and never can be, defined to universal satisfaction. It refers, broadly speaking, to desirable social and economic progress and people. Certainly, development must mean improvement in living conditions for which economic growth and industrialization are essential. But, if there is no attention to the quality of growth and to social change, one cannot speak of development. It is now widely recognized that development involves a profound transformation of the entire economic and social structure. This embraces changes in production and demand as well as improvements in income distribution and employment.

The major points to note in the foregoing definition are as follows:

- a) Development is a normative, people-centered concept; it has meaning in relation to its ability to bring about the realization of human potential (making people's life better), the increasing rationalization and subjugation of the universe to the human mind and control or manipulation.
- b) Development must also be equally concerned with the issue of social justice and social structure.

To understand or explain development as a concept we, therefore, need to describe it in all its various dimensions .

### **3.3 Dimensions of Development**

Development should not be seen or discussed from economic development perspective only; the political development and social development dimensions should be taken into consideration if our description of development is to be complete. We shall therefore, discuss these three dimensions and in addition, discuss the fourth dimension; that of sustainable development which is indeed a relatively new concept.

#### **I. Economic Development**

Economic development is essentially a key component of development. It involves such activities as the **raising of national income, reducing poverty, ensuring more equitable distribution of wealth and income.** Economic development therefore, implies that there is a sustainable increase in living standards; implying increased per capital income, better education and health as well as environmental protection. For any one given country, public policy generally must, therefore, aim at ensuring continuous and sustained economic growth and expansion of national economies so that 'developing countries become developed countries. The economic development process supposes that legal and institutional adjustments are made to give incentives for innovation and for investments so as to develop an efficient production and distribution system for goods and services.

## **II. Political Development**

Political development is defined as the capacity of a political system to deal with its own fundamental problems more effectively while responding to the changing political demands of the people. The political development process, therefore, involves changes revolving around the relationships between the political culture, the authoritative structures and the general political process.

## **III. Social Development**

Social development is a broad concept which is quite close to economic and political development. This is because in the process of modernization, both economic and social development go hand in hand in a politically developed society. Specifically, social development is a process which results in the transformation of social structures in a manner which improves the capacity of the society to fulfill its aspirations. Society develops by consciousness and social consciousness develops by organization. Not all social change constitutes development; development implies a qualitative change in the way society carries out its activities. Such as through more progressive attitudes and behaviour by the population, the adoption of more effective social organizations more advanced technology which may have been developed elsewhere. Social development in this context refers to changes that are beneficial to society; not those changes which may result in negative side effect or consequences that undermine or eliminate existing positive ways of life.

## **IV. Sustainable Development**

Sustainable development is a collection of methods to create and sustain development which seeks to relieve poverty, create equitable standards of living, satisfy the basic needs of all people, and establish sustainable political practices all while taking the steps necessary to avoid irreversible damages to natural capital in the long term in turn for short term benefits. It entails reconciling development projects with the regenerative capacity of the natural environment. The field of sustainable development can be conceptually broken into four constituent parts:

- Environmental sustainability
- Economic sustainability;

- Political sustainability and
- Social sustainability

In short, as the Brundtland Report puts it, sustainable development is that development which meets the needs of the present without compromising the ability of future generations to meet their own needs (WOED 1987: 43). And to amplify the meaning of sustainable development, the United Nations in its *International Development strategy for the second development decade* declared that:

The ultimate objective of development must be to bring about sustainable improvement in the well-being of the individual and bestow benefits on all. If undue privileges, extremes of wealth and social injustice persist, then development fails in its essential purpose. Qualitative and structural changes in the society must go hand in hand with rapid economic growth and existing disparities – regional, sectoral and social – should be substantially reduced (Olowu 1990: 2)

The concept of sustainable development was coined by the IUCN (International Union for the conservation of Nature) report of 1980. However, the concept became prominent after the environmental crisis came to prominence in the late 1980s and also after the publication of the World Commission on Environment and Development in 1987 (also called the Brundtland Report).

### **3.4 Measuring Development**

How possible is it to determine a country's level of development? Well in all efforts to measure the level of development there are key questions to be posed and which when answered will provide indicators of the level of development. Such questions include:

- What has been happening to poverty?
- What has been happening to inequality?
- What has been happening to unemployment?

If the answers to all three show that there has been a decline from higher levels, then there is development for the country concerned. However, if one or two of these central problems have

been worsening then that country is not experiencing development. However, there are other indices that different institutions may use. e.g. both the World Bank and the United Nations now use a wider array of indices to indicate comparative levels of development amongst nations. The table below, adopted from the World Bank Development Report of 1981, is one such example.

WORLD BANK BASIC INDICATORS	U.N RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT
1. Population 2. Land Area 3. Average gross national product (per capita) 4. Annual rate of inflation 5. Adult literacy 6. Life expectancy 7. Average index food production	1. Demography 2. Health 3. Nutrition 4. Housing and related activities 5. Education 6. Transport and services 7. Communications 8. Industry 9. Foreign trade 10. General Economic indicators 11. Technology

The UNDP defined development in terms of human security:

- **Economic security** – one must have a basic secure income (not automatically linked to employment)
- **Food Security** – one must have access to food.
- **Health security** – There must be adequate nutrition safe water and sanitation.
- **Environmental security** – people should inhabit an environment which is protected. Thus, there should be policies to protect the environment.
- **Personal security** – one must be protected from violence of the state.
- **Community security** – one must be protected from communal or ethnic attack.
- **Political security** – there should be protection against political repression, torture etc.

### 3.5 Development Planning Co-ordination

- **Planning**

Planning is a broad term used to refer to a wide range of activities that may be performed at various levels. It is important to note that in all planning the actual process of planning is an identifiable activity that can be distinguished from other related activities. Development planning makes use of specific approaches and sets of tools which effectively work to create sustainable development. Planning is an imperative because to create sustainable development we need to reflect on past failures and successes to work out or forecast future challenges and possible successes. This calls for a break through in both thinking and doing. It is for this reason that in this discussion we shall be dealing with the meaning of development planning, mainly highlighting its **elements, hierarchy, advantages, obstacles** the **process** and **tools**.

- **The meaning of development Planning.**

What does the term development planning refer to? Well, in its simplistic form, development planning refers to a management function which, or is intended to, provide public managers with guidelines of what to do and how to do it. The time frame of these plans can be short term (1 to 12 months), medium term (1 to 5 years) or long term (longer than 5 years). There can also be contingent plans within the short, medium or long term plans. This is so because situations can be changed by certain circumstances at short notice thereby forcing the planners to disregard the time frames (Knipe 2004: 139). Planning is a continuous process; there are no specific times during the management process where planning must be done. Basically planning takes place continually in order to deal with the continuous changes in circumstances. Planning is therefore aimed at determining the future actions of an institution and/ or individual, and to identify guidelines that are necessary to achieve it. Planning also deals with choosing between various available alternatives.(Knipe 2004: 138)

In Zambia, development planning is done at all levels of government; community, district, provincial and national levels. At national level, sector Ministries prepare plans based on their core functions and these are submitted to Ministry of Finance and National Planning for funding. At National level the body responsible for coordinating development planning is called the

National Development coordinating committee (NDCC). All sector Ministerial plans are supposed to be submitted to the NDCC for scrutiny and approval. However, this has not been happening due to administrative and management problems. At Provincial level, all plans from sector Ministerial Departments and local authorities in the province are supposed to be submitted to the Provincial Development coordinating committee (PDCC) for scrutiny and approval and forwarding to the National Development coordinating committee for approval and inclusion in the national budgetary estimates.

At district level, there is the District Development Coordinating Committee (DDCC). All sector departments and local authorities submit their plans to the DDCC for scrutiny and approval.

At the grass-root level there is provision for existence of an Area/Resident Development committee (ADC or RDC). Planning at this level has been problematic because the ADC or RDC is not yet a formalized planning body; but rather exists as an arrangement of convenience at that level.

Although the PDCC exists, its operations has been mostly marginalized since there seems to be no enough support from the NDCC as most of the decisions made at PDCC are not considered by the NDCC. The problem trickles down to the District because there is as a result no feed back from PDCC to DCC. Despite all these problems the state must come up with what is called a National Development plan (NDC). At present the government has put in place a fifth National Development Plan which is to be implemented over a period of five years.( see The National Decentralization Policy, 2004)

### **3.6 Elements of Planning**

There are innumerable definitions of planning. Most authors try to offer new definitions and many national policy documents or statements by individual political leaders introduce their own definitions to suit the particular image of planning which they wish to convey. Nevertheless, despite the surfeit of existing definitions, some sort of working definition is necessary. For the purpose of this discussion planning is defined as a continuous process which involves decisions, or choices, about alternative ways of using available resources, with the aim of achieving

particular goals at some time in the future (Conyers & Hills, 1992: 3). This definition attempts to incorporate the main points included in most other definitions and thus to convey the most important elements of the concept of planning. These elements include the following. (Knipe 2004: 138)

- **To plan means to choose**

Planning involves making decisions about which of a number of courses of action to adopt, in other words, making choices. At one time, the late President Nyerere's main concern in a speech to the Tanzanian people was that they should not be disappointed if the plan did not appear to meet all their needs or expectations. He emphasized that it was not possible to provide everything for everybody all at once and that the plan presented the result of a process of choosing which things should be given priority. Planning, he said, means choosing between many desirable activities because not everything can be done at once. However, planning also involves making choices between alternative courses of action, In other words, it is about alternative ways of achieving the same objective. This means, of course, that planning can only be done if the information is available on what choices there are and what the consequence will be for every choice. (Knipe 2004: 139)

- **Planning is a means of allocating resources**

Another important element of planning is that it is concerned with the allocation of resources. Resources are used here to refer to anything that is considered by those making decisions to be optimal use in achieving a particular objective. This definition thus includes not only natural resources (water, land, minerals and so on), but also human resource, capital resources (such as roads, buildings, and equipment) and finance. This means that in participatory planning people allocate resources to themselves.

Planning involves decisions about how to make the best use of the available resources. Consequently, the quality and quantity of these resources have a very important effect on the process of choosing between different courses of action. On the one hand, the fact that there are almost always limits to the quantity and quality of resources available, is the main reason why

planning involves deciding which of a number of desirable courses of action should be given priority. On the other hand, where choices have to be made between alternative courses of action, the availability of resources plays an important role in determining both the range of alternatives available and the one that is likely to be most acceptable. Poor people should therefore realize from the outset that planning does not mean to work through a shopping list. The squeeze in which they find themselves is real and can be addressed a bit at a time. (Conyers & Hills, 1992: 4 – 5).

- **Planning as a means of achieving goals**

It is not enough to say that planning involves making decisions about the use of resources because the best use of any particular set of resources will depend very much on what one is trying to achieve. It is important to look at the relationship between planning and the achievement of goals. That is why planning is usually confined within projects with clear and distinct goals.

- **Planning is for the future**

There is one other important element of planning which is incorporated in most definitions, that is the **time element**. The goal which planning is designed to achieve obviously lies in the future and planning is thus inevitably concerned with the future. The concern with the future manifests itself in two main ways. One manifestation is that an important part of planning involves forecasting, or making predictions about what is likely to happen in the future and, more specifically, predicting the outcome of alternative courses of action in order to determine which one to adopt. The other manifestation of planning's concern with the future is its role in scheduling future activities. Planning involves not only deciding what should be done to achieve a particular goal, but also deciding the sequence in which the various activities should be performed in order to proceed in a logical and orderly manner, step by step, towards the achievement of the goal (Conyers & Hills, 1992: 7).

### **3.7 Planning Hierarchy**

Planning takes place on all levels within an organization but the final responsibility lies with top management. Top management is responsible for drawing up a strategic plan within the broad

policy framework (Miller et al. 1985: 80-81). This strategic plan should of course also include development issues – within and outside the organization. Middle management concentrates on the tactical or operational plans that will be implemented to reach the goals. In other words, this level of management deals with the actual implementation of plans for development. These plans include procedures, standards, programmes and budgets. The operational plans in turn provide junior management with guidelines for drawing up the detailed implementation plans which they are responsible for (Klingner, 1983: 181; Technikon S A, 1996a: 40; Technikon, 1996b: 4 – 5).

Coming to planning outside the formal organization; rather, the hierarchy is not so well established. Here “top management” is situated in central government. Here the role of government is that it should play a facilitating and supportive role more than a planning role. The actual planning takes place at a much lower level among the community so that the hierarchy is very much turned upside-down.

### **3.8 Advantages of Planning**

The following advantages of planning, adapted from Smit & Cronje, (1992: 91 – 92) can be identified.

- Planning improves co-operation between departments and individuals in an organization.
- Planning gives direction to an organization or an effort by assisting in the formulation of development objectives.
- Planning requires from managers to have a vision of the future which they should share with all those participating in the planning.
- The increasing complexity of public institutions and the interdependence of the various functional management fields emphasise the need for planning, all the more because the community plays an ever more important role.
- Continuous change in the environment necessitates planning, which means that proactive management is promoted.

These advantages mean that continuous development planning is essential. However, the

presence of these advantages does not make planning plain-sailing: there are certain obstacles to planning that we need to be aware of.

### **3.9 Obstacles to Planning**

Because planning is a complex and continuous process, problems or obstacles can be expected.

Typical obstacles include:

- circumstances that influence the original drafting and implementation of the plan;
- human factor;
- ineffective organizational systems; and
- management's or government's attitude towards planning .

Public managers must have accurate, relevant and reliable information about the planned activity to overcome these obstacles. Planning should also start well in advance to ensure that the relevant development objective is eventually achieved. It should further fall within the broad policy framework of the organization and the community. A further requirement for planning is that it must take place systematically and according to a specific process in which the community members are full participants. (Technikon S A, 1996b: 41).

### **3.10 The Planning Process**

The process of planning normally differs from organization to organization and even from individual. However, there are some basic steps in the typical planning process that can be used to achieve set goals and objectives in an orderly fashion (Miller *et al*, 1985: 83 – 92; Robbins, 1980: 131; Technikon S A, 1996a: 40 – 43). The steps in the planning process are Integrated and cyclical in nature, which again emphasizes the fact that it is a continuous process. The following steps are identifiable:

#### **1. Be Aware of the Opportunity.**

This actually forms part of preparing for the actual planning and it involves weighing up the various possible opportunities. A good starting point in this regard can be a typical SWOT analysis. This means that the strengths, weaknesses, opportunities and threats of the organization

or community must be identified.

## 2. **Set a Goal or a Number of Goals.**

It is important to have a vision of where the organization or community wants to go and how they will get there. However, it is just as important that these goals and objectives must be realistic, quantifiable and reachable (Swanepoel 1997: 152).

## 3. **Define the current situation.**

Aspects that should be looked at during this step in the planning process are:

- Identify resources and obstacles to planning.
- Determine alternative action plans
- Evaluate alternative plans.
- Choose the best action plan.
- All variables that were identified must be taken into account to determine the best alternative
- Formulate the chosen plan(s).

### **3.11 Planning Tools**

There are numerous planning techniques and tools that can be used in the development planning process. However, for the purposes of this discussion, only some of these will be highlighted.

#### **The Gantt chart**

This was developed by Henry Gantt. It is a graphical method that is used in planning and control. Horizontal bars indicate what activities will take place and at what time.

**Network scheduling** is used to plan more complex activities and tasks. Two forms of network techniques can be identified – the Programme Evaluation and Review Technique (PERT) and the Critical Path Method (CPM). These two methods are very much the same, with the main difference that CPM is usually used in activities where the completion times are known.

## **Strategic planning**

This forms part of strategic management. To a certain extent, the steps in the strategic planning process differ from the more general steps in the planning process. However, it is important to keep in mind that strategic planning is still only a resource for planning.

## **The Planning Cycle Method**

Where planning is very much a learning process and where the community members are not very sophisticated, it is suggested that the planning cycle method be followed (Swanepoel 1997: 155). This is a short-term method that affords the participants constant evaluation through which they learn.

## **National policy support**

National policy support means that a government's total approach must be focused on the aims of development. National economic, social, technical and fiscal policy must continuously support those aims (Rondinelli&Ruddle 1978:152). Without a national commitment reflected in a national policy there is no basis or binding factor for development, and development will therefore at best be haphazard and *ad hoc*.

## **Administrative support**

Without administrative support, national policy commitment is mere rhetoric. We therefore not only need committed policy-makers and an enabling policy, but also a committed bureaucracy. This means that the pervading attitude in the bureaucracy must be one favouring development and that the whole structure should be geared towards development. It also means that the bureaucracy should be functional.

## **National planning and programming**

One of the most important functions of the bureaucracy is central planning and programming. Because development programmes are technically and organisationally complex and their success depends on national policy and administrative support, purposeful central planning and programming are essential (Rondinelli&Ruddle 1978:144). National planning must indicate a

centralised direction and course for the realisation of national policy objectives, while at the same time permitting a considerable degree of decentralised planning. National planning therefore operates from the top downwards, setting broad frameworks and allocating resources, while leaving considerable scope for planning from the bottom upwards.

### 3.12 Functions of the State

From the foregoing we can see that the state plays a critical role in the development planning process. Hence there is need to explore the roles and functions of the state. Here answers to such questions as what is a state, and what are its functions need to be provided: “the state is a distinct ensemble of institutions and organisations whose socially accepted function is to define and enforce collectively binding decisions on the members of a society in the name of their common interest or general will”(Jessop 1990:341)., the functions of the state can be broadly divided into three categories namely: **security functions**, **participation functions** and **development functions** (Samudavaninji and Ayob1998 :20).

- **The security function:** It is the responsibility of the state to ensure that its Citizens are protected from both external and internal enemies; ensure that there is unity, stability, law and order, discipline and honour in the country. The state must, therefore, have *institutional capacity* to set and make authoritative and binding rules to regulate political and economic interactions.
- **The participation function:** The state must create an environment in which there are opportunities for equality, liberty, justice, freedom, and citizen participation in politics and governance. This means that the state must have in place *political capacity* that would ensure existence of effective legitimate channels for social demand making, representation and conflict resolution.
- **The development function:** The state must provide for creation of wealth and investment, modernity, economic stability, planning, efficiency, effective public enterprises and continuity. The state is, thus, required to have *technical and administrative capacity* which should enable it to formulate and make rational policy choices, implement and evaluate policies, and sustain basic social and infrastructure.

### 3.13 The State as Policy Maker

Policy-making is the role of state. Development policy-making therefore also falls within the domain of the state. What is a development policy?

This question can be answered in the words of Rothblatt (1974:370) as "goal statements specifically addressing the known problems and opportunities associated with a policy area". We can also talk of a policy process that is managed by the state. This process is not linear. It does not start at one point and end at another. Instead, the policy process is cyclical, representing a continuous spiral. It can be divided into the following discrete common phases (De Coning & Pick 1995:23-27):

- Policy initiation -this is the "placing items on the agenda" phase.
- Policy process design -the planning and designing of a particular process.
- Policy analysis -a very important phase that will impact on the rest of the process because, for example, indicators need to be identified for measuring the outcome.
- Policy formulation -defined as the purposeful articulation and formulation of policy.
- Policy decision -a formal phase of taking formal decisions on the policy process.
- Policy dialogue - during which the government engages in discussions with other stakeholders.
- Policy implementation -when the practicability of policy options developed in earlier phases must be tested.
- Policy monitoring and evaluation -which measure the degree of success of policy implementation and point to new directions for the future.

The aims of development policy represent the "big picture" of the kind of society the government would like to see. A development policy on the national level should be "a thoughtful attempt of a country to deal with problems associated with the development of both urban and rural regions" (Rothblatt 1974:370). This means that development policy

is contextual. It deals with specific urban and rural areas with their specific and unique development problems. The context therefore comprises the whole range of dynamic processes occurring in the Third World country. These dynamic processes encompass a whole range of dimensions or environments such as the political, social and economic environments (see Unit 5). When we say that policy processes are contextual, we are also saying that they are dynamic because the various contextual environments are not static - indeed, they are very definitely dynamic.

Policy-making does not take place in a void. It is linked to the context and circumstances in which it takes place. In most of the Third World countries the most important influences are the colonial legacy and the vagaries of the environment. The colonial history of these countries has a direct link to the political, social and economic environment with which Third World governments must deal. Even the geographical or natural environment was influenced by this colonial legacy.

The greatest problem with policy-making is that it must reflect the needs and sentiments of the people for whom it is intended. The state must therefore know for sure what these are. There is only one way for the state to find out and that is to involve the populace in policy- formulation. But it is only a relatively strong government with a strong legitimacy base that can really involve the people in policy matters. Most of the Third World states do not enjoy this support base and therefore lack the legitimacy they need. Class, race and ethnic stratification, combined with regional loyalties, curb the autonomy of rulers and limit their room for manoeuvre (Gulhati 1990:1148). Added to this is the fact that most regimes in the Third World revolve around the person of the ruler. There are therefore relatively few participants in the policy-making process. Because of the very focused emphasis on the ruler, channels for participation in the policy-making process are usually not well established, with the result that the very important communication between the government and the populace does not take place, or at best is weak and haphazard. This also means that the government is starved of the necessary information that should cover the contextual' aspects. Mutahaba, Baguma and Halfani (1993:50) describe this situation as follows:

...the organisational system for information management and policy analysis tended to be weak in many African countries. Neither the central guidance cluster nor the sectoral ministries had well-established organisational systems that ensured smooth flow, storage, and retrieval of policy-oriented data.

Policy choices by government are therefore not necessarily well informed. This is not a simple matter of getting the necessary communication channels in place. The so-called soft state, especially in Africa, has a totally different position to that of a western country. It was imposed by an external colonial authority. Consequently it did not evolve spontaneously over a historical period of time. It cannot assert unchallenged authority over its own territory. As a result the soft state has to exercise hard-line coercive means to implement its decisions and maintain its authority (Myrdal1970).

How then should policy formulation take place? We have already shown that the policy process is not linear. It is a process in which "a policy reform initiative may be altered or reversed at any stage in its life cycle" (Thomas &Grindle 1990:1166). It is an "interactive and ongoing process of decision making by policy elites...and managers...in response to actual or anticipated reactions to reformist initiatives" (Thomas &Grindle 1990:1165),. We are therefore talking of an interactive policy process in which the ordinary people are just as busy and involved as the political leaders.

...policy-making exercises of the mid-1990s necessitate participation and public choice in which direct representation, empowerment and active decision making is (sic) required. If development is defined as the capacity to make rational choices..., the participatory nature of policy processes is clearly of primary importance as such opportunities to exercise choices and explore rational options should be accommodated by policy-making processes (De Coning 1995:127).

### 3.14 The State as Policy Implementer

Policies can only be implemented if the capacity to do so exists. This capacity includes material, financial, managerial, bureaucratic and technical resources. Sadly, most of these are absent in Third World countries. There is a gap between policy formulation and policy implementation that renders most efforts at development useless. On the one hand, Third World bureaucracies are huge and ever-growing but, on the other hand, they are weak and ineffective. The growth of the bureaucracy can be partially explained because of the notion that government must implement all development efforts. The result of this is very well described by Chambers (1977:135&136):

As a government persistently tries to do too much and proliferates its organisations ...the overburdened, under-staffed and under-experienced machine becomes dysfunctional, demonstrating a spastic condition in which orders from the centre produce if anything unpredictable and often contrary twitchings in the extremities of the limbs. At the same time, the government bureaucracy continues to expand and lies as a deadening weight on the economy and the taxpayer.

Rothchild and Curry (1978:17) add to this in their description of the capacity of Third World governments:

In many of the Third World countries, governmental structures which determine priorities on public issues are notable for their brittleness and ineffectiveness. ..The reasons are not hard to find. Governmental organs lack the capacity in many instances to cope effectively with the range and intensity of demands confronting them.

Instead of acting as the vehicle and disseminator of development, Third World bureaucracies tended to be self-serving and egocentric (Esman 1980:427). They are known not to have acted in the interests of the general public, but of a small political, economic and administrative elite. Official contact with the public did not extend far

beyond the urban areas where the bureaucratic decision-makers were stationed. The result was that the needs and wishes of the people in the rural areas were either unknown or simply disregarded.

Certainly, an important upshot of this was that the Third World bureaucracy reverted to an excessively centralised control.

Executives in developing countries are incapable of delegating authority. They want to control everything. Even the simplest administrative decision has to be approved at the top (McCurdy 1977:300).

Why is this so? The answer to this question can be found largely in the colonial legacy of the Third World state. The outstanding feature of the history of Third World bureaucracies is the influence of western thought and theories. The extensive western-oriented bureaucratic structures in the Third World are striking manifestations of this. These bureaucracies were established at a time when it was believed that Third World development had to follow in the footsteps of the west to reach the development stage of the modern western economies (see Unit 3). In order to accomplish this, a modern bureaucracy in the western mould had to be established. Little was achieved of the economic dream, but the western bureaucratic structures survived and became entrenched.

The Third World bureaucracy is assigned the task of taking the lead in implementing development. Yet, it is rigidly moulded on the western model of control administration. This makes it inappropriate to its task, especially in the environment in which it must operate. Many efforts to streamline the bureaucracy, to make it appropriate for its circumstances, and to make it true to the context within which it operates, have been unsuccessful.

### **3.15 The State as Benefactor**

In most Third World countries the state is regarded as benefactor. If infrastructure is lacking, the state must provide it. If the health situation is worrisome, the state must rectify it. If development costs money, the state must finance it. This is a very narrow and self-defeating way of looking at the role of state. The truth is that the state simply does not have the capacity to play the role of benefactor successfully. To be able to be the benefactor, the state needs a broad and secure tax base, something most Third World governments lack.

It is quite understandable that these demands should be made on the state. The poverty situation is so grave that people have lost all hope of redeeming the situation (see Unit 1). The state is therefore looked upon as the only saviour. The state reacts by formulating development policies that are broad, ambitious and often unrealistic (Smith 1973:246). Policies are often not statements of intent, but statements of belief. These are statements of belief of how things should be, and therefore they are often utopian and impossible to implement. The peculiar situation of the Third World state does not make it any easier. The state is simultaneously strong, if measured by the size of its structures, and weak, if measured by the legitimacy of the political leadership. It is strong in the sense that the bureaucracy is the only cohesive and organised structure, and weak in the sense that certain regional groups are dissatisfied and have secessionist tendencies (Moore 1987:8).

The incapacity of the state to play the role of benefactor prompts the next question, namely where does the funding for development come from? Every Third World country, whether it likes it or not, is part of an international economic order. Third World countries, however, are not only linked to the international order. To a large extent they are also dependent on this order and for this reason they are vulnerable to coercion on the part of the international leading role-players of world economics. The critical balance-of-payments situation of many Third World states threatens the well-being or the international economic order with the result that structural adjustment arrangements and other conditions are attached to any development loan to these countries.

### **3.16 The State as Development Supporter**

The ideal situation is that the state will be the supporter of development. This means a lesser role for the state, if not in effort, then definitely in importance. If the state is the supporter of development, someone else has to be the initiator and the manager of that development. Ideally this role should be fulfilled by the people themselves. This means that development should be localised. Development planning, development decisions and development financing cannot be the same for the whole country. Local circumstances will determine local development. The local people therefore take responsibility for development; they make the decisions and they plan. The government supports their initiative by an enabling policy, and providing expertise, some infrastructure and some finance.

No one will argue that it is essential that communities are fully involved in the full ambit of activities (De Coning 1995:217). We agree with De Coning (1995:217) when he says:

In both physical projects and policy exercises...it is important that communities take part in the identification of needs, problems and priorities to be addressed. Full participation in (political) decision-making on all facets of a project should be achieved.

It is, "however, important that institutions exist to accommodate the participation of the people. They cannot participate in development in an uncoordinated and unorganised way. It is not good enough to say that people should participate and then not create structures for them or not allow them to operate as expressions of the people's will. Local institutional capacity is therefore absolutely necessary before participation can be anything more than rhetoric.

The appropriateness of development objectives and the success of development programmes and projects...largely depend on the development of financial and institutional capacity to ensure effective urban and rural management systems and social networks which would enable people to gain access to development

resources more easily. NGOs and CBOs can complement the public and private market sectors by serving as articulators of needs and interests which are relevant to development. ..These organisations can help regional and local communities manage their own development, and bring a much needed balance to public, private and voluntary participation (De Coning 1995:218).

The supporting role of the state lies in developing a climate conducive to institution-building and helping to establish fledgling organisations, building and nurturing them and recognising them as participatory forums and bodies. Monaheng (1995:79) lists four major functions of government in this regard:

- (a) It can supplement local resources, and redistribute resources from richer to poorer regions...
- (b) It can help to co-ordinate the various community efforts so that a common national goal is achieved...
- (c) Through its supervisory role, such as the auditing of financial records of local organisations, and its insistence on open management in these organisations, the government can help to curb corruption and to protect group members from domination by the leadership...
- (d) It can provide training to members of local organisations to equip them with both technical and organisational skills to enhance the effectiveness of their participation in development. It can also be a source of relevant information which is not readily available in local communities....

However, this is only possible if Monaheng's (1995: 298) most important recommendation pertaining to the government's role and altitude is adhered to:

The government should treat participatory structures as instruments of empowerment, and not as mechanisms of political control. To this end the government should respect the autonomy of these structures, and not impose either political functionaries or traditional leaders on them.

### **3.17 Unity Summary**

Well, It is my hope that by now you know the definition of the term development and other key concepts related to it. You have perhaps also noted that development cannot be discussed in isolation; it has to be related to the state sector and its partners in service delivery and development. you have also seen that understanding of what development means is an important requisite because it enables you to establish a link between responsibilities of government and rights and duties of the citizen. However, the understanding of development alone is not enough; there is need for you to know the nature of interaction between the state and the citizenry. The state plays a very critical role in development. No one will deny that it is the most important role-player in development, hence many of its functions should be enabling and supporting. Participatory development is not only a populist cry. It is imperative that ordinary people should be empowered to play their full role in their own development. Government has a very specific and important task in this regard.

#### **ACTIVITY**

1. Describe in your own words how the state can play a supporting role in development.
2. Write a paragraph on how the ordinary people could be involved in policy-making.
3. Why does the definition of the term development remain a contentious issue?
4. How would you determine the development level of any one given country?
5. What is development planning? And what are the main elements of planning?
6. Development is no development unless it is sustainable. Explain what is meant by the term sustainable development.
7. Development may be viewed from different dimensions; it can either be political, social or economic. Briefly explain each of these dimensions.
8. Identify the planning hierarchy and explain the planning process.
9. What are planning tools? Do you know of any advantages of planning and obstacles to planning?

## UNIT 4 ENVIRONMENT, RURAL AND URBAN DEVELOPMENT ISSUES

### Unit Contents

1. Definition of the environment
2. Environmental degradation
3. land issues and rural-urban migration
4. policy and institutional biases against the poor
5. Policies for poverty reduction in rural and urban areas.
6. Sustainable development

**Aim:** This unit aims at making you recognise problems relating to environmental, rural and urban development issues.

### Unit Objectives

By the end of this unit you should be able to:

1. give a brief overview of rural and urban poverty;
2. discuss how land issues are tied to the issue of rural-urban migration;
3. discuss some policy and institutional biases that operate against the poor;
4. show that urban growth is a result of both migration and natural increase;
5. reach a conclusion as to what can be done to alleviate the plight of the poor in both rural and urban areas

### NOTE.

**This unit is based on mostly extracts from:** De Beer F and Swanepoe. Introduction to Development Studies: Oxford University Press, Cape Town.

### 4.1 INTRODUCTION

One of the main problems of Third World development was the struggle between, the interests of the urban areas and those of the rural areas. The question was always one of either/or; either the

urban areas must be developed for the best long lasting economic results, or the rural areas must receive more attention because poverty is more visible there. Of course, the question is not one of either/or, specifically for two reasons. Firstly, poverty is bad in both the urban areas and the rural areas -the poor in both these areas need drastic steps to be freed from the poverty trap. Secondly, people who at the same time belong to a rural and urban household, and have economic ties that are impossible to sever. . We hope to show in this unit that the "either/or" approach has led to urban bias, which has harmed the rural areas and their inhabitants. At the same time, however, the either/or approach has failed to really benefit the urban areas because of the greater movement to urban areas it has triggered. This is due to urban areas being part of one system with the rural areas and thus they cannot escape the harm done through urban bias. Certain basic things must therefore be done regarding both the urban areas and rural areas to address the larger issue of poverty.

## **4.2 Environment, Policy, Rural and Urban Poverty**

Rural and urban poverty is endemic among the poor households in the Third World and manifests itself in a number of ways, amongst others malnutrition, hunger and disease. The groups which are affected include the landless, the near-landless, female-headed households and children. Harrison (1993) gives a good account of the extent and magnitude of the problem, and Chambers (1983) further associates such poverty with the *deprivation trap*. What are these processes that perpetuate poverty at the household level? One should not attempt to look for simple answers. Identifying a number of causes of the problem of poverty and tackling them with a view to possible solutions will not eliminate poverty. The situation is extremely complex with many internal and external factors that exercise an influence. Moreover, these factors are mutually influencing and strengthening to further complicate the situation.

### **Policy and institutional biases**

Acknowledging the complexity of "causes" of poverty, one can accept that rural poverty is created by a number of closely linked processes that are mainly policy-induced. National policies and institutions have built in biases which exclude the poor from the benefits of development.

The most important of these is urban bias which pre-empt resources from rural areas and bias towards cash crops, as opposed to food crops needed by rural households (Lele&Adu-Nyako 1992; Fenichel& Smith 1992 and Jaizairy et al. 1992).

Institutional biases are a lack of access to productive assets such as land and water. Others are inequitable sharecropping and tenancy arrangements, lack of access to credit and inputs and a lack of grassroots institutions to encourage people's participation.

In sub-Saharan Africa and in southern Africa, in particular, the dualistic process has been strengthened by both policy and institutional biases, for example, in southern Africa large commercial farms are generally found in areas of greater potential. In the Sudan, budgetary allocations are said to have gone into large sub-sectors producing for export and this has had a negative impact on pastoralists in that it resulted in a loss in seasonal grazing and stock routes (El Ghonemy 1994).

### **4.3 Environment, Land Issues and Development**

The crisis of poverty and food production has directed attention to the question of land and land tenure issues in sub-Saharan Africa. Land is the source of livelihood for most people in the Third World where the majority of the population live in the rural areas and yet the land issues have remained unresolved in most of the region (Okoth-Ogendo 1993). In a study on world rural poverty, Jaizairy et al. (1992) found that access to land, particularly arable land for the poor, had declined. The path to sustainable growth for the poor is access to productive assets, the most important of which is land. A crucial determinant of income distribution and wealth is the distribution of land rights for the poorest of the poor in the Third World.

Land tenure reform has a direct bearing on questions of development. Land tenure systems embody legal, contractual and customary arrangements whereby people in various kinds of farming activities gain access to productive opportunities on the land. However, land tenure should not be viewed in isolation. The dimensions and prospects of farming opportunities are crucially influenced by labour, capital, marketing facilities and marketing policy.

In sub-Saharan Africa the land situation is complex in that although women are responsible for family and national food production, they do not have access to land both under communal tenure and private ownership (Bruce 1993).

Landlessness has given rise to overcrowding and land degradation as people tried to make a living out of the meagre pieces of land on which they live and this is one of the reasons land reform is advocated. Land reform is about how land is owned and how patterns of ownership change. Land reform is said to be the only means of altering inequitable owner structures for effective development of participatory institutions, local and national (Dorner 1972; Prosterman et al. 1990).

### **2.3.1 Reasons behind land reform**

One of the reasons governments institute land reform processes is to overcome landlessness and to stem the tide of rural to urban migration. There have been successes and failures with land reform world-wide, with the main weaknesses being a lack of political commitment and a lack of effective legislative framework. In some areas land reform has negatively affected the poorest of the poor and the vulnerable. The Maasai of Kenya are a case in point (Bruce 1988). Success stories are Korea, China, Taiwan and Japan Gaizairy et al. 1992). In Zimbabwe the land question remains unresolved 15 years after independence (Masilela& Weiner 1996). Rural to urban migration is on the increase within some countries and between countries in the southern African region and in the process rural poverty is being transferred to urban areas.

The poor can have access to land in a number of ways, some of which are **redistribution, land tenure reform** and **settlement schemes**. In South Africa of the three legs of land reform, namely redistribution, restitution and land tenure reform, it is redistribution that has scored some successes over the other two. Rural to urban migration continues unabated as a result of lack of access to land, as will be discussed in a later section.

#### 4.4 Framework for Integrated Rural Development

We have dealt only with a few problem areas. There are more that should form part of the framework for rural development. It is therefore important to take note of the agenda for rural development. At the same time it is also important to identify the actors in rural development. Their role is to address the agenda items. They must do this in a peculiar kind of way in which their action and that of the poor are combined. We will therefore spend a few minutes to look at the agenda for rural development, the actors in rural development and the action of these actors.

##### Agenda

Rural development is concerned with the eradication of poverty. But there are different approaches to that task. Some would like to see the/ poor receiving relief first and then be gradually allowed, on a longer-term basis, to address their situation. Some want to see the poor released from the poverty trap before anything else (SwanepoeI1996:96). We call this last approach the radical or hard approach to which the authors of this book prescribe. We can state therefore that rural development is not only to provide relief to the poor, but to eradicate poverty by inter alia primarily addressing the following issues:

- *Equal treatment.* This covers the problem of distribution, enrichment of the elite, corruption, and empowerment of the poor.
- *Land tenure.* We have already noted the problem with regard to land tenure. The relationship between the difference of land tenure and rural development, access to land, and land tenure reform are complex issues. Land tenure is also related to issues such as migration, population pressure, equal treatment and economic relations.
- *Migration and population pressure.* Rural-urban migration is closely related to both rural and urban development. There is also an interaction between migration and rural production capacity.
- *Economic and political relations.* Relations at a variety of levels are at issue here, inter alia relations between north and south, between urban and rural and among a variety of social groups including the powerful and the powerless.

## Actors

A variety of actors are active in the field of rural development:

- ***International organisations.*** These include international aid organisations such as the World Bank and international NGOs. It also includes aid agencies attached to governments such as the United States Agency for International Development (USAID).
- ***The state.*** The national bureaucracy remains an important, and sometimes the most important actor in development and also in rural development. The state consists of policy makers, law makers, executives and service organisations on all levels.
- ***Non-governmental Organisations.*** NGOs are extremely important mechanisms in rural development. They tend to be more successful than state organisations and also easier to operate. They mostly enjoy the good will and acceptance of the community.
- ***Community-based organisations.*** They represent the community and should specifically act as vehicles through which the poor can participate in development. They may be unsophisticated, poor and weak, but their process of rural development should be a learning process for them so that they become empowered to successfully address their problems themselves.

## Action

The shift in development thinking from large-scale economic development and industrialisation to small-scale, sustained, self-sufficient development also requires adjustments in the implementation of rural development. This does not mean that industrialisation and economic development are no longer acceptable. The difference lies in the fact of a shift in emphasis in which the knowledge, abilities, needs and interests of the poor are put first by means of a process of empowerment. This means that the people's basic needs as defined by themselves, are satisfied and that social security is provided. In order to ensure sustainable development each person and each community must handle its own resources and environment with the necessary care.

## 4.5 Rural-Urban Migration

Most southern African countries inherited a dualistic socio-economic structure whereby a modern sector resides side by side with a subsistence sector, and the latter provides a livelihood for the majority of the population in the region. Various countries such as Zimbabwe, Kenya and South Africa used both legislative and other methods to ward off the permanent migration of African peoples into the cities.

Zambia, Zimbabwe and Tanzania used both coercive and incentive measures to reduce urbanisation in their countries (Watson et al. 1983). It is not surprising then that with the repeal of repressive legislation and other policy reforms people flocked to the cities to escape the poverty in the rural areas (Zinyama 1992).

What is important in respect of migration in the Third World, is that it occurred under difficult circumstances in that it was not accompanied by industrialisation, as was the case in Western countries. On the eve of independence, the new African leaders had to grapple with the challenge of undoing the legacy of colonialism. Development of the colonies did not feature as an important point on the agenda of the colonisers. Their main aim was the extraction of raw material for export to the mother countries.

Migration has had a negative effect on the rural household. For instance, productive potential has suffered in southern Africa as a result of labour depletion (Cliffe 1992). Most households are headed by women who now have to perform both reproductive and productive roles and yet still remain *de facto* heads of households as in Lesotho (Murray 1977).

Internal migration is a demographic process affecting rural poverty negatively in that it has converted rural poverty to urban poverty (Goldstein 1983). The myriad of slums, squatters and informal settlements that have mushroomed around major cities such as Johannesburg and Durban are a result of internal migration. Gilbert and Gugler (1984) argue that migration strengthens market links between rural and urban areas. There is a beneficial relationship between the two in that some activities needed by both rural and urban areas may be located in

urban areas while others may be located in the rural areas. This is manifest in the household economy. The household economy refers to the interaction between household and family organisations, and the economy. The household economy is a means to an end, namely survival. This goal of survival extends beyond the survival of a household. As a result of the socio-economic links with the rural areas, the urban household has a duty to meet its obligations towards rural relatives. This obligation is part of what is known as the "economy of affection". According to Hyden(1983:8) the economy of affection consists of support networks, communication and interaction between groups bound by kinship, community, religion and lineage. In the household economy the economy of affection is the foundation for the activities of the household economy. Decisions are made within the household economy with due regard for the urban and rural household. This means that when migrants make decisions in their new urban context, such decisions will be of benefit to themselves as well as to their rural relatives.

#### **4.6 Urban Growth and Urban Poverty**

As mentioned earlier, the colonial powers built enclaves of privilege which are called **primate cities** (Gugler 1990).

Harrison (1980:109) sums it up well by saying:

The Third World city is a dual city, an island of wealth surrounded by a black belt of misery. Outside the bright, shining modern city of skyscrapers, flyovers and desirable residences, the poor are camped in squalor, disease and neglect, in shacks and hutments of plywood, cardboard, mud or straw, usually without clean water, sewers, health centres, schools, paved roads or paying jobs.

Indeed urban poverty manifests itself through a lack of job opportunities, housing and other services. Informal settlements are found on the outskirts of the cities, away from places of employment. This is particularly true of South Africa's apartheid cities. For example, Soweto and Orange Farm residents have to travel or walk long distances to places of employment in the Gauteng metropolitan areas. According to Harrison (1993), the urban bias of development does

not extend beyond the core of the cities in the Third World. He cites Zambia as an example where clinics and schools are many kilometres away from the informal settlements. In this manner, rural poverty is transferred to urban poverty.

Rural out-migration differs from one locality to another and also among countries. Studies indicate that urban growth can be attributed mostly to natural population increase as compared to rural-urban migration (ON 1980). However, rural-urban migration, although making a smaller contribution, involves a substantial number of persons and the impact of such movement is thus significant. The World Bank (1980) estimated that by the end of the 1990s more than half of the poor will be in urban areas. This means that there will be a demand for urban services (Rondinelli 1981).

Governments need to focus on both rural and urban development. In the process of dealing with the urban problem, the rural poverty situation must also be addressed.

Rondinelli (1988) suggests seven policy options that address urban and rural poverty simultaneously in a balanced way. These options are as follows:

1. *Policies that expand direct government provision of urban services by building up municipal government capacity ...*
  - strengthen the authority of municipal governments to raise adequate revenues to meet rising needs for urban services (also in rural or peri urban areas).
  - help municipal governments to strengthen their technical, administrative and organisational capacity to deliver urban services.
2. *Policies that use "market surrogates" to increase the organisational efficiency and responsiveness of service providing public agencies...*
  - encourage direct competition among public service institutions.
  - encourage the active marketing of government services.
  - use performance agreements for public services delivery .
3. *Policies that lower the cost of providing services through changes in regulations and methods of delivery ...*

- adopt urban development and service delivery regulations that are tailored to the conditions of developing economies and that are more appropriate to the needs of the poor.
  - control urban and rural land uses, land prices and speculation practices that tend to have a strong influence on service delivery costs and on the access of the poor to services and to land.
  - design service extension and delivery programmes for multiple purposes and to local standards.
4. *Policies that actively support self-help and service improvements by the poor...*
- support programmes that assist community and neighbourhood groups to improve their own housing conditions through site-and-services, core-housing and shelter upgrading projects.
  - provide minimal services or essential preconditions to allow self- help programmes to operate effectively.
5. *Policies that promote public-private co-operation and private sector participation in service delivery ...*
- encourage administrative practices and organisational arrangements that allow voluntary and community groups to participate effectively in improving services in poor neighbourhoods and rural areas.
  - design service extension programmes so that they create opportunities for private sector participation or so that market mechanisms can be used to provide services and facilities where appropriate.
6. *Policies that increase the effective demand of the poor for services, employment and income generation programmes. ..*
- design service improvement programmes to generate as much employment as possible for the beneficiaries of those services.
  - develop programmes that increase the capacity of the informal sector to provide appropriate services and to strengthen the sector as a source of employment.

- provide services and assistance to encourage small-scale enterprises in and near slum and squatter communities as a source of employment and income.
7. *Policies that change population distribution...*
- channel migration to intermediate and small cities or service towns.

## **Unit Summary**

In this unit you have seen that one of the main development problems faced by developing countries was the struggle between, the interests of the urban areas and those of the rural areas. You have addressed the question of whether either the urban areas must be developed for the best long lasting economic results, or the rural areas must receive more attention because poverty is more visible there. You have known the processes that perpetuate poverty at the household level. You have now known that the situation is extremely complex as there are many internal and external factors that exercise an influence. Moreover, these factors are mutually influencing and strengthening and therefore, further complicate the situation.

## **Activity**

1. Discuss the question as to whether the rural or the urban should be given priority for Development.
2. Summarise processes/biases that perpetuate poverty in the rural areas. Would you say that these also affect the urban poor?
3. What do see to be the causes of rural poverty.
4. Explore deprivation trap and suggest how to come out of it.
5. Urban growth and urban poverty are of serious development concerns. Discuss.

## **UNIT 5 Economics, Entrepreneurship, and Management**

### **1 Unit Contents**

1. The economic problem
2. Three basic economic questions
3. answers to the basic economic questions
4. The price mechanism
5. Factors of Production
6. Economic systems
7. Market structure
8. Economic growth
9. Entrepreneurship

### **2 Aim:**

This unit introduces you to Basic economic concepts and essentials of entrepreneurship

### **3 Unit Objectives**

By the end of this unit you should be able to:

1. define economics
2. Explain basic economic concepts.
3. Define entrepreneurship
4. describe essentials of entrepreneurship
5. Describe forms of economic systems
6. explore market structure and economic growth.

### **5.1 Introduction**

This unit will acquaint you with some basic concepts and principles in economic and entrepreneurship. You may not easily conceptualise some ideas that immediately follow, however, you will be able to pick the concepts later as you read through the, many more economic concepts and principles which will be introduced. You will understand those as you go along because each is explained as it comes up. By the time you finish the unit you should be

able to identify issues and problems and conflicting economic ideas in historical perspective to the present.

## 5.2 The Economic Problem

The economic problem is the problem of *having to decide how to use the available things*. How does an individual or a family unit-or even an entire society, decide which ways to use the things they have? Of course they would like to use the things available so as to come out "best." Every family and society would like to have enough food and clothing and shelter to take care of its people. Then, after these basic needs are satisfied there are all kinds of other things they would like to have, better food, better clothing, better housing, better transportation, more opportunities for music and the arts and recreation, and lots of other things, including more leisure time to enjoy. The problem of deciding, of choosing among all of these conflicting objectives, that's the "economic problem."

### Scarcity

The "economic problem" of choosing among alternatives is basic to every individual, family, and society. It is forced upon all of us by the natural condition of *scarcity*. Scarcity means that the things available to work with are *limited*. We always have (and probably always will have) less things available to work with than we would like to have. Throughout history, in most societies there have always been poor and hungry people. This has resulted from the basic fact of scarcity, not as much as we would like to have of resources to work with. It has resulted also from the inefficient, primitive methods with which the available resources were used. In the modern world, great advances in production technology have made it possible to get a lot more output from our available (scarce) resources. But from ancient times all the way up to recent centuries, production methods remained very primitive. For many centuries there weren't any important technological breakthroughs. But even in the most advanced nations of the modern world, scarcity still exists everywhere. Almost everyone would like to have more and better things and more leisure time to enjoy them.

## **The Economic Problem Deals with Scarcity**

The economic problem is the problem of dealing with scarcity. It's the problem of deciding, given the scarcities of the things we have, exactly how each of the available resources (including natural, human, and capital resources) will be used.

## **Opportunity Cost**

The idea of "opportunity cost" is that "you can't have your cake and eat it too." Opportunity cost results from the basic fact of *scarcity*. It applies to every individual, every family, and every society. The availability of things is always limited. So when you want to use something for one purpose, that means you can't use that same thing for some other purpose.

Each time you choose to use an acre of land to produce wheat, then you give up the opportunity to use that land to produce corn. So the "opportunity cost" of the *wheat* you get, is the *corn* you must give up. When my daughter spends her allowance on candy bars she gives up the opportunity to go to a movie. So to her, the opportunity cost of the candy bars, is the movie. When any society decides to increase its output of one thing (say, military hardware), then it must give up something else which it also wanted (say, better highways, or schools, or social security programs).

The concept of opportunity cost provides a helpful way of looking at and understanding the difficulties involved in making the economic choices.

## **The Marginal Concept**

Economists use the term "marginal" to refer to *small adjustments* which individuals, businesses, and societies make as they are trying to "fine tune" their resource choices, seeking to arrive at their "optimum position" of (for the consumer) maximum satisfaction, or (for the producer) maximum profit, or (for the society) maximum "social good", however the society may choose to define that.

The idea of a "marginal" adjustment is that a small change is made in the way in which resources are allocated. Then you ask "Is that better than before?" If the answer is yes, then you have moved closer to the "optimum" which you are seeking. Each individual, business, and society is constantly making "marginal adjustments" as they attempt to "optimize."

The marginal concept is very important in economics because it provides a way of describing and analyzing the process by which "optimization" is achieved.

### 5.3 The Three Basic Economic Questions

As the society works out its "economic problem" there are three basic questions that must be answered:

1. Which products (and how much of each) will be produced? How much food? clothing? shelter? and which kinds of each? And how much of various other things? transportation? education? arts and recreation? etc.?etc.? This is the *output* question: "What to produce?"
2. Which resources (natural resources, work-time inputs, tools, etc.?) will be used in the production of each product? And how will the production be organized? Much labour on each small piece of land? Or much land for each worker to till? Many tools of the best-known kinds? Or only a few of the most primitive tools? Will the corn rows be planted one foot apart? Or three feet apart? This is the *input* question: "How will the products be produced?"
3. Which members of the society will get a share (and how big a share) of the output? That is, how will the output which is produced, be distributed (shared) among the members of the society? Will everyone receive an equal share regardless of age, sex, health, strength, "noble birth," political affiliation, or whatever? Or will more of the output go to the "nobles"?, or perhaps to the ones who "need" more?, or to the ones who *produce* more? This is the *distribution* question: "How do we divide up the output among the people?"

All three of these questions somehow must be answered in every society. This has always been true. It probably always will be true. Certainly it will be true as long as *scarcity* exists-as long as people desire more and better things than they have. So the questions must be answered. But how?

#### **5.4 The Three Ways to Answer the Basic Economic Questions**

There are three ways-and *only* three ways, or "processes" which can be used, to answer the three basic economic questions and thereby solve the "economic problem" for the society. This is true for every society, ancient or modern, primitive or advanced. The three ways or, processes are:

##### **The "Social Process" of "Tradition"**

*Tradition* can answer all three of the questions. This means that all three questions can be answered in the "traditional" way, all the answers are the same as they always have been in the past. The people produce the same products, use the same kinds of resource inputs and production techniques, and then share the outputs among themselves in the same way that their parents, grandparents, and all their other ancestors did before them for as far back as anyone can remember.

Tradition played the most important role in solving the economic problem in ancient times and, in fact, throughout most of history. It still plays a very important role in some of the less developed countries of the world. Its influence still can be seen even in modern society in such things as the economic relationships among family members, and (sometimes) job discrimination against women.

##### **The "Political Process" of "Command"**

The power of *government* can be used to decide the answers to the three basic economic questions. Government can decide which products will be produced, which inputs and production techniques will be used, and how much of the output each person will get.

As you read the following chapters you will see that *command* has played an important role in solving the economic problem in various societies from time to time throughout history. In the modern world there are several major nations in which command plays the most important role. That's true of the USSR, the People's Republic of China, and of several other nations.

Even in the "capitalist" countries such as the United States, the political process makes many of the production and distribution choices. You can see it in the development of highways and education, in the welfare and social security programs, in the armed forces, in urban renewal, and in many other government programs, federal, state, and local.

### **The "Market Process" and the "Price Mechanism"**

The idea of the 'market process' and the "price mechanism" is that people produce things, not because that's what their ancestors did and not because the government directs them to do so, but because they think they can *sell* what they produce and *earn income*.

When the market process is in charge of working out the choices, people produce things for "the market." Whatever people are demanding most and are willing to pay the highest prices for, those are the things which producers will produce. That solves the "output" question for the society automatically without anyone having to "decide."

The "input" question is also solved automatically by the market process and the "price mechanism." Every producer will carefully conserve those inputs which are most scarce and therefore most valuable, the ones that have the highest prices. Producers will always try to use the most plentiful, lowest-priced inputs and the lowest-cost production techniques. That's how they can earn the most *income*, or *profit*.

So when the market process is answering the basic questions, each producer responds to *prices* and tries to produce the most demanded (highest priced) things and to produce them using the most plentiful (lowest priced) inputs and the most efficient production techniques.

The third basic question also is answered automatically. The people who produce the most valuable, most demanded things and do it most efficiently will earn the most income. With their income they "claim their share" of the society's output: This is called the "productivity principle of distribution", the "distributive share" which each person receives is determined by the value of what that person produces. The more valuable the *productive contribution* the greater the income and the greater the "distributive share" of the output received.

The "productivity principle of distribution" didn't have very much influence in the traditional societies of ancient times. Each person's production was meant to be shared with others. The political process of command sometimes used the productivity principle. But mostly governments in those days stimulated people to produce by the threat of punishment, not by the promise of "rewards for productivity."

In the advanced non-Communist economies of the modern world the "productivity principle" plays an important role in determining each person's income and "distributive share" of the society's output. It also plays the important role of stimulating people to be more productive, to try to "work to get ahead." Even the "command" economics these days (the USSR, the People's Republic of China and others) make some use of the productivity principle because they find it to be an effective method for stimulating people to produce more.

## **5.6 The Powerful Price Mechanism**

The market process works through the "price mechanism". The price mechanism works automatically, responding to changes in demand and supply. It encourages the production and discourages the consumption of the higher-priced goods, and it discourages the production and encourages the consumption of the lower-priced goods.

When people for whatever reason begin demanding *more* of something, that causes *shortages* in that market and the price is forced up. The higher price stimulates more production of this item and attracts new producers to enter this market. But when people begin demanding *less* of something, *surpluses* develop and the price is forced down. The lower price discourages the

production of that item and producers shift into the production of something else, something that brings them more income.

Businesses, and workers too, shift from producing one thing to another, from one place to another, from one kind of production technique to another, all in response to the "signals" of the price mechanism. Why? Because that's how they can increase their incomes and their "distributive shares" of the output.

The price mechanism exerts a powerful, almost irresistible force. And it works automatically, almost like magic. When the price of something goes up very much, if you will wait awhile, you almost always will see more of this item being produced and less of it being consumed. Whenever the price of an item goes down very much, if you wait awhile you almost always will see more of this item being consumed, and less of it being produced. If the price of something goes low enough, eventually none of it will be produced. The price won't cover the cost. If the price goes high enough, none of it will be consumed.

When you get to the chapter on the industrial revolution you'll see the great power and influence of the price mechanism in directing and influencing the economic choices.

## **5.5 Factors of Production**

The *inputs* which are used to produce outputs, are called "factors of production." There are hundreds of different factors of production, of course. But for convenience and to simplify economic analysis, economists usually group these factors under three different headings: land, labour, and capital.

**Land.** All natural resources, the "free gifts of nature", are grouped together and called "land."

**Labour.** All human effort, whether it be physical effort or mental effort, highly skilled effort or unskilled effort, is grouped together and called "labour."

**Capital.** All tools, equipment, factories, and everything else which has *already been produced*, and which is to be used *to assist in further production*, are grouped together and called "capital." Be careful to note that as economists use the term "capital" it does not mean "money." It means the physical things which have been produced and are going to be used in further production. Much of the process of economic growth consists of building more and better *capital*. But economic growth also results from improving the abilities and skills of the society's *labour*. Improving the ability and skills of the labor force is sometimes referred to by economists as "building human capital."

**Capitalist.** The reason the owners of big businesses are called "capitalists" is because they are the ones who own most of the capital—the buildings and machines and equipment and other things, needed in the production process. And the reason some economic systems are referred to as "capitalist systems" is to emphasize the importance of "the capital-ist" in the functioning of these economic systems.

**The Entrepreneur.** Economists sometimes define the *entrepreneur* as a fourth factor of production, separate from the other three. Ideally, the "entrepreneur" is the enterprising person who sees the opportunity to bring together some capital, labor, and land and produce a product which people will buy. The entrepreneur who succeeds in producing products which are in high demand and who produces the products efficiently (at low cost) will make a lot of profit, and then will reinvest the profit in more capital and generate even more profit. The entrepreneur is responsible for increasing the productivity and growth of the economy.

In a "market-process-oriented" economic system, it is necessary for the "entrepreneurial function" to be performed. Otherwise the economy will not keep going, and growing. In the modern world, this function is performed mostly by big business organizations, not by one individual, an "entrepreneur." But as you will see in the following chapters, during the period of the industrial revolution and the rapid industrialization which occurred between the mid 1700s and the early 1900s, the individual entrepreneur played a vital role.

## **Economic System**

The term “economic system” is used to refer to the kind of arrangement which exists in a society for solving the "economic problem", for working out the answers to the three basic economic questions: What to produce, What inputs and production techniques to use, and How to distribute (share) the output among the people.

In all economic systems in the world today there is some mixture of all three processes, social, political, and market, for working out the answers to these questions. In all present-day economic systems, some of the economic choices are made in each of the three ways: some by tradition, some by command, and some by the price mechanism. But the *importance* of the role which each of these decision-making processes plays differs greatly from one economic system to another.

In some systems, tradition is most important. We see this in some of the less developed countries. In some other systems, *command* is most important. We see this in the so-called "Communist" countries. And in still other systems, including those of the United States, Canada, Western Europe, Japan, Australia, and several others-we see the *price mechanism* as most important. But in all economic systems, all three processes are at work to some extent. As you read through the following chapters you will find that throughout most of history, the social process of *tradition* has been most important in most places, most of the time.

## **Capitalism**

Capitalism is a form of economic system in which the market process and the price mechanism are left free to work out the answers to the three basic economic questions. "Pure capitalism" would operate with no government interference, and with no restrictions from "tradition."

When the people are free to follow the influences of the price mechanism, to produce whatever they think will be profitable, to produce it in the ways they think will be most efficient, and to earn and keep as much income or profit as they can, that's "capitalism." It is a system of "laissez-faire" (hands-off by government) and competition, where each person has an equal right to get

into any market, to produce anything which looks profitable, to out-sell and under-sell the other producers, and “let the devil take the hindmost”.

In a system of "pure capitalism" the people who are highly productive get high incomes; the people who do not produce anything do not get any incomes at all. This kind of harsh, dog-eat-dog, unrestricted capitalism doesn't exist anywhere in the world today. But a somewhat modified and tempered version of capitalism does exist in the United States, in the countries of Western Europe and Japan, and in several other places in the world.

### **5.7 Market Structure and Pure Competition**

Pure competition is a kind of "market structure" in which there are many buyers and many sellers of the product. Pure competition means no seller or buyer has any "monopoly power." Because of the large number of buyers and sellers for the product, no buyer or seller can do anything but accept the price as it exists in the market.

In a market structure of pure competition, the only time the price would go up is when many buyers are all trying to buy more, or many sellers are all offering less of the product for sale. *Anyone* of the many buyers could buy two or three times as much and it wouldn't influence the price. *Anyone* seller could stop producing and selling this product altogether, and it wouldn't influence the price.

In markets of "pure competition" the price is set by the "impersonal forces of demand and supply. This kind of market structure (or something which results in approximately the same conditions) is necessary for the "pure market forces" to work as they are described in the "pure market model" developed by some of the economists you will be reading about in this book. You will find out that one of the important reasons for disagreement among economists in modern times stems from their basic disagreement about the extent to which modern-world economic systems work the way a market system of "pure competition" would. It's a question of whether or not the monopoly power (the lack of pure competition) which exists in most real-world markets does (or does not) prevent real-world economic systems from working more or less as the "pure competition model" specifies.

## 5.8 Economic Progress, or Economic Growth

Economic growth is the process which results in *increasing output* per person. With economic growth, the average worker produces more, so in the end there is *more total output* to be shared among the members of the society. As economic growth proceeds, it softens some of the harshness of "opportunity cost" the idea that when you get more of one thing, that "costs you" the opportunity of having more of something else.

With economic growth, a society can to some extent lessen the limitations imposed by opportunity cost. Over time, if better techniques of production can be introduced, or if more and better agricultural land can be discovered and/ or developed, then that society will be able to have more of some things without having to give up something else. That's the great appeal of "economic progress" or "economic growth."

Economic growth comes about mostly from the discovery of better techniques of production, and the development of more and better tools and machines to work with. With more and better equipment, each worker can produce more output per day, week, or year.

But here's the problem with trying to generate economic growth. When everybody is already busy producing the food needed to keep the people from starving, who have the time to do what's necessary to bring economic growth? Economic growth requires that energies and resources be directed toward developing new techniques, and building tools, clearing land, and doing other things that will increase worker productivity in the future. Who is going to do this?

### **The Dilemma: Present Consumption? or Future Growth?**

The energies and resources which are aimed toward *increasing future production* are not adding any output for *present consumption*. If the society can only produce enough to just barely get by on, what happens when some of its energies and resources are shifted out of food production and directed toward economic growth? You know what happens. The output of food goes down and some of the people starve! That's the opportunity cost of economic growth. But if everything

currently produced is aimed toward current consumption, then there is no economic progress, no economic growth.

So the society faces a dilemma. If resources are diverted from consumption and aimed toward increasing *future* output, then some people will go hungry. And in a society where *tradition* locks everyone into their "proper role" in the production-distribution circle, there isn't much chance for anyone to break loose and strike out for economic progress. As you read the following chapters you will be able to understand why so little economic progress occurred for so many, many centuries.

### **The Definition(s) of Economics**

Now that you understand some of the most basic concepts and principles of economics, you know what economics is all about. So now you're ready for a definition. Economics can be defined in various ways. One definition would be: "Economics is the study of how people, individuals, families, businesses, organizations, and societies, work out their economic choices, how they 'solve' their 'economic problem'". Or economics can be defined as: "How people (and businesses, societies, etc.) choose (decide) about how to use the things they have." Another definition of economics would be: "Economics is concerned with how people (and businesses, societies, etc.) use the things they have to try to get the most of what they want."

You can see that all of these definitions are saying the same thing. Economics is concerned with facing the natural condition of *scarcity*, and choosing which ways to use the available things. It always must deal with the inescapable reality of *opportunity cost*. Every choice to have more of one thing involves the loss of the opportunity to have more of something else. That's *economics*.

### **Political Economy**

The term "political economy" refers to working out the solution to the "economic problem", deciding the answers to the three basic economic questions, just as does the term "economics."

But the term political economy assumes that *government* will be playing an important role in influencing those choices.

If you want to understand how an economic system can work "on its own," through the operation of the market process and the price mechanism, then you study "economics." But if you want to investigate the operation of an economic system in which government policies are playing an important role in influencing the operation of the economy, trying to re-aim and redirect the economic activities and choices of the people, then you study "political economy."

In the late medieval period and in the early years of the industrial revolution, most economic writers wrote books on "political economy." During that period, government was exerting strong influences on the operation of the economy. A good bit of the emphasis of these early "political economy" books was aimed toward explaining how government policies were interfering with the efficient operation of the economy—holding down production and slowing economic progress in the nation.

Since the late 1800s, most books in the field of economics have been called "economics", not "political economy." The emphasis of these more recent books has been on explaining how an economic system operates on its own, directed by the forces of the *market process* and the *price mechanism*.

## **Microeconomics**

Microeconomics is that part of the study of economics which is concerned with most of the concepts and principles you have been reading about so far in this chapter. Microeconomics is concerned with how "the economic problem" is solved, with how the three basic economic questions are answered. It is concerned with making *choices* about what to do with the available resources, given the natural condition of *scarcity*.

Microeconomics is concerned with how these questions are answered by the individual, the business, and the total society. Microeconomics is the study of opportunity cost, of substitution,

of choosing this or that, of trade-offs, of "deciding (among all of the possible alternatives) which ways to use the available resources." The definitions of *economics* which you read a few minutes ago are really definitions of "microeconomics."

## **Macroeconomics**

Macroeconomics is a term which has come into use since the Great Depression of the 1930s. *Macroeconomics* is that part of economics which is concerned with understanding the *speed*, or *rate* at which the entire economy will run. It is concerned with *totals*: the total level of production, output, employment, consumer spending, investment spending, government spending, national income, etc.

If you are studying *macroeconomics* you are trying to understand what causes the economy to speed up and slow down-what causes recessions or depressions, and inflation. The term "macroeconomics" has arisen in connection with "Keynesian economics" which was introduced by John Maynard Keynes during the depression of the 1930s.

As you will be finding out in this book, Keynes introduced some new ways of looking *directly* at the question: "What determines the rate at which the economy will run?" As this "new approach" became integrated into the study of economics, it became necessary to have terms to distinguish between this kind of economics, and the other economic theories which had traditionally been "economics." So that's why we now talk about "microeconomics" and "macroeconomics." In this book you will find out how these developments occurred.

## **5.9 Entrepreneurship**

### **What is an Entrepreneur?**

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great

business ideas, most of them never act on their ideas. Entrepreneurs do. In his 1911 book, *The Theory of Economic Development*, economist Joseph Schumpeter said that entrepreneurs are more than just business creators; they are change agents in society. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy. Although this constant chum of business, some rising, others sinking, new ones succeeding, and many failing, concerns some people, in reality, it is an indication of a healthy, growing, economic system that is creating new and better ways of serving people's needs and improving their quality of life and standard of living.

### **The Entrepreneurial Personality**

Researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of the entrepreneurial personality. Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. We now turn to a brief summary of the entrepreneurial profile.

- 1. Desire for responsibility.** Entrepreneurs feel a deep sense of personal responsibility for the outcome of the ventures they start. They prefer to be control of their resources, and they use those resources to achieve self-determine goals.
- 2. Preference for moderate risk.** Entrepreneurs are not wild risk takers but are instead calculated risk takers. A study of the founders of the businesses listed as *Inc.* magazine's fastest-growing companies found no correlation between risk tolerance and entrepreneurship. "The belief that Entrepreneurs are big risk takers just isn't true," says researchers and former *Inc.* 500 CEO Keith McFarland. Unlike "high-rolling, riverboat" gamblers, entrepreneurs rarely gamble. Their goals may appear too high, even impossible, in others' eyes, but entrepreneurs see the situation from different perspective and believe that their goals are realistic and attainable. They usually spot opportunities in areas that reflect their knowledge, backgrounds, and experiences, which increase their probability of success. One writer observes:

Entrepreneurship is not the same thing as throwing darts and hoping for

the best. It is about planning and taking calculated risks based upon knowledge of the market, the available resources or products, and a predetermined measure of the potential for success.

3. **Confidence in their ability to succeed.** Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path. A recent American Express Opens Ages Survey reports that 90 per cent of Baby Boomer business owners and 76 per cent of Generation Y business owners said that their decision to go to into business was the right one. Entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business, often more than once, before finally succeeding.
4. **Desire for immediate feedback.** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. "I love being an entrepreneur," says Nick Gleason, co-founder of CitySoft Inc., a Web site design firm based in Cambridge, Massachusetts. "There's something about the sheer creativity and challenge of it that I like."
5. **High level of energy.** Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than exception and the pace can be grueling. According to the American Express Open study, 66 per cent of Generation Y business owners and 58 per cent of baby Boomer owners work 10 or more hours a day and do so six days a week.
6. **Future orientation.** Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future.

Tom Stemberg, founder of the staples office supply chain, went on to start Zoots, a 54-store dry cleaning chain (he came up with the idea after a dry cleaners lost one of his Brooks Brothers dress shirts) and Olly Shoes, a small chain of children's shoe stores (he came up with the idea after a frustrating experience shopping for shoes for his four boys).

Entrepreneurs see potential where most people see only problems or nothing at all, a characteristics that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalizing on opportunities. In the United States 62 per cent of those engaged in entrepreneurial activity are opportunity entrepreneurs, those who start businesses because they spot an opportunity in the marketplace, compared to necessity entrepreneurs, those who start business because they cannot find work any other any other way. (Denmark leads the world with 81 per cent opportunity entrepreneurs).

Serial entrepreneurs, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are people who start a company, manage its growth until they get bored, and then sell it to start another. A few are *jugglers (or parallel entrepreneurs)*, people who start and manage several companies at once.

**Opportunity entrepreneurs**, entrepreneurs who start businesses because they spot an opportunity in the marketplace.

**Necessity entrepreneurs**, entrepreneurs who start businesses because they cannot find work any other way.

**Serial entrepreneurs**, entrepreneurs who repeatedly start businesses and grow them to a sustainable size before striking out again.

It's almost as if serial entrepreneurs are addicted to launching businesses. "Starting a company is a very imaginative, innovative, energy-driven. Fun process," says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina. "Serial entrepreneurs can't wait to do it again.

7. **Skills at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality.
  
8. **Value of achievement over money.** One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs’ primary motivating force; money is simply a way of “keeping score” of accomplishments, a symbol of achievement. What drives entrepreneurs goes much deeper than just the desire for wealth. Economist Joseph Schumpeter claimed that entrepreneurs have “the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself. “Entrepreneurs experience “the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity.”

Other characteristics frequently exhibited by entrepreneurs include:

**High degree of commitment.** Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment.

**Tolerance for ambiguity.** Entrepreneurs tend to have a high tolerance for ambiguous ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhide says that entrepreneurs exhibit “a willingness to jump into things when it’s hard to even imagine what the possible set of outcomes will be.”

**Flexibility.** One hallmark of true entrepreneurs is their ability to adapt to the changing demands

of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to failure. As our society, its people, and their tastes change, entrepreneurs also must be willing to adapt their businesses to meet those changes. When their ideas fail to live up to their expectations, successful entrepreneurs change them!

**Tenacity.** Obstacles, obstructions and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that success is “a feat not of intellect but of will.” Milton Hershey’s first three candy-making businesses failed before he created the Lancaster Caramel Company, which became very successful and allowed him to build the chocolate manufacturing business that still carries his name and remains one of the best known candy makers in the world.

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether or not they will succeed. Indeed, diversity seems to be a central characteristic of entrepreneurs. One astute observer of the entrepreneurial personality explains, “Business owners are a culture unto themselves, strong individualistic people who scorn convention, and nowadays, they are driving the global economy.” Indeed, entrepreneurs tend to be nonconformists, a characteristic that seems to be central to their views of the world and to their success.

As you can see, anyone, regardless of age, race, gender, color, national origin, or any other characteristic, can become an entrepreneur (although not everyone should). There are no limitations on this form of economic expression. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn. It has become a very common vocation. The editors of *Inc.* magazine claim, “Entrepreneurship is more mundane than it’s sometimes portrayed....You don’t need to be a person of mythical proportions to be very, very successful in building a company”.

## **Benefits of Entrepreneurship**

Surveys show that owners of small businesses believe they work harder, earn more money, and are more satisfied than if they worked for someone else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership.

- **Opportunity to Create Your Own Destiny**

Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to “call the shots”, in their lives, and they use their businesses to make the desire a reality.

- **Opportunity to Make a Difference**

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Known as social entrepreneurs, these business builders seek innovative solutions to some of society’s most vexing problems. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve Earth’s limited resources, these entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

### **Opportunity to Reach Your Full Potential**

Too many people find their work boring, unchallenging, and unexciting. But not entrepreneurs! To them, there is little difference between work and play; the two are synonymous. Entrepreneurs’ businesses become their instruments for self-expression and self-actualization. They know that only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision. Owning a business gives them a sense of empowerment.

## **Opportunity to Reap Impressive Profits**

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich, but many of them do become quite wealthy. Entrepreneurs. People who own their own businesses are more likely to be millionaires than those who are employed by others, own their own businesses or are part of the professional partnerships. They also work an average of 70 hours a week. Indeed, the typical millionaire's business is not a glamorous, high-tech enterprise; more often, it is something much less glamorous, scrap metal, welding, auctioneering, garbage collection, and the like.

## **Opportunity to Contribute to Society and Be Recognized for Your Efforts**

Often, small business owners are among the most respected and most trusted members of their communities. Businesses deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers and the communities they have served faithfully over the years. A Harris Interactive survey that measures the level of confidence people have in different institutions shows that small business topped the list and were the only institution to win the trust of a majority of Americans.

Playing a vital role in their local business systems and knowing that their work has a significant impact on how smoothly our nation's economy functions is yet another reward for small business managers. One survey reports that 72 per cent of business owners say that what they enjoy most about being a business owner is contributing to the local community.

- **Opportunity to Do What You Enjoy and Have Fun at It**

A common sentiment among small business owners is that their work really isn't work. Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines work. They have made their avocations (hobbies) their

vocations (work) and are glad they did! These entrepreneurs are living Harvey McKay's advice: "Find a job doing what you love, and you will never have to work a day in your life." The journey rather than the destination is the entrepreneur's greatest reward. "Starting a company is very hard to do", says entrepreneur and small business researcher David Birch. "The risks are enormous; the anxiety is enormous. The only business you should start is one in which have a huge interest, or else you won't have the persistence to stick with it. Get into [a business] because you are fanatically interested in it."

Not only have the Knoxes found a way to make a living, but what is more important, they are doing something they love!

### **Potential Drawbacks of Entrepreneurship**

Although owning a business has many benefits and provides many opportunities, anymore planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Individuals who prefer the security of a steady paycheck, a comprehensive benefit package, a two-week paid vacation, and the support of a corporate staff probably should not go into business for themselves. Some of the advantages of entrepreneurship include the following:

- **Uncertainty of Income**

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Some small businesses barely earn enough to provide the owner-manager with an adequate income. In the early days of a start-up, a business often cannot provide an attractive salary for its owner and meet its entire financial obligation, which means that the entrepreneur may have to live on savings. The steady income that comes with working for someone else is absent because the owner is always the last one to be paid. One California couple left their corporate jobs that together brought in \$120,000 a year to start a small vineyard; their combined income in their first year of business: \$30,000.

- **Risk of Losing Your Entire Investment**

Business failure can lead to financial ruin for an entrepreneur, and the small business failure rate is relatively high. According to a study by the National Federation of Independent Businesses (NFIB), 35 per cent of new businesses fail within two years, and 54 per cent shut down within four years. Within six years, 64 per cent of new businesses will have folded. Studies also show that when a company creates at least one job in its early years, the probability of failure after six years plummets to 35 per cent.

Before “reaching for the golden ring,” entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure:

1. What is the worst that could happen if I open my business and it fails?
2. How likely is the worst to happen? (Am I truly prepared to launch my business?)
3. What can I do to lower the risk of my business failing?
4. If my business were to fail, what is my contingency plan for coping?

- **Long Hours and Hard Work**

Business starts-ups often demands long hours from their owners. In many start-ups, six or seven-day work weeks with no paid vacations are the norm. In fact, a survey by American Express found that only 59 per cent of small business owners were planning to take a summer vacation (and one-third of those planned to combine their vacations with a business trip). The primary reason entrepreneurs don't take vacations? “Too busy,” The demands of owning a business make achieving work-life balance difficult for entrepreneurs. “You must have stamina to see it through.

### **Lower Quality of Life Until the Business Gets Established**

The long hours and hard work needed to launch a company can take their toll on the other aspects of an entrepreneur's life. Business owners often find that their roles as husbands or wives and fathers or mothers take a back seat to their roles as company founders. In fact,

according to a survey by American Express, 67 per cent of entrepreneurs say that owning a business requires them to make sacrifices, most often in the areas of family relationships and friendships. Part of the problem is that half of all entrepreneurs launch their businesses between the ages of 25 and 39, just when they start their families.

### **High Levels of Stress**

Starting and managing a business can be incredibly rewarding experiences, but it also can be a highly stressful one. Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck, and have mortgaged everything they own to get into business. Failure may mean total financial ruin, and that creates intense levels of stress and anxiety! Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

### **Complete Responsibility**

It's great to be boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisors. A recent national small business poll conducted by the NFIB found that 34 per cent of business owners have no one person to turn to help when making a critical business decision. When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of their company's success or failure has a devastating effect on some people.

- **Discouragement**

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful

entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

### **Unit Summary**

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Despite the challenges that starting and running a business pose, entrepreneurs are very satisfied with their career choices. Most entrepreneurs are so happy with their work that they want to continue it indefinitely. In fact, just small per cent of entrepreneurs wish or intend to retire at all.

### **Activity**

1. What is entrepreneurship?
2. Describe an entrepreneurial personality.
3. What is economics?
4. State and explain the economic problem
5. Itemise and explain the three basic economic questions and suggest ways of answering them
6. Explore economic systems and explain how they affect production and distribution of wealth.
7. Describe the benefits of entrepreneurship
8. What are the potential drawbacks of entrepreneurship

### **Module Summary**

In this Module you have learned about the Public Service and Public Service Delivery. You have seen the way functions and responsibilities can be assigned. You have also explored state-society relations, and organizational, administrative, legal, territorial and socio-cultural attributes

of public authority. You have also seen that there are interactions and interdependency between the state and society and that a state is critical to collective action in society. Your attention has been drawn to the main roles of the state, namely: to provide security for the members of its society, to provide a stable economic environment, to promote a more equitable distribution of income/resources, and to assure a more efficient allocation of resources. That the state is therefore an organisation created by society itself for the purpose of delivering services to the community. The state is thus answerable to the people; it is a people's institution.

You have also explored the Public service delivery mechanisms and processes. You have seen the way functions and responsibilities can be assigned. You have explored public service reforms and seen that states use them as measures to make public service delivery efficient and effective. You now know that the public sector is the one which sets the policy environment for the rest of the economy and most donor projects, in recent years, have supported public sector reform, because the quality of the public sector greatly contribute to national development. You also appreciate that public sector reforms entails choosing appropriate government systems and improving the efficiency of government counterparts, both of which are essential for the effectiveness and efficiency of a country's public sector.

Now you know the definition of the term development and other key concepts related to it. You have perhaps also noted that development cannot be discussed in isolation; it has to be related to the state sector and its partners in service delivery and development. You have also seen that understanding of what development means is an important requisite because it enables you to establish a link between responsibilities of government and rights and duties of the citizen. However, the understanding of development alone is not enough; there is need for you to know the nature of interaction between the state and the citizenry. The state plays a very critical role in development. No one will deny that it is the most important role-player in development, hence many of its functions should be enabling and supporting. Participatory development is not only a populist cry. It is imperative that ordinary people should be empowered to play their full role in their own development. Government has a very specific and important task in this regard.

You have also now known who an entrepreneur is. He is one who creates a new business in the

face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Despite the challenges that starting and running a business pose, entrepreneurs are very satisfied with their career choices. Most entrepreneurs are so happy with their work that they want to continue it indefinitely. In fact, just small per cent of entrepreneurs wish or intend to retire at all.

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