

Pro-poor LED fails our cities and towns

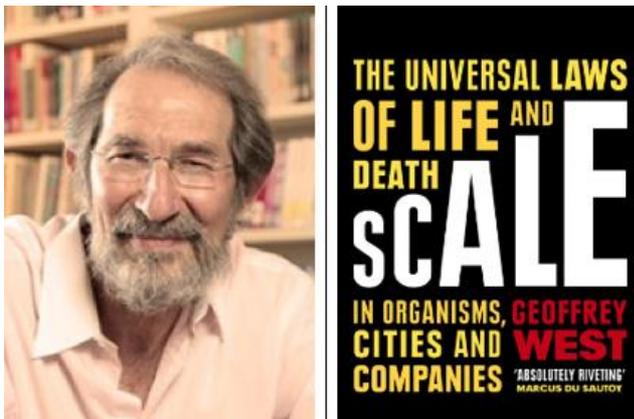
Enterprises (of the right kind) generate city growth

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There is an intriguing symbiosis between cities and towns on the one hand and enterprises on the other. As the world population urbanise, so are business activities and one can use the one to predict the other.

Physicist Geoffrey West in his "*Scale: The Universal Laws of Life, Growth and Death in Organisms, Cities and Companies*", says based on city growth one can state precisely what will happen with the number of businesses in that city: a doubling of population does not require a doubling of grocery stores or filling stations, economies of scale kick in in a predictable manner. The reverse is also true.



Unfortunately, South Africa's economic and enterprise development policies and strategies ignore these predictable realities. In addition, LED plans by municipalities in the main demonstrate a lack of understanding of what drives development.

LED strategies remain stuck in infrastructural roll-out (low-cost housing, water networks, sanitation) or community-based interventions: promoting vegetable gardening, knitting cooperatives and township tourism. How to strengthen the conditions for private sector development, is not considered.

The question "*What can the community produce?*" resounds but "*What is the demand?*" seldom heard. There is also little, if any, in-depth analyses of the existing enterprise composition and structure of towns and cities, failing to understand that intricate symbiosis.

Economic activity shape settlements

When hunting-gathering was the mode of existence, humans operated in small communities (and resided for centuries more in shelters like caves than in man-made structures). Their (subsistence) economic activities took place in non-

settlement areas: the forest people gathered fruit and roots, set traps for birds and animals; the San from the Kalahari dug tubers and roots for moisture and their diet ranged from plants and insects to the game they hunted. Even with the development of pastoralists and small croppers, permanent settlements were not the norm - to follow better grazing and fresh fields to till, required mobility.

As perceptions about nature were transformed from the realm of the magical to an environment to be managed (by fertilising fields and the domestication of animals), *subsistence slowly paved the way for surplus production*. This resulted in improved diets and subsequently larger populations, enabling people to devote time and energy to other activities than hunting, gathering and subsistence cropping. More permanent settlements became possible and craft production and trade gathered pace with a growing differentiation in activities.

Permanent expanding settlements with more complex differentiated societies and a growing variety of enterprises had arrived. The symbiosis between settlements and enterprises was forever established.

Bruges: how skills attracted riches from all over

To understand the symbiotic relationship, it is important to note that enterprises can broadly be categorised into *consumer-driven* and *export-driven enterprises*. A brief reflection on the history of Bruges, in the 14th C the commercial hub of Europe, will make the distinction clear.

The bakers and the masons of Bruges sold their wares and crafts predominantly to consumers within the city. But the weavers, goldsmiths and printers (read also carvers since it was before Gutenberg's innovation of movable type) were considered the best in Europe. Their products were exported: by the Hanse to the Baltic and Russia and through the Genoese and Venetians to the Mediterranean and Levant. William Caxton had the first *printed* book in English produced by the guild of printers in Bruges.



Bruges tapestries were in demand in the palaces and houses of the rich, such as the Pope, the De Medici's, Isabel of Spain and Sigismund I of Poland (the latter bought more than 100 mural tapestries - many surviving at Wawel Castle in Krakow).



The flow of money into Bruges stimulated population growth to a peak of about 200 000 in 1400. That growth – generated by the export-led activities – provided more opportunities for the bakers, the millers and the masons.

When the silting of the Zwin Channel in the latter part of the 16th C cut Bruges and Damme from the sea and the court of Burgundy relocated, the merchant houses and export-led artisan guilds moved elsewhere (predominantly to Antwerp). The population of Bruges dwindled to 50 000, resulting in a decline in the number of consumer-led activities.

It was not the millers or the bakers that propelled or culled population growth: the steady urbanisation of Bruges (and its later decline) depended on the success or failure of the weavers, the goldsmiths and the printers to attract money from outside the medieval city walls, as well on its increasingly sophisticated banking and financial sector providing loans for importers and partial risk insurance for exporters.

Entrepreneurial space

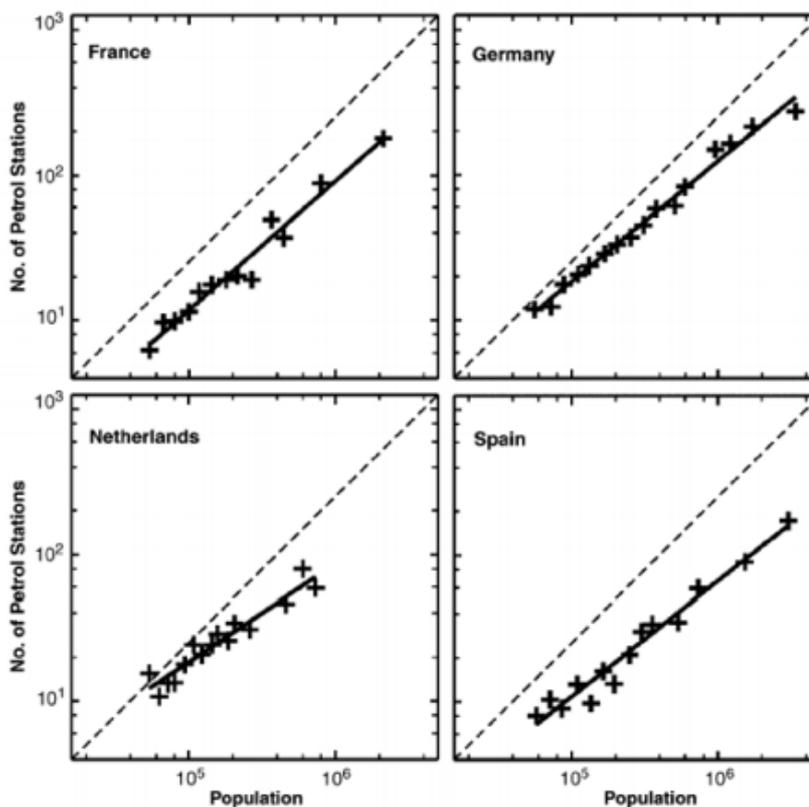
Entrepreneurial spaces for businesses that are consumer-led (run-of-the-mill entrepreneurship) are strongly determined by population size and household income (both determining local consumption demand). In contrast, export-led enterprises succeed in convincing consumers elsewhere to channel money to the locality to obtain the desired goods and services. This requires goods and services of quality at a price that trump competitors elsewhere: special entrepreneurs who understand markets far and away as well as what the competition are up to.

It can easily be shrugged off as obvious truths.

Few realise that strong statistical correlations can be deduced from this symbiosis. These correlations are so significant that entrepreneurial space can be predicted for not only enterprise sectors (e.g. financial services, construction sector, traders, legal sector, etc.), but also for enterprise types (e.g. grocers, building material suppliers, accountants, attorneys) within sectors when only given the population size of a city.

Already in 2003 Kuhnert, Helbing & West described the remarkable regularities between city populations and the number of filling stations in France, Germany, Spain and the Netherlands.

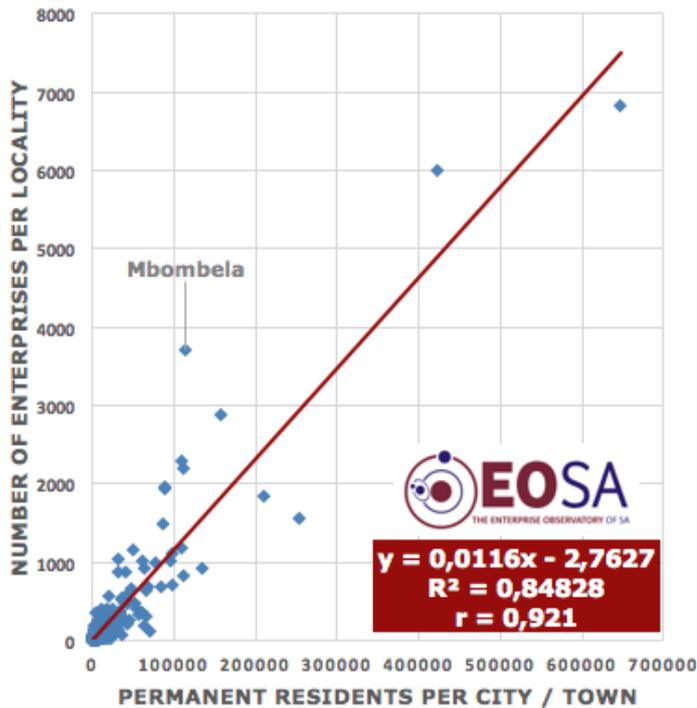
People & Filling stations: remarkable regularities



Kuhnert, Helbing & West (2003): [Physica A363](#)

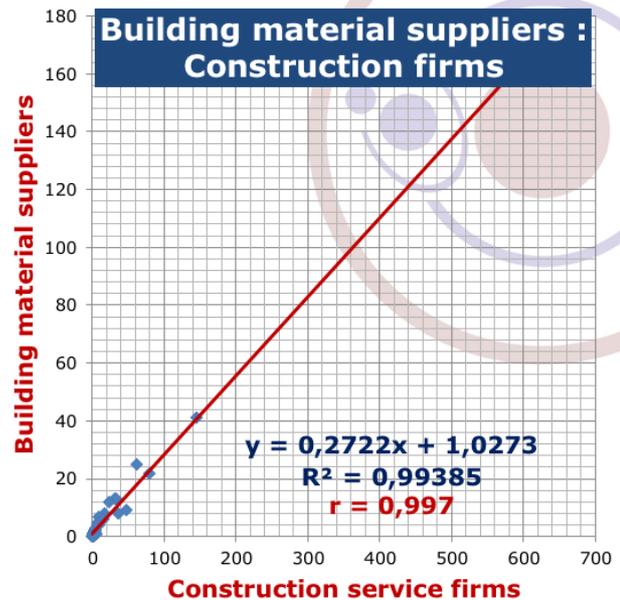
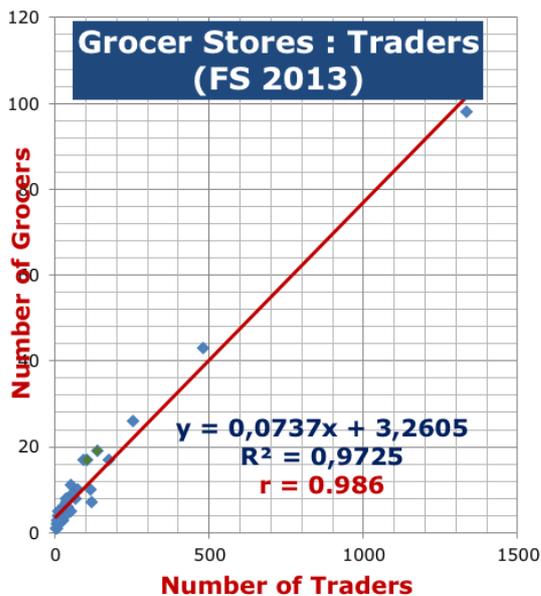
EOSA's research on the population of 370 SA cities and towns (see also [Daan Toerien's academic articles based on a smaller sample of towns](#)) indicate a very strong correlation between the total number of formal enterprises in a town or city and the size of the permanent population of these towns and cities. In cases where towns are some distance from the regression line (e.g. Mbombela) the enterprises in the locality cater also for the vast populations of the traditional authority areas close-by.

PERMANENT RESIDENTS & FORMAL ENTERPRISES (370 SA CITIES & TOWNS)



Even within enterprise sectors regularities can be detected between the total number of enterprises in a sector, and the number of enterprises of a certain type within that sector.

Within sectors between enterprise types & sector totals



exploring entrepreneurial spaces

Entrepreneurial space in consumer-led enterprise sectors therefore demonstrates regularities that haven't been planned or devised: they are the outcome of a spontaneous self-regulating process.

EOSA has not encountered a single LED strategy that explores these regularities. In fact, LED strategies in the main remain stuck in the rut of short term pro-poor interventions. Numerous academic LED assessments by Chris Rogerson (UJ) and Etienne Nel (Otago) reveal a "disconnect" between business development and LED resulting in at best "disappointing" outcomes.

Implications for LED

The strong immanent regularities have implications for both enterprise formation and local or regional economic development:

- If the population of a town or city is not expanding, new trader entrants (and other consumer-led enterprises) will in all probability either fail or replace existing businesses in those sectors: rather churn than growth.
- The differentiation by additional enterprise types (first of its kind in the locality) can be projected in accordance with the expansion of the total number of enterprises in a city or town. The reverse for declining localities also holds true.
- To increase the flow of funds into a town/city, strategies to help people to become traders or rendering general services (e.g. garden services or a copying shop), will not really improve the economy: entrepreneurial space in those sectors are in the main automatically occupied. To grow the local economy, one requires special entrepreneurship: enterprises that understand demand elsewhere and whose services or products are so unique or well-made that it entice customers in other places to swipe their credit cards to obtain these.

LED strategies that promote enterprises in consumer-led sectors will not yield much since these spaces are automatically occupied. Concentrate rather on export-led enterprises, but realise these require special entrepreneurship, or, as Ricardo Hausmann states: productive knowledge.

Luring and cultivating special entrepreneurs worked for Bruges. When its decline kicked in these skills moved out, hastening the decline.

As Hausmann states: "*It is easier to move brains than moving productive knowledge into brains*". Bruges realised that too late.

Is it too late for the majority of SA's cities and towns as well? The registrars of companies in Mauritius and Botswana suggest that the emigration of productive knowledge from South Africa is underway, see [Cyril on a tight-rope paradox not policy certainty the outcome of the ANC conference](#).

Note: *Entrepreneurial space is not the same as market share. The ecological analogy is when counting elephants in a game reserve: the massive bull elephant counts as 1 and the baby elephant calf also as 1: but the total gives no indication about size of the elephants. When counting traders, the hyper-store as well as the corner cafe as occupants of entrepreneurial space count equally.*

This article has also been published as a blog post on the EOSA site (<https://eosa.org.za/>).

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