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## Synergies, Stalemates and Social Dilemmas

### Governance in South Africa in Comparative Perspective

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2008

[Link to publication](#)

*Citation for published version (APA):*

Frödin, O. (2008). *Synergies, Stalemates and Social Dilemmas: Governance in South Africa in Comparative Perspective*. [Doctoral Thesis (monograph), Sociology]. Olle Frödin, Department of Sociology, Lund University.

*Total number of authors:*

1

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**SYNERGIES, STALEMATES AND SOCIAL DILEMMAS.  
GOVERNANCE IN SOUTH AFRICA IN COMPARATIVE PERSPECTIVE**

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GOVERNANCE IN SOUTH AFRICA IN COMPARATIVE PERSPECTIVE**

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ISBN

Cover Illustration and Design:  
Brando Designbyrå

Typesetting:  
Brando Designbyrå

Illustrations and Layout:  
Brando Designbyrå, [www.brandonnu.se](http://www.brandonnu.se)

Printed by:  
Holmbergs, Malmö 2008

Distribution:  
Department of Sociology  
Lund University  
P.O. Box 114  
SE-221 00 Lund  
Sweden  
[http://www.soc.lu.se/in\\_english/](http://www.soc.lu.se/in_english/)

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## List of abbreviations

ANC	African National Congress
CEDA	Citizen Entrepreneurial Development Agency
CHDM	Chris Hani District Municipality
COSATU	the Congress of South African Trade Unions
DA	the Democratic Alliance
DBSA	the Development Bank of Southern Africa
DDFA	Dordrecht Dairy Farmers Association
DED	Deutscher Entwicklungsdienst/the German Development Service
DFID	the Department for International Development
DME	Department of Minerals and Energy
DPLG	Department of Provincial and Local Government
ECDC	Eastern Cape Development Corporation
ECMAC	Eastern Cape Manufacturing Advisory Centre
GEAR	Growth, Employment, and Redistribution
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit/ German Technical Cooperation
IDC	Industrial Development Corporation (IDC)
IDP	Integrated Development Plan
IMF	the International Monetary Fund
LED	Local Economic Development
LGNF	the Local Government Negotiating Forum
NEDLAC	the National Economic and Labour Council
NGO	Non-governmental Organization
NIE	New Institutional Economics
NP	National Party
NPM	New Public Management
NSMS	National Security Management System
OECD	Organisation for Economic Co-operation and Development
PAC	Pan-African Congress
PACA	Participatory Appraisal of Competitive Advantage
PIMSS	Planning and Implementation Management Support System
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
RuLiv	The Promotion of Rural Livelihoods Programme
SAANC	South African Native National Congress
SACP	South African Communist Party

LIST OF ABBREVIATIONS

SANCO	South African National Civic Organization
SAP	South African Party
UDM	United Democratic Movement
USAID	The United States Agency for International Development
VOC	Vereenigde Oostindische Compagnie
WTO	World Trade Organization

## Acknowledgements

Writing a thesis is in many respects a collective effort. I would like to thank all the people who have, in one way or another, helped me along the way. My deepest gratitude goes to the Department of Sociology at Lund University for financing my PhD studies. Göran Djurfeldt, my supervisor, has enabled me to carry out this study by encouraging me to apply for a scholarship from SIDA/SAREC. He has provided me with invaluable intellectual and moral support from the start. Without his guidance and confidence in my ability, this study would not have been possible. I would also like to mention my co-supervisor Katarina Sjöberg who has also helped me in ways too numerous to count. I have lost count of the many drafts of this thesis that Katarina has read, or rather, carefully scrutinized, without ever losing patience. Göran and Katarina, you have my profound thanks.

The SIDA/SAREC financing of my fieldwork in South Africa is gratefully acknowledged. My colleagues at the Department of Sociology and Social Anthropology came up with interesting discussions and constructive criticism.

Special thanks are due to Axel Fredholm who, as a forerunner with regard to doing fieldwork abroad and writing a thesis, has been a very important source of practical, moral and intellectual support; Anna-Lisa Lindén, Håkan Hydén and Thomas Brante for giving me insightful comments on my final draft; Göran Dahl and Göran Ahrne at Stockholm University for providing me with constructive remarks on an early draft; Jaya Reddy for his excellent proofreading and valuable comments on my very final draft.

In South Africa, a special word of appreciation goes to Simon Bekker at the Department of Sociology, University of Stellenbosch and Sandra Marais. Simon introduced me to the academia of South Africa when I arrived there in January 2005 as a fresh, confused PhD student. Throughout the research process he provided me with inspiration, knowledge and thought-provoking articles and books that have had an important influence on this thesis. Tina Uys at the University of Johannesburg and Nico Alant provided me with wonderful hospitality during my stays in Johannesburg and Port Nolloth. Doreen Atkinson, at the Karoo Institute and the Centre for Development Support of the University of the Free State, gave me intellectual inspiration and shared her profound knowledge of the South African local government system. Etienne Nel at Rhodes University helped me get a grip on issues pertaining to Local Economic

Development. The staff of the Lukhanji and Emalahleni Municipalities and the Chris Hani District Municipality kindly gave much of their time. Thulas Mjima, Director of the District Municipality's Public Health Department very generously introduced me to Queenstown and the Chris Hani District Municipality. Mkhululi Titi, the Communications Officer of Lukhanji Municipality, was extremely cooperative. Saskia Haardt, of the German Development Service, and Sam du Preez very courteously helped me gain access to the field.

My family, or as a sociologist would put it, my significant others: my mother Barbro, my father Hasse and my sister Lina and other loved ones have provided continuous support and a loving, inspiring and permissive (and sometimes chaotic) environment, which certainly influenced my choice of career. Thanks for helping me cope with the challenges of writing a thesis.

# 1. Introduction

At the beginning of the fieldwork that forms the basis of this thesis, I interviewed an assistant director in the provincial administration of the Eastern Cape. I had just arrived in South Africa to investigate how the public sector reforms following the transition to democracy affected the developmental capacity of the state. At that stage I knew little about the situation in the province, and I was largely unfamiliar with the nitty-gritty of the functioning of the South African government apparatus. At the end of the meeting the Director said: “So you are from Sweden... Suppose you had all the powers, what would you do for us here?” After posing the question he picked up a notepad and a pen. He then gazed at me from behind his desk, seemingly full of expectation. Coming straight out of the ivory tower this question startled me, and I found it hard to answer him. Later, I placed this event in a wider context and I came to view it as indicative of a general tendency. Given the formulation of his question, the Director seems to believe that there is context-independent knowledge pertaining to social life, which may form the basis of universal policy solutions that promise to turn less prosperous areas of the world into looking more like welfare countries such as Sweden. The idea of context-independent social science knowledge is attractive, especially in policy circles. Naturally, policymakers would be well served by a ‘social physics’ through which social and economic relations could be orchestrated towards continuous progress. Although the world of physics and the social world differ in many decisive respects, policy-makers often put their trust in context-independent policy solutions, which are assumed to trigger similar effects across a wide range of contexts, as if societies were closed systems in which all variables could be controlled. The practice of “airdropping bureaucrats into developing countries to bring about massive changes for the better in public policy”, as Fukuyama (2004, p. 84) puts it, relies upon a belief in context-independent knowledge that is applicable to social life in general.

This thesis is largely concerned with the relationship between context-specific and generalised, nomothetic knowledge with regard to policymaking and implementation. The fact that organisational and institutional reforms are often based on standard models or ‘best practice’ solutions suggests that policymakers are inclined to adopt “context-independent” policies and models in the belief that they are equally applicable across a wide range of contexts. Similar institutional reforms

have been pursued in the last decades both in the OECD world and in so-called “developing” countries. Since the beginning of the 1990s, international organisations like the World Bank, the International Monetary Fund and a range of bi-lateral donors have advocated various governance reforms for developing countries to get their institutions “right”. The reform countries have liberalized, to varying degrees, their economies and adopted laws adapted to the global economy. There has been a general trend of privatization of public companies. Public sector reforms, with the aim of making governments more flexible and efficient, often through the introduction of private sector management principles, have been launched in a range of countries. Most reform countries have also decentralized authority from national governments to regions and municipalities, partly in the belief that governments thereby become more responsible politically and fiscally, and thus more supportive of economic growth (Ansell, 2000, Brenner, 2004, Dollery and Wallis, 2001, Fukuyama, 2004, p. 25, McMichael, 2004, p. 154).

The international reform wave is said to entail several changes in the ways societies are governed. Central government power has been diffused to various regional and local bodies and to networks that cross the public-private divide. Hierarchical, top-down models have been increasingly replaced by horizontally organized network models of policymaking and implementation. As a result, processes of policymaking and implementation tend to involve multiple, interdependent actors, both public and private, who are not hierarchically governed by a single central authority. Against this background, governance has become more fragmented and complex. According to some scholars, implementation is now a matter of “concerting actions” of various public and private actors rather than carrying out predetermined policy decisions through hierarchical chains of command (Harrison, 2006, p. 189, Hill and Hupe, 2006, Kooiman and van Vliet, 1993, Pierre, 2000)

The debates on the shifts in governance are often formulated in “context-independent” terms, as if the reforms trigger similar effects everywhere. However, as Klingner (2004) notes, they have been framed differently with regard to “developed” and “developing” countries. In “developed” countries, scholarly discussions about the diffusion of decentralized, networked forms of governance have tended to revolve around the question of whether governments can maintain their capability to coordinate policy, gather information, and deliver services through multiple, non-governmental partners. Scholars have expressed doubts as to whether political steering to address different public concerns is possible in the “disaggregated” political systems of the

present. According to some critics, the trend towards networked forms of governance reduces the capacity of governments to coordinate and regulate social and economic life. Furthermore, reform critics claim that networked forms of governance are deficient when it comes to central democratic process values such as accountability and transparency (Hirst, 2000, Pollitt and Bouckaert, 2004, Rhodes, 2000, Stoker, 2000). For instance, Streeck (quoted in Schmalz-Bruns, 2001, p. 557) warns that the emergence of multi-layered political systems implies a risk that traditional chains of accountability will be broken.

Discussions about governance reforms with regard to developing countries have tended to be concerned with establishing government capacity to promote development and deliver public services, at the same time as allowing for effective citizen participation (Klingner, 2004). It was widely believed in influential development policy circles in the 1990s that measures like political decentralization and the opening up for direct public participation in policymaking and implementation made governments more effective, efficient and accountable. In addition, economic liberalization and democratic governance were assumed to be complementary and mutually reinforcing dynamics.

While critics and proponents of governance reforms disagree when it comes to assumed reform outcomes, both camps tend to base their arguments on sweeping, “context-independent” assumptions. This thesis does not take context-independent assumptions as evidence. We may presume, of course, that the nature of governance is likely to change when governments alter their policy-determining structures, but, given the complexity of contemporary societies, we cannot conclude a priori what the outcome of the reforms will be. Consequently, there is a need for empirical research on the impact of governance reform in different settings.

This thesis examines the impact of governance reform in South Africa. Perhaps nowhere else in the world have the changes in governance been more rapid and manifest as in South Africa. Before the 1990s the country remained authoritarian and relatively closed, and until then, governance was based on what may be labelled as “racial dirigisme”. During the 1990s, comprehensive governance reforms were pursued in practically all areas that affected political and economic activities in South Africa. The country was fully integrated into the global economy after decades of sanctions, its political and administrative systems were fundamentally restructured and its political map was redemarcated in accordance with the principles of a non-racial democracy. The reform architects drew on reform experiences of the OECD countries and subscribed to fashionable international development policies and worldwide public management models. In many

respects, the South African policy framework incorporated the state-of-the-art in terms of governance standards. Given the country's cultural and socio-economic diversity, South Africa is therefore an ideal place for empirical examinations of different context-specific implications of the governance reforms of the last few decades.

The new South African governance framework has turned the local government level into a significant sphere in its own right. Local governments have been given major democratic and developmental responsibilities. South African municipalities are required to promote, among other things, Local Economic Development (LED), i.e. economic growth and employment generation in cooperation with the business sector, local community groups, and other government agencies. All local development initiatives are to be coordinated through an Integrated Development Plan (IDP), which is a strategic plan for the overall development of the locality. ID plans must be formulated and reviewed through participatory planning processes that involve representatives from government agencies as well as interested non-government actors. Thus, the precise design of many development initiatives in post-apartheid South Africa is not predetermined at the central government level. Most developmental measures are to be planned and implemented through collaborative governance processes centred on the local sphere. This means that South Africa not only underwent a transition from authoritarianism to democracy during the 1990s. The country also made a transition from hierarchical governance to decentralized, networked governance, or perhaps more to the point, South Africa shifted from 'racial dirigisme' to what may be labelled as "consensual micro-corporatism".

## **Purpose and Research Questions**

The purpose of this thesis is twofold. Firstly, it examines the implications of the introduction of a decentralized, networked model of governance in a South African context. By 'networked' governance' the thesis refers to a mode of governance based on the direct participation of private and civic sector actors in projects, policymaking and implementation. More tangibly, focus is on the functioning of the IDP model described above, with specific reference to the planning and implementation of Local Economic Development (LED) measures. It investigates how LED is promoted and how LED promotion measures are linked to the processes of Integrated Development Planning. By means of comparative case studies, the outcomes of a selection of LED projects are assessed. Besides, the outcomes are explained analytically to identify mechanisms involved



in political interaction processes where public and private sector actors engage directly in policymaking and implementation. In this way, the thesis sheds light on the preconditions for governance within the framework of a decentralized, “networked” political-administrative system embedded in the global economy.

Secondly the aim is to contribute to theory. The shifts in governance pose several challenges to social science theory. Since the borders between the public and the private have become increasingly unclear, it is difficult to grasp current governance practices in a consistent way using theories based on an analytical separation of spheres like state, market and civil society, if these spheres are assumed to be characterized by different logics of action, such as legal rationality, profit-maximization and voluntariness. It is also problematical to analyse governance by resorting to different theories of, for instance, hierarchies, markets and networks, since such theories are based on different behavioural assumptions which are difficult to reconcile in a consistent manner. The main problem in this regard is that no explanation is given for people not consistently acting as homo economicus, homo bureaucaticus, homo altruist, or homo reciprocans. A coherent theory of governance must be founded on an explicit concept of action and interaction explaining why actors tend to invoke different logics of action in different institutional contexts. It must also account for how and why interrelated actors use different modes of decision-making and coordination in different contexts to coordinate their actions. Consequently, this thesis seeks to provide a framework for governance analyses based on a consistent theory of action and interaction. Governance is defined here as the coordination and conciliation of interdependent activities via institutions. The meaning of this concept will be further considered in chapter two. The thesis includes the concepts of transaction domain and domain consensus. The former concept refers to a mutually agreed-upon definition of a situation according to which a particular logic of action, exchange or decision-making is considered socially acceptable. The latter concept is used here to signify a general acceptance of a set of transaction domains. The meanings of these concepts are further substantiated in chapter five (pp. 69-71).

## **Outline of the Book**

Chapter two contains the methodology and research design, and aims to give the readers an idea of how the theories and explanations were arrived at, and how they shaped the conclusions. The role and meaning of theory in the social sciences are also considered. It provides an introduction of the

principles of data selection and motivates the choice of research methods as well as a description of how the research design and the preliminary hypotheses are modified throughout the research process.

Chapter three considers the concept of governance and provides a theoretical background to the debates on the shifts in governance, which lay the basis for the development of the theoretical framework and for the subsequent analysis of the South African governance reforms in conjunction with the democratic transition. These descriptions are required to give the reader an idea of the context-independent theoretical thinking that has been influential in international policy circles. The chapter first takes up some analytical problems associated with the usage of the conceptual triad of state, market and civil society in grasping current governance practices and in analysing political interaction generally. It is argued that states, markets and civil societies, insofar as they exist in an empirical sense, are best seen as aggregate effects of various institutionalized practices, rather than fixed societal spheres associated with particular logics of action such as legal rationality, voluntariness or profit-maximizing behaviour. Thereafter it reviews different usages of the concept of governance, and specifies how the concept is defined in this thesis. In accordance with this definition, economic, social, cultural and political dynamics are investigated in concert. The chapter then discusses some problems of interdisciplinarity regarding the combined usage of theories of markets, hierarchies and networks in analysing governance, followed by a brief account of the main ideal-typical characteristics of markets, hierarchies, networks and democratic forms of decision-making. Finally it describes of how these modes of governance are to function together in relation to the liberal democratic model of governance.

After the theoretical scenery is set, chapter four provides a brief overview of what is usually described as the main shifts in governance in the wake of the international reform wave in the last few decades. The chapter aims to acquaint the reader with the worldwide policy trends that influenced the governance reforms carried out in South Africa in the 1990s. It briefly discusses the post-Second World War period in terms of changes in the emphasis placed on hierarchies, markets, network and various democratic forms of governance, and demonstrates how these changes are mirrored in the international development discourse. A discussion on the relationship between generic and context-specific theories with regard to governance analyses brings this chapter to a close.

Beginning with a brief review of some central theoretical issues related to sociological and rational choice varieties of institutional theory, chapter five sets the analytical framework of the thesis. Drawing on the ideas of

the philosopher John R. Searle, it discusses the ontology of institutional reality and the relationship between agency and institutions. Thereafter, the chapter considers the relationship between social identities and the formation of individual and collective interests. Against this background, it presents the concepts of transaction domain and domain consensus, to demonstrate why actors tend to draw on different logics of action in different institutional contexts. The thesis argues that public, private and civic associations are best understood as components of the same formal institutional order, within which they are allowed to operate in different ways according to a set of constitutive and regulative rules. From the viewpoint of this framework, the conditions for formal governance are affected by the historical processes through which formal institutions have evolved into contemporary formations and diffused over the world. To illustrate this line of reasoning, the thesis briefly examines various scholarly attempts to explain the evolution and diffusion of modern forms of statehood.

Chapter six locates the analytical framework in a South African context. It consists of a brief overview of the historical trajectory of governance in South Africa from the period of Dutch colonialism until the transition to democracy.

Chapter seven examines the nature and outcomes of the governance reforms in South Africa after the democratic transition. It also considers relevant features of the new policy framework, with specific reference to the policies of Integrated Development Planning and Local Economic Development. Finally, it provides a general description of the political-economic development after the democratic transition.

Chapter eight examines the outcomes of the processes of Integrated Development Planning in the municipalities selected for this investigation. It begins with an account of the political-economic situation in the Chris Hani District Municipality and the Lukhanji and Emalahleni local municipalities. This is followed by a description of the governance arrangements and the policymaking arenas established to promote Local Economic Development. The chapter then examines and explains the outcomes of the planning processes. Thus, the analytical framework is linked to the primary data. The results are finally summarized.

Chapter nine contains comparative case studies of three projects with different origins and outcomes; the Rags to Riches Vegetable Garden, the Khayelitsha Brick Makers Association and the Dordrecht Cheese Factory. By comparing cases, the chapter aims to shed light on the different patterns of interaction that underlie the varying outcomes.

The thesis closes with chapter ten where the results are summarized and the conclusions drawn.



## 2. Research Design and Methodology

This chapter is concerned with methodology, research design and the relationship between data and theory. Qualitative methods such as interviews, participant observations and process-tracing case studies, constitute the research design, selected to fit the purposes of the thesis. Qualitative research methods are suited to exploring new phenomena and developing explanations, new hypotheses, theories, concepts, and typologies, while quantitative research tends to highlight correlations between social phenomena. As is often pointed out, correlations are not adequate bases for causal inference and must not be mistaken for causation. Qualitative research is better suited to exploring and explaining phenomena generated by complex causal chains (Hall, 2003). Case studies can accommodate interaction effects and path dependency in ways which quantitative methods often cannot. Furthermore, many social phenomena are difficult to examine and measure by means of quantitative methods. Still, the main difference between qualitative and quantitative research is that the former seeks to find the conditions under which certain outcomes tend to occur, while the latter focuses on the frequency of these conditions. Qualitative methods are therefore particularly useful in the development of explanatory theory and open-ended typologies (Bennett and George, 2005, p. 31, Fay, 1996, pp. 210-211, Selznick, 1966, p. 251).

Qualitative studies usually lack the reliability and generalizability of quantitative research, and are much harder to replicate. Consequently, qualitative research is sometimes criticised for being subjective and anecdotal, as well as prone to confirmation and selection bias. The implication is that qualitative researchers are inclined to verify their own theories and preconceived ideas. Another common criticism is that qualitative researchers tend to draw overgeneralized conclusions from their findings (Flyvbjerg, 2006, p. 234, Bennett and George, 2005, p. 80). In the belief that such criticisms must be taken seriously, the thesis therefore makes the research procedure transparent in order to allow the reader to assess it.

This chapter provides an account of the ways in which the research design and our preconceptions were modified during the research process in order to give the readers an idea of how the theories, explanations and conclusions in this thesis are reached. First, though, it is necessary to consider the role and meaning of theory in the social sciences.

## The Meanings of Theory and Theorizing in the Social Sciences

Theory and theorizing have different meanings for social scientists, not least in the fragmented discipline of sociology. A theory tends to be seen as a logically integrated causal explanation or an orderly system of tested propositions based on necessary and sufficient causality. However, the concept of theory is often not used in this way in the social sciences. Some sociologists equate theory with general reflections on modernity and interpretations of societal trends, as Hedström (2005, p. 12) notes. Here, I consider theory as a means to analyse the social world in order to make it understandable. By social science theory, I refer to premises and assumptions about epistemology, ontology and human nature. In this sense, theory constitutes a foundation for the choice and justification of research methods (Calhoun, 1995). Under the label of social science theory I also include classificatory and conceptual schemes, i.e. typologies, which assign individual cases to general classes. A typology distinguishes between different types of social phenomena on the basis of well-defined differences between the phenomena in question. Through the use of typologies, social phenomena may be broken down into component elements, between which causal relations can be established (Brante, 1994, Eckstein, 2000). By social science theory, I moreover refer to statements about basic social mechanisms and the different effects they tend to have in different contexts. Case study researchers often develop middle-range generalizations and typologies linked to causal pathways or mechanisms. This type of theorizing makes limited, contingent assumptions about mechanisms that operate in similar ways across different contexts. Unlike nomological-deductive explanations, mechanism-based explanations are founded on propositions about probabilities of different outcomes under certain conditions. Mechanism explanations refer to intentional actions and interactions based on the idea that actors with certain mindsets and desires, which are strung together in particular ways, tend to regularly bring about certain types of outcomes. A mechanism can be seen as a recurrent type of interaction that triggers particular causal chains, leading to certain outcomes (Hedström, 2005, p. 27). Mechanism explanations focus not only on the properties of the actors, but also on the ways in which they interact with and influence each other. Mechanism explanations must therefore be founded on explicitly formulated theories of action and interaction (ibid, p. 87, p. 155). Hedström mentions Merton's notion of the self-fulfilling prophecy as an example of a social mechanism. Merton defined the notion of self-fulfilling prophecy as "a false definition of the situation evoking a new behaviour which makes the original false conception come

‘true’ (Merton, 1968, p. 477). Bank insolvency rumours, for instance, may make depositors withdraw their savings. If depositors withdraw their money in the false belief that the bank is insolvent, an initially sound bank may go bankrupt (Hedström, 2005, p.21). This is an example of how the actions of individuals with certain beliefs and desires, who are interrelated in a particular way, tend to generate certain social outcomes.

This thesis considers theories as analytical tools through which we may analyse and diagnose the social world. Theory is not understood in terms of context-independent explanations and widely applicable generalizations, expressed in terms of necessary and sufficient conditions, which enable perfect predictions. In the heyday of modernization theory many social scientists viewed political outcomes as results of socio-economic developments that could be conceptualized as a few key independent variables, which were then assumed to consistently generate certain causal effects (Hall, 2003, p. 1). The problem with this view is that generalizations, upon which predictive theories can be founded, require causal relations to be expressed in terms of necessary and sufficient conditions. Such relations are almost impossible to find in social life (Lincoln and Guba, 1979). Few nontrivial law-like regularities therefore hold with certainty across a wide variety of circumstances in the social life, as Bennett and George (2005, p. 133) point out.

There are several reasons why predictive, law-like theories are not fully applicable to social life. The first reason has to do with the reflexivity of human agents. Intentional phenomena such as human actions are unpredictable. Given the reflexive nature of human actors, we are capable of learning from history, and as Immergut (1998) argues, it is therefore highly unlikely that even the exact levels of unemployment and inflation of the 1930s would generate similar fascist movements today. Thus, it is not possible to make perfect predictions in the social life.

Another reason why deductive-nomological theories are not entirely applicable to social life is that human societies are open systems in which many social processes coexist and influence each other (Hedström, 2005, p. 77). Most causal relationships in social life emerge from the convergence of many events, actions, and causal chains. Consequently, few social phenomena may be explained by reference to simple, linear forms of causality (Bennett and George, 2005, p. 212). The existence of social interaction effects also contributes to making social life quite unpredictable. Social and political outcomes tend to be the results of long chains of choices that interrelated actors make in response to each other throughout processes of interaction. At each round of interaction, the actors also make choices under the influence of various types of institutions. Social outcomes

therefore depend not only on strategic actions and counteractions, but also on various circumstances that may be complex and temporary (Hall, 2003, p. 2). Small changes in the structure of interaction can have a profound impact on the aggregated social phenomena that emerge out of social interaction chains (Hedström, 2005, p. 100). Given the open-systems character of human societies, small changes and unforeseen events that alter causal relationships can always be expected to appear in social interaction processes, making it impossible to isolate the conditions of social interaction in a way that allows exact predictions. The social sciences can therefore at best produce probabilistic theories (Djurfeldt, 1996).

Many qualitative researchers reject generalizability as an appropriate objective of their research. Historians sometimes view any attempt at drawing general conclusions from historical case studies with skepticism. From the viewpoint of some qualitative researchers, the aim of their research is to produce detailed descriptions and illuminating perspectives on particular events or situations (Schofield, 2000). Flyvbjerg (2006, p. 224) draws the conclusion that there only appears to exist context-dependent knowledge in the study of human affairs. However, as Lincoln and Guba (1979) maintain, there are intermediate positions between the nomothetic, i.e. abstract generalizations on the one hand, and idiographic, particularized knowledge on the other. Although idiographic explanations are located in specific temporal and spatial contexts, they simultaneously tend to rely upon certain taken-for-granted assumptions regarding human nature and social interaction at some level of description. Idiographic and nomological explanations are therefore complementary rather than mutually exclusive (Fay, 1996, p. 174). Yet, a line may be drawn between case studies that solely describe a particular case, and case study research concerned with producing more general knowledge. This thesis belongs to the latter category, since its aim is not only to produce idiographic knowledge that sheds light on the unique and the context-specific, but also to generalise from the uniqueness of particular cases in developing more general theories. Theory in this sense does not refer to deductive-nomological models of explanation based on necessary and sufficient causality. Given the specific features of social life, social science theory must take into account more complex causal relations based on path dependency or social interaction effects. Social science theory has to be sensitive to context-specific factors while it still draws on more generic knowledge at some level of explanation. The challenge is to strike a reasonable balance between the context-specific and the generalizable.

Theoretical concepts in the social sciences tend to signify different features of human interaction that seem to recur. For example, a general rise in the price level of goods and services are usually summarized by the term



inflation. Concepts like primary group, nationalism, co-optation, hierarchy, patron-client relation, and diminishing marginal utility are used to describe different social phenomena that seem to be generalizable. By means of such theoretical concepts analysts construct typologies, which tend to be founded on ontological assumptions, theoretical concepts signifying more general types of phenomena, generalised causal pathways related to certain outcomes, and statements about circumstances under which certain mechanisms tend to be triggered. A typology can be used to outline effects that mechanisms have in different contexts and the ways in which they may interact and combine. This type of theorizing is more open-ended than theories based on necessary and sufficient causality in that it is recognised that similar outcomes can emerge through different pathways (Bennett and George, 2005, pp. 235-236). Typologies may therefore contribute to the development of generic knowledge without losing sensitivity to context. However, this requires scholars to clearly specify the circumstances to which different concepts and mechanisms apply (*ibid.*, p. 149, p. 119).

By using typologies the researcher takes a step up the ladder of generality, thus converting context-specific historical explanations and accounts into analytical explanations (Bennett and George, 1997, p. 6). While historical explanations of specific events fall back on series of connections in existing historical cases, typologies distinguish concrete and possible conjunctions of events and outcomes that may recur. When turning detailed historical accounts into theoretically formulated explanations, some information will inevitably be lost. What matters here is whether the theoretical simplification compromises the authority of the conclusions drawn from the cases for the utility of the theory, as Bennett and George (2005, p. 93) point out. It is important to note that a typology can lose its sensitivity to context if the concepts upon which it is founded are too general. The specific manifestations of a more general phenomenon, such as nationalism, always take on context-specific forms. Sometimes similarities between cases may be deceptive. Theoretical concepts must therefore be used with caution, since the empirical manifestations of the phenomena to which they refer always take on context-specific forms. This thesis argues that the conceptual triad of state, market and civil society is not context-sensitive enough, and using this typology risks leading us to project similarity to cases where it does not exist. It therefore offers new concepts hoping that they will allow more context-sensitive analyses of the different ways in which social life is coordinated in different areas of the world.

The following section describes how the explanations, conclusions and theories of this thesis are arrived at in order to give the reader a chance to assess their accuracy and utility.

## The Research Process

As is often the case in research, my first hypotheses have had to be revised in the course of the research process. Initially, the idea was to study how the public sector reform and the re-demarcation of South Africa's political map have affected the developmental capacity of the state, and to examine the character of state-civil society interaction in the wake of the reforms. I was motivated by an underlying interest in how social order is constituted in differentiated, complex societies, and how states function as integral parts of a society. This interest was inspired by the growing understanding, among scholars as well as policymakers, of the critical role played by the state in providing an enabling environment for socio-economic development. At first I had a very vague idea of the nature of the relationship between state and society. My preliminary understanding of this relationship was based on the belief that the state is the principal provider of the institutional framework that enables societal integration and low-cost transactions. I also believed that the capacity of a state to function as an integral part of a society is determined by numerous interrelated factors such as cultural patterns, power structures and international circumstances. In other words, I assumed that the causal relationships between state capacity and societal integration were intertwined in complex ways, but I lacked concepts to clarify them at that stage.

In the first stage of the research process, I made a preparatory journey to South Africa to refine my understanding of the situation and to narrow down my research questions. Academics, state officials and consultants were interviewed in order to broaden my understanding of the ways in which the South African government operates with regard to development promotion. Faced with concrete micro-level circumstances, I had to operationalize concepts like state, market, civil society and developmental capacity and find concrete expressions of these intangibles. It became clear that I had based my preconceptions on abstract macro-level concepts that objectify structure. I therefore had to disaggregate the macro-level concepts and translate them into patterns of interaction between individuals. The investigation thereby shifted focus, empirically and theoretically, to the micro-foundations of statehood. I placed the main emphasis on the local sphere, and decided to focus on Integrated Development Planning, with specific reference to the promotion of local economic development. These policies are interesting because they are located at the intersection point between state and society. After the first journey, I revised my hypotheses and developed a new, more open-ended understanding of my subject of research. Philosopher John R. Searle's (1996, 2005, 2001) work on the

ontology of institutional reality had a profound influence on my subsequent approach. Through induction and analytical deduction based on my assumptions regarding human agency and the ontology of institutions, I altered my theoretical criteria of significance and shifted conceptual focus from state-society interaction to governance. Thus, I clarified my theoretical assumptions regarding human nature, social interaction and the ontology of institutional reality. These assumptions then functioned as tools for distinguishing significant empirical facts.

At this stage, with only limited knowledge of the situation on the ground, I planned to make comparisons between two or three municipalities that differed with regard to their developmental performance in order to discern significant explaining factors. I aimed to select municipalities of similar size in three different provinces. I began my fieldwork in Lukhanji Municipality in the central Eastern Cape Province. Queenstown, located in the Lukhanji Municipality, is an administrative and commercial centre. It strengthened its position as a regional centre after the local government reform since it absorbed various public and private functions of smaller towns in its surroundings. The municipality contains parts of the former homelands of Transkei and Ciskei. In terms of socio-economic and institutional differences, it incorporates many of the contrasting characteristics of contemporary South Africa (Figure 8.1-8.3 pp. 159-160).

The empirical findings are based on semi-structured and open-ended interviews with actors involved in the planning and execution of the projects, and written available sources, including minutes of meetings, planning documents, feasibility studies, business plans and official reports. Events and case trajectories are reconstructed on the basis of such qualitative data. After introducing myself as a researcher to the Mayor and municipal manager I conducted a series of semi-structured interviews with the political leadership of the local municipality and the directors of the municipal administration. In this way I identified the formal ways in which government and non-government actors interact with regard to Integrated Development Planning and the promotion of Local Economic Development. The interviewees were informed beforehand that the interview data was to be used for academic purposes. When I performed the interviews, I used a checklist of questions that were based on my theoretical assumptions. The interviews usually developed into more open-ended dialogues towards the end of the session. All interviews were recorded and anonymized on transcription. The excerpts have not been corrected for language for fear of losing authenticity.

As I acquainted myself with the situation in Lukhanji I realised that the governance processes taking place in this municipality alone were so multifaceted that, given my limited time and resources, I would not be able to

carry out similar studies in two additional municipalities of the same size in two additional Provinces. It also became clear to me that it was not possible to make controlled comparisons across Provinces and municipalities within the framework of this project. It is very difficult, if at all possible, to find South African municipalities that resemble each other to such an extent as to enable reasonably controlled comparisons. Instead, the neighbouring rural municipality, Emalahleni, is included in the investigation. Most of the Emalahleni Municipality belonged to the former Transkei and is dominated by communal settlement land. The north-western section of the municipality was part of the former Republic of South Africa (RSA), and consists mainly of commercial farmland. Instead of comparing the two municipalities as aggregates, I chose to focus on a lower level of aggregation, and to examine and compare governance processes with regard to the planning and implementation of local development measures. In this way, I was able to study different ways in which developmental local government policies are planned and implemented in both rural and urban settings. This, in turn, enabled me to detect a wider range of tendencies. Thus, the fieldwork sites were not chosen randomly, but strategically on the principle of information-oriented selection. This principle is considered useful when the objective is to maximize the utility of information from small samples (Flyvbjerg, 2006, p. 230). Neither were the interviewees selected randomly. I interviewed people that took part in processes of Integrated Development Planning and LED promotion. By interviewing key actors from all levels of government, NGOs and private sector representatives, I got an overview of the situation with regard to the planning and implementation of developmental measures in the area. I also investigated three LED projects with different characteristics and outcomes.

On the basis of the initial findings, I have further refined and modified the analytical framework. I have discerned possible explanations with the help of already existing theories and by including the concepts of transaction domain and domain consensus. This strategy relies on what Bennett and George (2005, p. 241) call theory-driven induction. In line with this approach I have made a broad assessment of the situation to elaborate preliminary explanations and develop the analytical framework with which I have constructed a meaningful account of the empirical material, and drawn on additional field data to further refine and revise the analytical framework (Fay, 1996, pp. 210-211, Selznick, 1966, p. 251).

The preliminary explanations and hypotheses have not been tested against the same data from which they were derived. Instead, they have been tested against other field data. Additional cases have been selected with the aim of obtaining maximum variation, a method of selection that tends to

be used in case study research when the objective is to obtain information about the significance of different features of the cases (Flyvbjerg, 2006, p. 230). Three LED projects with contrasting origins and outcomes are compared. By interviewing actors involved in the planning and execution of the projects and by studying meeting protocols, planning documents, feasibility studies, business plans and official reports, I have examined the processes through which the different outcomes were generated.

Like all research methods, qualitative methods have several weaknesses which have to be understood and addressed. A single interview or a single written source only provides fractional information which is likely to be biased. Interview data cannot therefore be taken as descriptions of the external reality. Moreover, it is well-known that the character of the interviewer (e.g. sex, age, ethnicity, appearance, insider/outsider etc) is likely to affect the interviewee's responses. The identity of the interviewer may be either a hindrance or an advantage, depending on the circumstances. For instance, if the interviewer is seen as an outsider he or she may appear as neutral and harmless (Thurén, 2005, p. 42).

To minimize the interviewer effect, the interviewees were informed in advance that the interview data was to be used for academic purposes. However, even though a foreign researcher may seem impartial and unprejudiced, the interviewees may of course still be reluctant to speak openly or truthfully with an outsider, or they may exaggerate their experiences in one way or another. The interviewees may also have altered their answers in such a way as to fit the supposed views of a Swedish governance researcher. If the subject matter of the interview is controversial and the interviewees belong to different camps with different interests in the matter, they are likely to be biased. As I have constructed case accounts, I have followed the basic rule of thumb stating that if a primary source can be expected to be biased, it has to be complemented and balanced by a second source with a different bias (Thurén, 2005, p. 67). Since practically all sources are likely to carry some bias, I have checked my sources against each other. I have only considered information that could be confirmed by two independent sources as reliable. In this way, reliance on one single source has been avoided. In addition, by participating in planning forums and board meetings, I have based my accounts not only on what people said but on what I observed. This is not to say that all the possibilities of factual error are eliminated, but as Selznick (Selznick, 1966, p. 250) points out "it is the only way in which this type of sociological research can be carried on".

On the basis of the case study findings I have mapped different processes that lead to certain outcomes, as well as the conditions under which they seem to come about. The cases are seen as examples or types of more

general phenomena. As types, they map out the conditions under which an outcome seems likely to occur (Bennett and George, 2005). Naturally I do not claim to have found all types of causal paths with regard to public-private governance. Neither can I make claims about their frequency on the basis of these findings alone.

Although the analytical framework has evolved through theory-driven induction, the entire framework is presented before the empirical results. In this way, the reader is able to examine the basic assumptions regarding institutional reality, human agency, and governance, upon which the thesis is founded. The reader is also given the opportunity to become acquainted with the concepts through which the empirical material is analysed. I illustrate the meaning of these concepts and ideas by locating them in a comparative-historical context in which I briefly account for the evolution of different governance regimes in the world. By considering the concepts in a historical-comparative context, I shift the focus from the micro-level to the macro-level of analysis, showing how particular forms of micro-level interactions generate 'stateness' on the macro-level. The comparative-historical account is based on a selection of secondary historical analyses of the evolution of modern forms of statehood. It is not a systematic cross-country comparison in a strict sense, but serves to illustrate the theoretical framework and is therefore to be seen as suggestive rather than conclusive.

The findings of this thesis are exploratory in nature. They are offered as hypotheses that may be complemented and tested against other field data. Investigating the generality of the explanations and types of causal pathways found in this thesis requires more extensive research.

### 3. The Theoretical Scenery

This chapter gives a background to the debates on the shifts in governance. It begins with a discussion on the problem of using of the conceptual triad of state, market and civil society in analysing governance, and then goes on to consider the meaning of the concept of governance. In line with the definition of governance used in this thesis, analysing governance is an interdisciplinary matter focusing on how different modes of coordination, such as markets, hierarchies and networks, operate in concert. Next come some theoretical problems regarding interdisciplinary governance research, followed by a description of the main theoretical characteristics of four central modes of societal coordination; markets, hierarchies, networks and democratic forms of decision-making. Finally, the chapter looks at how these forms of coordination are to operate together according to the liberal democratic model of governance. These descriptions are necessary to acquaint the reader with a form of context-independent theoretical thinking that has been influential in international policy circles.

#### **The Limited Generality of the Conceptual Triad of State, Market and Civil Society**

As noted, I initially focused on the effects of the public sector reform on the developmental capacity of the South African state, and the ways in which the state interacts with civil society to promote development. As I began to look for empirical manifestations of the state and the civil society, I had to clarify what these concepts actually denote in order to be able to study them as observable patterns of interaction between individuals. I thereby encountered problems associated with the usage of the conceptual triad of state, market and civil society. As a typology, it denotes three systems of coordination, or three institutional spheres, characterized by different normative orders, modes of decision-making and logics of action. In political theory the state is often represented as a societal sphere contrasted with spheres like market and civil society, each characterized by different norms, modes of decision-making and logics of action. As an institutional sphere, the state tends to be associated with hierarchical organisational structures and legal rational principles, while the civil society is assumed to be characterized by voluntariness. The market is viewed as an arena in which self-interested, maximizing agents are involved in a goal-rational

pursuit of economic profit and accumulation (see for instance (Cohen and Arato, 1992, Wolfe, 1989). Some theorists have made alternative classifications. For instance, Habermas (1987) distinguishes between lifeworld and system while Alexander (1998) discerns six societal spheres; state, market, religion, science, family and civil society. The tripartite model based on the realms of state, market and civil society is probably the most common and influential.

The conceptual triad of state, market and civil is positioned high up on the ladder of generality. For this reason, analysts using this typology may fail to notice a range of context-specific ways of organizing and regulating human relations that do not easily fall into any of these categories. For instance, the aggregated patterns of social interaction that gave rise to ‘stateness’ in Prussia or in Weber’s Germany are very different from those characterizing contemporary South Africa. Consequently, the conceptual triad of state, market, civil society risks making researchers blind to different context-specific ways of organizing human relations beyond the ideal-types. What is more, in the wake of New Public Management reforms, “states” are often decentralized and many public organisations are governed in accordance with private sector management principles. In other words, the three institutional spheres can no longer be assumed to signify distinct and well-defined spheres characterized by specific norms, modes of decision-making and logics of action. Moreover, using concepts like ‘state’ and ‘civil society’ often entails the objectification of structure. The notion of ‘developmental state capacity’ may evoke the image of a relatively coherent administrative and coercive apparatus with a capacity to drive a development process. When using this concept, researchers may get the impression that the developmental capacity is vested entirely within the state apparatus. However, state capacity is dependent on particular ways of defining and organizing social and economic relations. Weiss (1998, p. 5) defines state capacity as “the ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy”. As this definition suggests, the “developmental capacity of the state” is not determined by the state alone. It is a question of whether public and private actors can agree on strategies to transform the economy, and then coordinate their actions in such a way as to realise them. Consequently, it is difficult to discern exactly where the state ends and where society begins.

Given the porosity of the borders between the public and the private, especially in the wake of the public sector reform wave, “the state” is problematic as an analytical concept, as has been observed by several scholars in recent decades. Ferguson and Mansbach for instance, claim that “the state has little substance as an empirical concept and virtually



no utility as an analytical concept; it obscures far more than it clarifies” (cited in Hobden, 1998, p. 191). However, despite being highlighted as a problematic concept, “the state” implicitly permeates much of social theory. The idea of the state, contrasted with the market and the civil society, has had a significant impact on policy design, not least in international development circles. The next section briefly recapitulates some of the main strands and developments in state theory, before going on to discuss the concept of governance.

There are many conceptions of the state in the social sciences, most of which are based on some form of preconceived idea of its basic nature. The concept of the state tends to denote a particular kind of organisation characterized by legal rational principles and hierarchical structures of command. In Prussian theory, the state was seen as a rational institution that stood above narrow self-interests in society (Bayly, 2004, p. 250). According to Max Weber’s famous definition, the state is an organisation that successfully claims the monopoly on the legitimate use of physical force within a given territory (Weber, 1968, p. 56). A wide variety of theories view states as organisational structures shaped in a particular way by social and economic forces in the surrounding society. Structural-functional theory holds that state activities are determined by the functional requirements of society as a whole. Early Marxist theories saw states as instruments of class domination, economic exploitation and political oppression, whereas pluralist theories explain state actions as outcomes of power struggles between different groups vested in society. By contrast, the statist perspective conceives of the state as an organisation in its own right, with a capacity to exert a relatively autonomous influence upon society (Jessop, 2001).

In the 1970s several theorists criticised concepts of the state based on preconceived notions, defining features and functions, or generalised assumptions that all states will operate in a particular way. Philosophers and scholars such as Poulantzas, Abrams and Foucault emphasized the micro-foundations of statehood. From their viewpoints, the state is not to be understood as an entity insulated from society. It is instead to be seen as inherent in all social relations in which state institutions are brought into play. Abrams contends that the state, conceived of as an entity separated from society, is a remarkably elusive object of analysis which functions as a mask preventing “our seeing political practice as it is” (Abrams, 1988, p. 82). Poulantzas maintains that the state is not entity but a “social relation” (Poulantzas, 1978, p. 129). Foucault concerned himself with widely diffused everyday practices and discourses associated with state power, which he regarded as signs of a specific “governmentality” (Bayly, 2004, p. 251). According

to Jessop (2007, p. 37), the Foucauldian concept of governmentality refers to “a set of practices and strategies, governmental projects and modes of calculation, that operate on something called the state”. Jessop suggests that “to study governmentality in its generic sense is to study the historical constitution of different state forms in and through changing practices of government without assuming that the state has a universal or general essence” (Jessop, 2007, p. 37). From the Foucauldian viewpoint, there is no clear-cut division between state and society or state and economy (Pierson, 1996, p. 6).

Drawing on the ideas of thinkers like Foucault, Poulantzas and Abrams, a more recent branch of state theory seeks to avoid all essentialist notions of the state. For example, Painter (2006) notes that it is impossible to identify a function or feature that belongs exclusively to the state since most state functions have been, or could be, carried out by other organisations. Moreover, he asserts that states have rarely, if ever, attained a monopoly of physical force, and that state violence is often not accepted as legitimate. In a seminal article, Mitchell (1991b) criticises the idea of the state as a distinct monolithic entity set apart from society, and that the line between state and society is a boundary between two freestanding entities. Insofar as boundaries between state and society and the public and the private, exist, they are drawn and maintained through institutionalized practices. The borders between the private and the public realms are in effect varying and uncertain. Moreover, there usually exist conflicts both between and within government agencies. Hence, states cannot be understood as distinct actors with coherence or agency. Rather, the seeming separateness of the state is dependent on daily practices that serve to maintain the formal political order and the public-private divide. According to Mitchell the state should therefore be studied as a structural effect resulting from recurrent practices that make it appear to exist as a separate entity (Mitchell, 1991b). In a similar way, Painter (2006, p. 753, p.762) emphasizes the heterogeneous, complex, and relational character of state institutions. He points out that the state can be seen as an imagined collective actor, which exists insofar as it is invoked and symbolically present in various mundane contexts. From this viewpoint, theories that represent the state as a coherent corporate entity separate from society “which ‘interacts with’, ‘intervenes in’, ‘depends upon’ or ‘regulates’ other social spheres such as ‘the economy’, ‘civil society’ or ‘private life’ must be rejected (Painter, 2006, p. 753). Other scholars also try to avoid the idea of the state as an entity. For instance, Evans (1997) uses the term “stateness”, which refers to the institutional centrality of the state in society, to indicate an awareness of the volatile appearance of the state as a social phenomenon.

The state, in these perspectives, is explained by reference to patterns of interaction between individuals, i.e. through what may be called “methodological relationism”. Terms like stateness or state capacity thus refer to particular ways of regulating human relations. Bayly (2004, p. 257) describes how Britain and the United States, although lacking strong central governments like those of continental Europe, managed to raise enormous sums of money from taxation to maintain large armies and navies in the nineteenth century, because of the presence of a particular “statishness” or “governmentality”. In such contexts, the “state” worked in a decentralized manner through the organisations of civil society and various institutions of local governance, implying that “state forms of regulation” are not dependent on government agencies alone. Formal regulations must be accepted by the wider public. For instance, Sweden is usually considered a country with a strong, omnipresent state. In practice, this suggests that many Swedes accept and act in accordance with certain institutionalized practices. When smoking was banned in Swedish bars, smokers flocked obediently on the sidewalks outside bars even in the middle of the winter. The fact that people generally complied with the new rule suggests that the smokers acted in accordance with a specific “governmentality”.

In some areas of the world, neither ordinary citizens nor politicians and public servants accept regulations of this kind. Hence, while states may exist as legal entities recognised by the international state system, they do not necessarily have an empirical, *de facto* existence as institutionalized practices (Jackson and Rosberg, 1982)

Notions of state, market and civil society must therefore be treated with caution. The idea of society as divided into the spheres of state, market and civil society is based on context-specific forms of regulating and organizing human relations. In societies permeated by patron-client networks, distinctions among state, market and civil society do not make sense in practice in that neither governments nor markets and civil societies function in the way they are supposed to according to theory. It is even doubtful whether the notions of state, market and civil society are applicable to the Western world. The Anglo-Saxon world is usually said to be characterized by a “night-watchman” understanding of the state, while the corporatist countries of continental Europe are modelled on more paternalistic notions of the state (Terreblanche, 2002, p. 485). In Sweden, people rarely make a distinction between state and civil society in popular parlance, but often speak of “the society” (*samhället*), perhaps indicating that Swedish society is characterized by a high sense of ownership in public institutions. Some commentators

have even interpreted the Swedish political culture as a form of “soft totalitarianism”. In his book “The new totalitarians”, Huntford (1972) argues that Sweden has a distinctive political culture different from all other Western states.

It is argued here that the classification of societies into realms like state, market and civil society is artificial and problematic for four basic reasons. Firstly, as noted above, it is not universally applicable. Secondly, insofar as a distinction between such realms exists, it is maintained by recurrent practices. The boundaries between public and private or state, market and civil society are therefore varying and blurred. Thirdly, different logics of action, such as legal rationality and profit-maximizing, can be found in organisations associated with markets, governments and civil societies. As Bayly (2004, p. 252) points out, Cecil Rhodes’ mining and land companies in Southern Africa were probably more state-like than many contemporary governments. Furthermore, states are generally fragmented bodies made up of different agencies and organisations that may pursue different and conflicting interests. In addition, neither private actors nor politicians and officials necessarily operate in accordance with the formal rules of the game. What on face value appears to be a state governed by law may in fact be a set of kinship networks embedded in the wider society. It may therefore be misleading to use the categories of public and private or state, market and civil society if these concepts are associated with particular preconceived logics of action such as legal-rationality, profit-maximization or voluntariness. Fourthly, the public and the private sector, that is, state, market and civil society actors, tend to be intertwined in complex ways. Government agencies often use markets to deliver services while private actors consistently draw on government agencies to safeguard economic opportunities, as Klingner (2004) points out.

Consequently, a clear-cut analytical division between state and society or state and economy is difficult to maintain. States, markets and civil societies, insofar as they exist in an empirical sense, are best understood as aggregate effects of various institutionalized practices rather than as well-defined spheres. In this thesis, public agencies, private enterprises and civic associations are seen as legal entities constituted by the same formal institutional order, within which they are allowed to operate in different ways according to a set of constitutive and regulative rules. This line of reasoning is further developed in chapter five. On the basis of this outlook, this thesis focuses on governance and political interaction rather than on “the state”. The meaning of the concept of governance is considered in the following section.

## Making Sense of the Concept of Governance

The concept of governance is used in many different contexts across a wide range of social science disciplines. My concern here is not to offer a comprehensive overview of this enormous field of research and theorization but to describe some of the most common usages of the concept, before I define governance as used in this thesis.

While government denotes the executive and administrative branches of the state, governance usually refers to a looser and wider structure of institutions (Leftwich, 1993, Wade, 1990, p. 8). The concept of governance tends to indicate that the power of any governing body to act independently is constrained by a complex interplay of various local and international dynamics (Van Kersbergen and Van Waarden, 2004). As Rhodes (2000) points out, “governance” emerges from multiple agencies and organisational systems that are operationally autonomous from one another.

The more precise meaning of the concept is somewhat unclear though. Different usages of the concept are identified by van Kersbergen and van Waarden (2004), ranging from governance without government in an international relations context, corporate governance, multilevel governance between state agencies, and ‘good governance’ in the public sector, to the self-organisation of societies and communities beyond the market and the state. Moreover, as noted above, the concept is often used as an umbrella term signifying a relative change in the ways in which societies are governed and regulated in the wake of globalization (Rhodes, 1997, Pierre, 2000).

At least three different but interrelated meanings of governance can be discerned. Firstly, the term is associated with the capacity of carrying through policy intentions (Peters, 2000). Thus understood, governance is conflated with concepts like steering, “governability” or administrative capacity. In the fields of public administration and corporate governance, governance often signifies the capacity of a governing centre to exert control over an organisational apparatus. For instance, Klingner (2004, p 739) defines governance as “authoritative responses by which governments meet demands and manage resources”. Goodin states that “governance... is nothing less than the steering of society by officials in control of what are organisationally the “commanding heights” of society” (cited in Pollitt and Bouckaert 2004:11). From a state-centred perspective, governance refers to the capability of a central state authority to steer and co-ordinate a multitude of societal actors operating within

the realm of the state (Pierre, 2000). This particular understanding of the concept is found both in academic and official publications. A World Bank report from the early 1990s defines governance as the exercise of political power to manage a nation's affairs (Leftwich 1993).

The second meaning of the term signifies a particular method of political steering, co-ordination and decision-making based on flexible networks (John, 2001, Treib et al., 2007). In this sense, governance is associated with a general change in the structure of governments. Scholars who use the third meaning of the term, described below, speak of 'new forms of governance' or 'new governance' rather than of a changeover from government to governance.

John (2001) contrasts "government" with "governance" in order to indicate that the praxis of public decision-making has changed against the background of globalization:

Governance implies that policy networks are more open, complex and potentially unstable than hitherto and that bargaining and the building of trust form more of the story of political life than the standard operating procedures of bureaucracies, the closed nature of party government and the hidden power of local elites. In particular, governance indicates there are stronger and new networks between government and non-government actors (John 2006, p. 9).

The quotation suggests that simplistic, hierarchical models are being abandoned, and that a wider range of actors are tending to participate in policymaking and implementation. As a result, the process of governing is now said to be deviating from the traditional model of liberal democratic government, according to which collectively binding decisions are taken by elected representatives within parliaments (Treib et al., 2007, p. 3). In the wake of this shift, policy implementation is increasingly being researched under the heading of governance research. The former field has thereby broadened its focus from implementation to "concerted action across institutional boundaries on behalf of public purpose (Hill and Hupe, 2006, pp. 14-15)." This notion brings us to the third meaning of the term.

The third meaning of the governance does not relate to the achievement of specific goals or a particular form of policymaking and implementation. Rather, it signifies the ways in which social, economic and political activities of multiple actors are coordinated and conciliated in a particular context. Thus understood, governance denotes the co-ordination of societal systems, including any mode of government (Treib et al., 2007, Pierre, 2000). Heywood maintains that:

Governance is a broader term than government. It refers, in its widest sense, to the various ways through which social life is coordinated. Government can therefore be seen as one of the organisations involved in governance; it is possible in other words, to have governance without government (Heywood, 2000, p. 19).

This broad understanding of the concept is found both in official and academic publications. By governance, Keohane and Nye mean “the processes and institutions, both formal and informal that guide and restrain the collective activities of a group” (cited in Pollitt and Bouckaert 2004:10). Scott (2001) suggests that “governance structures refer to all those arrangements by which power and authority are exercised “involving, variously, formal and informal systems, public and private auspices, regulative and normative mechanisms” (Scott, 2001, p. 140). In a United Nations Development Programme publication, the concept of governance refers to “the mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their rights, meet their obligations, and mediate their conflicts” (quoted in Boyte, 2005, p. 536). The World Bank also uses the systemic understanding of governance. The World Bank’s official website defines the term governance as “the traditions and institutions by which authority in a country is exercised” .<sup>1</sup> The World Bank advocates a particular form of governance under the banner of “Good Governance”. “Good” governance largely corresponds to the liberal democratic model of governance, which incorporates a relatively specific combination of institutions through which interdependent activities are coordinated and conciliated in ways that simultaneously promote basic human rights, democracy, and economic growth. The good governance agenda is indeed systemic, as Grindle notes:

“getting ‘good governance’ calls for improvements that concern nearly all aspects of the public sector as well as interfaces with external actors ranging from institutions that set the rules of the game for economic and political interaction, to decision-making structures that determine priorities among public problems and allocate resources to respond to them, to organisations that manage administrative systems and deliver goods and services to citizens, to human resources that staff government bureaucracies, to the interface of officials and citizens in political and bureaucratic arenas” (Grindle, 2004, p. 526).

<sup>1</sup> <http://go.worldbank.org/MKOG258V0>, 2007-03-20

According to the broad understanding of the concept, governance relates to institutions, such as laws, money or contracts that serve to coordinate the actions of multiple interdependent actors, and to institutional arrangements, such as parliaments or corporatist assemblies, through which various interests are conciliated. Actors and organisations involved in interdependent activities which require a division of tasks, responsibilities, rewards and control over resources may employ a range of different decision-making and coordination mechanisms, such as concerted decision-making, mutual adjustments, and joint planning, to empower each other and address collective concerns in a focused manner (Gellner, 1996, p. 166). In its widest sense, governance concerns the ways in which multiple interdependent actors and organisations combine different decision-making and coordination mechanisms in order to coordinate and conciliate their activities. Thus understood, governance is not necessarily related to a specific goal or policy. The question of governance is mainly one of how coordination and conciliation of various economic, social and political activities occur in particular settings (Peters, 2000).

I adhere to this usage of the concept. Governance is defined here as the coordination and conciliation of interdependent activities via institutions. Institutions are defined as socially devised structures with a high degree of resilience, which enable, constrain and provide meaning to actions.<sup>2</sup>

From this viewpoint, a governance regime, such as a liberal democratic, capitalist welfare state, is an institutional order that incorporates a mixture of different coordination mechanisms determining how decisions are made and how resources are produced and allocated. A governance regime denotes the way in which different decision-making and coordination mechanisms operate in concert to generate particular social, economic and political outcomes in a particular setting. Any currently existing governance regime is based on complex combinations of various coordination and decision-making mechanisms such as the price-mechanism, hierarchical commands, elections, bargaining, mutual adjustments, rituals, customs, and so on. Consequently, in analysing governance, economic, social, cultural and political dynamics are not investigated in isolation but in concert. The study of governance therefore calls for an integrated, interdisciplinary approach that may draw on insights from a range of disciplines such as anthropology, business administration, economics, geography, law, politics, public administration and sociology. The next section considers some analytical challenges to interdisciplinary governance research.

<sup>2</sup> This definition draws upon Scott (2001) and North (1990). Scott (2001, p. 48) defines institutions as social structures with a high degree of resilience that provide stability and meaning to social life. North (1990, p. 3-4) defines institutions as “humanly devised constraints that shape human interaction”.



## Problems of Interdisciplinarity

Crossing the disciplinary divide requires caution. One way of approaching governance is to compile theoretical models developed in different disciplines into a single analytical framework. For instance, in political and public administration theory, reference is sometimes made to three basic governance mechanisms, namely hierarchies, markets and networks. According to Heywood:

The principal modes of governance are markets, hierarchies and networks. Markets coordinate social life through a price mechanism which is structured by the forces of supply and demand. Hierarchies, which include bureaucracy and thus traditional forms of government organisation, operate through top-down authority systems. Networks are 'flat' organisational forms that are characterized by informal relationships between essentially equal agents or social agencies (Heywood, 2000, p. 19).

From this perspective, governance is analysed through a combination of theories that have been developed within different disciplines. In addition to hierarchies, markets and networks, different theories of democratic forms of decision-making may be included in a typology.

The division of social life into hierarchies, markets and networks is based on an analytical separation of political, economic and social aspects of human existence. It derives from the 19<sup>th</sup> century when the social sciences were divided into separate disciplines, such as politics, economics, sociology and anthropology, each focusing on particular aspects of human existence. While economics discarded its concern with politics and society and became a study of how demand creates markets, sociology came to focus more narrowly on social relations. In a similar way the study of politics became a study of power in relation to government. The political sphere was thereby analytically disconnected from economics and social relations (Wolf, 1982, pp. 7-8). Social, economic and political aspects of human life thus came to be studied in separate disciplines.

Theories of markets, hierarchies and networks are useful, not least for pedagogical purposes. Yet, it is problematic to bridge a disciplinary gap just by compiling a typology based on theories developed in different disciplines. Moreover, theories of hierarchies, markets and networks may evoke preconceived notions linked to the concepts of state, market and civil society. As noted at the beginning of this chapter, this kind of a priori thinking is associated with several problems. However, the usage of this kind of theory like does not necessarily involve a priori reasoning. Theories of markets, hierarchies and networks may be used to demonstrate

how market principles pervade public sectors, or to show how market transactions in fact are based upon personalized relationships between people held together, not only by just prices, but by trust and loyalty.

The main drawback of this approach is that theories of markets, hierarchies, networks and democratic decision-making are based on different behavioural assumptions that are not easily conciliated. When distinct behavioural theories are compiled into a typology, there is no clear answer as to when an actor acts in accordance with the logic of the market, the hierarchy or the network? In other words, the typology of markets, hierarchies and networks is not linked to an explicit theory of human action and interaction.

Economists studying governance and institutions tend to avoid this problem by confining themselves to using the theory of the economic man, as Fukuyama (2004, p. 44) notes. The problem in this regard is that most forms of governance would be impossible if humans only acted strategically to maximize self-interests. These theoretical problems are further considered in chapter four, but first a background to the subsequent discussions.

## **Four Modes of Societal Coordination and Their Respective Shortcomings**

This section outlines the basic components of a typology specifying four types of societal coordination; markets, hierarchies, networks and democratic forms of decision-making. Each component type is, implicitly or explicitly, founded on distinct context-independent, behavioural assumptions regarding human agency. The types are also associated with different social mechanisms and shortcomings that tend to be triggered under certain circumstances. After describing these modes of governance, the thesis briefly demonstrate how they are to be combined and causally interrelated according to the liberal democratic model of governance.

Markets, according to neo-classical economic theory, allocate resources by bringing together self-interested, profit-maximizing buyers and sellers that voluntarily engage in mutually advantageous exchanges at a known price. The price functions as the coordinating mechanism since the parties constantly alter their behaviour relative to the price. Decision-making within markets is decentralized; markets thus produce collective outcomes without conscious intervention. At the same time, they allow consumers a freedom of choice and provide producers with an effective incentive to operate as efficiently as possible (Breitenbach et al., 1991, Levacic, 1991, p. 22).

Markets are believed to fail in some circumstances. Market failure due to externalities (also called spillover or neighbourhood effects) occurs when the activities of production or consumption of an economic agent affect the welfare of others in a way that is not reflected in the market prices. Markets may also fail as a result of imperfect competition. Some markets, such as those of gas and water are seen as more or less inclined to develop into monopolies since their supply networks are very costly. Moreover, markets do not produce a sufficient quantity of all goods. Market agents tend to fail to produce public goods that generate significant external benefits from which it is difficult or costly to exclude consumers, such as roads or sewerage systems. The market mechanism is therefore mainly suitable for the allocation of private goods that are excludable in consumption. Market failures can also be triggered by information problems. For example, private actors often do not invest sufficiently in research and development activities because of the high levels of risks involved (Levacic, 1991). Finally, inefficient market allocation generates distributive inequalities of income and wealth both between people and between geographical areas, that tend to be at variance with various norms of equality (Dollery and Wallis 2001:33-34).

In the language of economic theory, government interventions tend to be justified on the grounds of market failure. Governments may intervene to regulate the emergence of externalities and the exploitation of commons. Moreover, they usually take responsibility for the provision of public goods and services (Levacic, 1991). According to Keynesian economic theory, macroeconomic fluctuations motivate government interventions to even out business cycles. Government investments in research or development activities are often justified on long-term efficiency grounds, since governments, given the scale of their resource bases, can spread their risks over many projects in cases where the short-term risk level is so high that no private actor would make the necessary investments alone (Weiss, 1998). Finally, inequitable market outcomes justify various redistributive government interventions, affirmative action programs or anti-discrimination laws (Dollery and Wallis 2001).

Government interventions tend to be associated with hierarchical forms of coordination. Administrative hierarchies, unlike markets, are concerned with executing predetermined policies (Beetham, 1991, p. 137). Hierarchical forms of coordination are therefore divided into separate sub-processes. First, specific policies must be determined, then turned into feasible tasks which call for planning, and finally, implemented by hierarchically structured organisations characterized by task specialization, continuity, impersonality, and expertise (Sartori, 1991, p. 54, Mitchell, 1991a). Hierarchical forms of coordination require human agents capable of complying with orders, even if they contradict their personal desires.

Like markets, governments are susceptible to different kinds of failure. Jessop (1998) defines government failure as the failure of governments to realise political projects in accordance with their formal operating procedures. A main cause of government failure has to do with the complicated ways in which governments handle information. Since policy-making, implementation and assessment processes are not unified, decisions are made at several levels, and information thus passes through many administrative layers. As a result, government actions tend to be notoriously difficult to coordinate. Moreover, centralized administrations tend to lack precise knowledge of local circumstances and they may therefore have difficulties obtaining information about the effects of their interventions (Burns and Kamali, 2003). The hierarchical organisational structure also risks promoting indifference and insensitivity to actual societal needs (Beetham, 1991). Collins (1985), following Mannheim, maintains that organisations can operate according to two types of rationality. On the one hand, there is the substantial rationality based on the insight that certain means lead to certain ends. On the other, there is the formal rationality of bureaucratic organisations, which is based on rule compliance. There is a constant risk that the formal rationality will become dominant in administrative organisations (Collins, 1985, p. 95). In such cases, officials neglect actual goals and produce 'dysfunctional' effects as they apply bureaucratic principles in rigid and insensitive ways. For the same reasons, administrative interventions are likely to bring about various unintended consequences (Beetham, 1991).

According to neo-classical economic theory, governments are notoriously prone to fail since politicians and officials are believed to be induced by the same prime movers as economic agents located in the market. In this view, self-interested behaviour is likely to be found not only in markets but also in the political and administrative spheres. On the basis of the assumption that human agents consistently seek to maximize their self-interests rather than follow orders, there is reason to believe that government interventions will systematically fail. For instance, agency theory represents administrative processes as chains of principal-agent relationships, ranging from politicians to administrative managers to lower-level bureaucrats. The problem at each level is to motivate the agent to act on behalf of the principal. In the absence of external pressures on governments with monopoly power, self-interested bureaucrats will be notoriously sluggish and their incentives to increase their efficiency and respond more perceptively to the preferences of the citizens will be minimal (Rothstein 1998:62, Dollery and Wallis 2001, p 44, 71).

All government interventions are not equally inclined to fail. Public policies may be distinguished on the basis of whether they have to

be adjusted to unique circumstances or whether more standardized measures are sufficient (Rothstein, 1998, p. 79). Discretionary interventions, which require a certain degree of freedom of judgment and choice of the implementers, as opposed to ones that can be routinized, tend to be more likely to fail. Interventions that require high degrees of transaction intensity, that is, a high number of decisions made by the implementers, are more likely to fail (Fukuyama, 2004, p. 56). As Pressman and Wildavsky (1984, p. xxiv) put it “the longer the chain of causality, the more numerous the reciprocal relationships among the links and the more complex implementation becomes”. According to Pressman and Wildavsky implementation processes are more inclined to fail if they involve a high number of organisations and departments between which cooperation must be achieved. When implementation is reliant upon a large number of links, a small number of deficits in the implementation chain may lead to massive failures. It may be assumed that implementation processes are less prone to fail when the degree of goal consensus is high among implementers and target groups (Hill and Hupe, 2006, p. 46).

Democratic forms of decision-making may be used to curb both government and market failures. Defining democratic decision-making is difficult, though. Beetham defines democracy as “a mode of decision-making about collectively binding rules and policies over which the people exercise control” (1992: 40). Thus defined, democratic modes of decision-making represent a form of meta-governance that determines the general rules of the game in society. However, by adopting a more precise conception of democracy one determines what values one identifies as central for democracy, as Rindefjäll (2005, p. 20) points out. My concern here is not to plead for a particular form of democracy, but to describe two common models of democratic decision-making, namely indirect, representative, democracy and participatory-deliberative democracy.

The representative model of democracy is based on a competitive aggregation of individual preferences through free elections comprising competing parties or politicians that represent different policy programmes (Premfors, 2000, p. 27). By contrast, decision-making according to participatory-deliberative models of democracy are based on consensus-oriented interaction in which people’s preferences for different policy alternatives are shaped through negotiations and deliberations (*ibid*, pp. 30-34). The latter form of democracy calls for a particular discursive ethic that prescribes communicative actions. According to Habermas, communicative actions refer to actions that are not coordinated “though egocentric calculations of success but through acts of reaching understanding. Through communicative action participants are not primarily oriented to their own successes; they pursue their individual

goals under the condition that they can harmonize their plans of action on the basis of common situation definitions” (Habermas, 1984, p. 286).

Democratic modes of decision-making are susceptible to different kinds of “failure”. For instance, if deliberations to reach common policy outcomes are not based on communicative actions but on the maximization of special, strategic interests, the outcome will be bargaining dilemmas and stalemates as Börzel (1998) notes. Neo-classical theories of politics, such as public choice, rent-seeking and capture theories, suggest that governments risk failing if self-interested politicians form coalitions with special interest groups, such as unions, lobby groups or business corporations, that seek to manipulate the allocation of resources in line with their special interests. In such circumstances, policies are said to be determined ‘endogenously’, meaning that policy-making processes are influenced by “rent-seeking” distributional coalitions, consisting of various groups that try to maximize their special interests rather than the “common good” (Dollery and Wallis, 2001, Laver and Schofield, 1990).

Networks, the final form of governance included in this account, may be defined as a set of persons, or nodes, united by specific ties. The nodes have certain relational attributes which define them as members of the network, such as kinship ties (Knoke and Kuklinski, 1991). The specific character of a network is determined by the character of the ties that unite the nodes. A network may therefore be based on different attributes, such as kinship ties, companionship, or shared professional understandings that prescribe co-operation. Networks may therefore be structured very differently, but in governance analyses they are often understood as a non-hierarchical form of coordination of relatively equal social agents and agencies based on trust, commitment and informal relationships. For instance, Rhodes (2000) maintains that network forms of governance are appropriate where multi-agency co-operation is essential and where actors require reliable, ‘thick’ information. Thus understood, network forms of governance rely on trust, shared understandings and companionship rather than on commands or price competition (Frances et al., 1991). In this view, the ‘network actor’ is thus fundamentally different from the self-seeking economic man.

The problem with networks from a democratic point of view is that they tend to be unrepresentative and closed to outsiders, unaccountable for their actions, and difficult to steer and combine with other governing structures. They also tend to be driven by private rather than public interest (Rhodes, 2000).

I have described four types of societal coordination; markets, hierarchies, networks and democratic forms of decisions-making, which

are linked to different social mechanisms. I next consider the liberal democratic model of governance, in which the above-mentioned forms of governance are interrelated in a specific way.

## **The Happy Equilibrium of Hierarchies, Markets and Representative Democracy**

The liberal democratic model of governance is an idealized and simplified representation of the institutional arrangements characterizing Western Democracies in the latter half of the 20<sup>th</sup> century. It is also a theory which posits causal relationships between different societal spheres, characterized by different forms of coordination. In liberal democratic societies, governmental hierarchies, democratic modes of decision-making, markets and civil societies are interrelated in such a way as to generate a specific “happy equilibrium”, at least in theory. As a theory, the liberal democratic model is positioned high up on the ladder of generality, and is based on relatively abstract component elements, between which it establishes specific causal relations.

The liberal democratic model of government, embedded in a capitalist economy, tends to be justified on the grounds that it limits the shortcomings of each of the coordination forms described above. The model posits that political and administrative authorities must be subjected to a system of checks and balances of the legislature, the executive, the judiciary and the administration in order to prevent excesses of power (Beetham 1991). Laws are made by the legislature, executed by government departments and interpreted by the judiciary. The market and the civil society are protected from the potential misuse of government power by the rule of law. Thus, the legal order gives individuals and private organisations considerable freedom to promote their own interests. The judiciary, which functions as an arbiter in conflicts between individuals and organisations, is therefore a key organ in a liberal democratic society (Calland, 2006, p. 212, Terreblanche, 2002, p. 478).

According to the liberal democratic model, political competition between parties or politicians engender more efficient and responsive government performance, since citizens are regularly given opportunities to hold politicians accountable and influence their political programmes (Banik, 2006, pp. 64-65). For this system to work, citizens must be capable of making informed choices about different policy alternatives. They must therefore have equal access to information. Moreover, the political process

has to be open to public scrutiny. Since the power over public decision-making is granted to elected representatives between elections, it is also crucial that both elected representatives and executive organisations can be held accountable to the electorate. Consequently, the political system must be founded on clear lines of accountability. The lines of accountability are differently structured in the political and the administrative spheres. While politicians make broad policy formulations, they employ administrators to execute their policies. Administrative experts and planners are thus authorized with the power to plan and decide for the politicians on behalf of the electorate. Politicians are accountable outwards to the entire electorate while officials are accountable to the politicians for the implementation of policies, at least according to the administrative theories formulated by the American president Woodrow Wilson and Weber (Beetham 1991, p. 130).

The liberal democratic model underlines the importance of civil society. There is no precise definition of the concept which, according to Edwards and Foley (1998), suffers from “acute definitional fuzziness”. The term civil society usually denotes an intermediate organisational sphere between the state and the family consisting of organisations that have been formed voluntarily by members of society, with the aim of protecting their interests or values (Rindefjäll, 2005, p. 51). The civil society tends to be seen as a source of shared meanings and community solidarity and is considered an important counterbalance against both government and corporate power (Edwards, 2004). The free press and various civic organisations are believed to function as a kind of early warning system that provides governments with information about the unintended consequences of the workings of markets and governments. Consequently, an active civil society improves governance by counteracting possible market and government failures (Banik, 2006, pp. 64-65).

In summary, the liberal democratic model provides institutionalized channels for appeal, voice and representation of various political interests, as well as clear lines of accountability for executive action. The arbitrary use of political and administrative power is restrained by laws, elections, civil society scrutiny, judicial reviews, audits, and the separation of powers (Hirst 2000, Van Kersbergen and Van Waarden 2004).

The following chapter concerns how governance is said to have changed away from the liberal democratic model of governance towards networked forms of governance in the wake of the public sector reform wave and the global integration of markets.



## 4. Shifts in Governance

This chapter gives a brief overview of some main changes in governance from the 1950s until the 1990s when the South African governance reforms were launched. It discusses the post-Second World War period in terms of shifts in the emphasis placed on hierarchies, markets, network and various democratic forms of governance. It also shows how these changes in governance are mirrored in the international policy discourse, and considers some influential reform currents that influenced the South African governance reforms of the 1990s. Thereafter the chapter summarizes the main characteristics of the shifts in governance. It ends with a discussion of some theoretical problems regarding how the outcomes of the contemporary shifts in governance are to be analysed.

With all due recognition of obvious context-specific differences, the discussion that follows is pitched at a high level of generality since I attempt to draw insights from a variety of different developments.

### **Governance in the Post-war Period**

In the period between the 1950s and the 1970s – sometimes called the “golden age of welfare capitalism” - North-western Europe was dominated by a governance regime characterized by liberal democratic political institutions, relatively closed national economies and a strong influence of bureaucratic hierarchies. The international economy was dominated by a fixed exchange-rate regime and central governments were capable of exerting a considerable degree of control over their economies. This ‘managerial-welfarist’ form of governance was geared towards full employment by means of various Keynesian macroeconomic policies. To some extent, central governments also had the capacity to disperse economic activities over space in order to achieve territorial equalization nationally (Brenner, 2004, Hyden, 2006a, p. 32, Jessop, 1998, Linné Eriksen, 2006, pp. 119-120, McNeill, 2006, p. 275).

The development discourse of the 1950s and 1960s was heavily influenced by this form of governance. “Development” was modelled as a national process in which underdeveloped countries were to catch up with already industrially developed countries (McMichael, 2004, p. 23). Development analysts widely believed, in accordance with the modernization paradigm of the day, that national industrialization would give rise to a linear

development in which developing societies would gradually come to resemble Western societies. The burgeoning international development community was therefore mainly concerned with identifying the causal sequence of measures, including government actions and reforms, which were to trigger modernization in developing societies. Early development analysts did not trust the workings of the market alone. They tended to argue that the imperatives of underdevelopment called for massive government interventions in which resources, capital and labour were to be transferred into more productive sectors of the economy. The international development community therefore advocated a developmental state model, based on the premise that governments were capable of articulating and implementing comprehensive development schemes (Hyden, 2006a, Spicker, 2007, p. 126, Wade, 1990).

Between the 1950s and the 1970s large-scale development schemes, founded upon visions of either socialist or capitalist industrial development, were launched in a range of developing countries (Leftwich, 1993). Common to all of these development schemes was that hierarchical modes of governance were assigned a key role in the development process.

The attitudes toward democratic modes of governance were more ambiguous among development analysts. During the first wave of foreign aid, democratization was commonly believed to be a concomitant of modernization. Modernization theory held that both societal integration and democratization would result from processes of economic development. In this view economic liberalism and liberal democracy made up a convergence point of all developmental trajectories (Leftwich, 1993). However, some analysts felt that the introduction of representative democracy at an early stage of a national development process risked compromising economic growth. A critical question for the development analysts therefore concerned when, during a development process, economic development and democratization processes could be expected to operate in complementary or conflicting ways. A common argument against early democratization is that democracies do not promote sufficient levels of investments, and that they are prone to fall prey to special interests that compete for benefits (Przeworski et al., 2000, pp. 54-57). Huntington (1968) claimed that a process of late development generally incorporates a trade-off between developmental goals such as growth, political order, equality and democracy. Consequently a “premature” introduction of democracy in an early, fragile phase of an economic transformation process may generate chaos and disorder that obstruct further economic development. From the viewpoint of the competing superpowers, democratization was not the main priority in

former colonies in light of the cold war. Thus, most development analysts in the 1950s and 1960s emphasized the role of hierarchies in promoting industrialization.

## **Economic Globalization and the Rise of New Public Management**

In the 1970s several political-economic changes led to the demise of the ‘welfarist-managerial’ and the ‘developmental state’ models. Monetarism replaced Keynesianism as the new master macro-economic paradigm in the OECD countries, the fixed exchange-rate regime ended and national markets were increasingly opened up to cross-border capital flows (McMichael, 2004, p. 129). At the same time, the confidence in the capacity of central government authorities to alter social and economic relations in order to attain specific policy objectives declined. It had also become obvious that many governments in developing countries did not function as efficient vehicles of development. While the developmental state approach succeeded in a few East Asian economies, it failed blatantly in many developing countries. The tendency was particularly salient in sub-Saharan Africa where the discrepancy between formal models and actual practices became more and more manifest in the 1970s (Hyden, 2006a, pp. 26-30, Meyer et al., 1997).

The international development community abandoned the developmental state paradigm in the 1980s. The question of development was increasingly articulated in terms of “getting the prices right”. The so-called ‘Washington consensus’ was widely adopted and indebted third world governments were compelled to undertake structural adjustments. As a result, import substitution policies were generally abandoned in favour of policies that promoted world market participation. The term “development”, previously defined as nationally managed economic growth, was redefined in the World Bank’s World Development Report 1980 as “successful participation in the world market” (cited in McMichael, 2004, p. 116, p. 155). The pendulum thus swung from government hierarchies to the market mode of governance. Demand management, national redistribution strategies and import-substituting industrialization policies were consequently replaced by macro-economic policies that favoured global circuits of money, capital, and goods as well as tax reductions and efficient service delivery (Dollery and Wallis, 2001, McMichael, 2004, p. 139). The 1980s also witnessed an “associational revolution” in the form of a rapid growth in donor funded NGO:s, perceived by donors as less bureaucratic, more flexible and more cost-effective than governments (Cornwall, 2002, p. 29).

Various public sector reforms in the OECD countries were launched from the late 1970s and onwards against a background of several coinciding trends, such as growing pressures to reduce public expenditure, a general loss of confidence in governments, a decreasing interest in traditional party politics and a gradual integration of the global economy (John, 2001). The reforms were influenced by a set of public management ideas summarized under the heading of New Public Management (NPM) (Dollery and Wallis, 2001). When NPM emerged as a doctrine which spread globally in the 1980s from the Anglo-Saxon countries, it was often linked to neo-liberalism (Harrison, 2006, p. 188). The NPM doctrine has had an enormous impact across a range of reform countries, not least in South Africa (Pieterse, 2002, p. 8).

According to the New Public Management doctrine, the ideal government is decentralized, flexible, specialised, and relatively small. NPM is associated with measures like devolutions, decentralizations and privatizations and a range of managerial changes, including a shift from a bureaucratic reliance on rules and formalities towards quantifiable output measures and performance targets, a shift from procedurally-based management to professional management frameworks allowing more flexibility and freedom to manage, the incorporation of private sector management principles and contractual relationships into the public sector, an increased integration of budgeting standards with planning, management and performance measurement so as to reduce public expenditure, the development of new systems of monitoring and reporting, the introduction of new standard-setting and performance indicator systems, an increased emphasis on the participation of citizens in local public affairs, the separation of large, hierarchical bureaucratic structures into horizontal semi-autonomous organisation structures, and thus, an increasing number of specialised, single purpose agencies (Miller, 2005, p. 19, Pollitt and Bouckaert, 2004). NPM also placed emphasis on citizens as customers (Harrison, 2006 p. 182). The idea is that citizens in the role of customers are empowered to vote with their feet. Instead of having to rely on voice, they may choose the exit option and select an alternative service provider.

From a theoretical viewpoint, NPM reforms are intended to counteract various government failures. The introduction of private sector management principles into the public sector is intended to induce politicians and officials to improve their performance. By loosening up procedural rules and by emphasizing performance targets, public organisations are empowered to focus more on results and less on standardized procedures. Through decentralizations and devolutions of power the flexibility of the

public sector may increase, since both policymaking and implementation are allowed to differ from one community to the next. Decentralization reforms are also meant to encourage popular participation and to make politicians and officials more inclined to serve the citizens. The idea is that decentralization may increase the accountability and transparency of governments since political power is brought closer to the people. Furthermore, through decentralizations, new channels of representation may be established that make the political and the administrative system more receptive to specific information about local concerns and circumstances. Decentralization reforms may thus enhance the capacity of governments to process information (Hadenius, 2003).

In the wake of the public sector reform wave, decision-making authority and administrative, financial and developmental responsibilities were, to varying degrees, transferred to local and provincial bodies in the reform countries. Administrative hierarchies were complemented with, or replaced by, market-like, contractual relationships. Private businesses, non-governmental organisations and public-private partnerships began to play a more central role in policymaking and implementation. Central control was not necessarily reduced though. Rather, the character of central control changed. While the degree of detailed legal steering lessened, increasing emphasis was placed on targets, output standards and performance indicator systems that served to maintain central control over local tiers of government (Pollitt and Bouckaert, 2004).

The public sector reform wave and the growing global integration of markets entailed several changes in governance. The tendency was that developmental responsibilities were passed from national governments to sub-national regions, communities, and cities (McMichael, 2004, p. 154). In Western Europe, territorial redistribution and equalization strategies were gradually complemented or replaced by various “bottom-up” strategies that aimed to increase the capacity for local, “endogenous” resource mobilization (Ansell, 2000, Brenner, 2004). At the same time, the growing global mobility of capital and the increasing interregional competition for investments led to a restructuring of the world economy. Local economies became more dependent on networks of cooperation and information sharing, both between firms and between firms and the public sector, in order to sustain their global competitiveness (Dunning, 1998, Jessop, 1998). As a result, local and regional governments became increasingly pressured to actively cultivate comparative economic advantages in order to maintain their sources of revenue. Many local and regional governments expanded their focus areas beyond traditional core activities and engaged directly in partnerships with private or non-profit organisations to

improve the competitiveness of their economies (Dollery and Wallis, 2001, p. 213). The general tendency was that the private sector presence in local policy-making processes increased. The network links between local, national and international levels became more and more complex (John, 2001). Developments within the European Union towards multilevel governance between regional, national and supranational levels of government also contributed to making coordination between multiple agencies increasingly important. As governance processes became more and more complicated, growing emphasis was placed on the question of coordination (Harrison, 2006, pp. 189-191).

### **State-Market-Civil Society Relations Reconsidered: “The Civil Network Society”**

The 1990s witnessed the emergence of several policy doctrines and theories of governance that downplayed the dichotomy between governments and markets posited by neo-classical economic theory. This shift mirrored a growing realization of the limitations of both market and hierarchical modes of governance in influential policy circles and among scholars. The new approaches to governance that emerged in the 1990s emphasized the importance of complementary relations between the public and private sectors and civil society. Against the background of the general trend of privatizations and welfare state retrenchments, civil society came to be seen as a complementary mechanism that promised to fill in the gaps where markets and hierarchies tend to fail (Edwards, 2004, p. 11).

The one-sided focus on economic rationality that characterized the 1980s was overshadowed by a more sociological view in which actors were assumed to be embedded in various networks. Questions regarding partnerships, trust-building and coordination were therefore brought to the fore in influential policy circles (Harrison, 2006, p. 190). Network modes of governance also became seen as more and more significant. For instance, Castells (1996, pp. 469-470) maintained that “the dominant functions and processes in the information age are increasingly organized around networks”.

Networks were not only seen as a more common form of governance. Some scholars regarded network governance, understood as a non-hierarchical form of co-ordination, as a missing link capable of correcting both market and government failures. Networks were believed to be particularly appropriate for “disaggregated” political systems characterized by a high degree of interdependence between public and private actors in policymaking (Börzel, 1998). In line with the network model, policy-

makers across the OECD world sought to advance a participatory mode of citizenship. Their aim was to encourage the public sector to promote “stakeholder engagement” and work with citizens as partners through collaborative governance processes (Harrison, 2006, p. 182).

Putnam’s (1993) influential study of the outcomes of a decentralization reform in Italy provided an important empirical justification for the new appraisal of networks and the civil society. Putnam discovered that regions in northern Italy were consistently more efficient in their internal operations and in implementing political decisions. The northern regions were also more successful economically. In the northern communities, which Putnam defined as “civic”, the population was characterised by a high engagement in public issues and they were held together by a generalised trust, a general obedience of law and a high degree of confidence in the government. The peoples of the civic regions were more active in horizontally organised social and political networks, in contrast to the hierarchically organised networks of southern Italy. Moreover, in the civic communities, self-interest was defined in a context of broader public needs whereas public affairs in the south were conceived of as the business of somebody else (Putnam 1993:115).

Putnam concluded that patterns of horizontal trust and cooperation generated in the associational life of the civil society of the northern regions explained their “good governance” and their economic wellbeing. The economic and democratic success of the northern polities thus depended on the character of their citizens, or more specifically, their civic virtues. Hence, civic norms explain economic performance rather than the reverse. Putnam employed the concept of social capital as an umbrella term denoting the structural characteristics of the civic community. According to him, social capital refers to “a combination of features of social organisation such as trust, norms and networks that can improve the efficacy of society by facilitating co-ordinated action” (Putnam, 1993:167). Following Putnam, the term social capital came to designate a culture of trust and co-operation within civil society, enabling communities to build political institutions with a capacity to solve collective problems. As such, the idea of social capital became hugely influential and had repercussions in various official policy documents. In South Africa, local governments are obliged to “build social capital” according to its 1998 Local Government White Paper (Nel and Rogerson, 2005, p. 6).

Networks and social capital are central features in Evans’ (1996) oft-cited treatise on “state-society synergy”. He highlights the significance of complementary relationships between public and private actors. Synergy is understood as a relationship between states and societies based on particular forms of social capital, institutions, and network ties that are conducive

to developmental efforts. He employs the notion of complementarity to conceptualize mutually supportive relations between public and private actors. By engaging in complementary relations based on a clear division of labour and contrasting characteristics, governments may deliver certain forms of goods while receiving inputs that are more efficiently delivered by private actors. In this way, the aggregate outputs will be greater than either actor could deliver on their own (Evans 1996). This insight was of course already well-established, but, as Evans combines it with the notion of embeddedness, referring to certain forms of network links that cross the public-private divide, he brings together network and participatory conceptions of politics, the notion of social capital and more conventional public administration theories into one framework. On the basis of case studies published in *World Development*, he maintains that networks that cross the public-private divide have often functioned as developmentally valuable social capital rather than as instruments of corruption and rent-seeking, as conventional economic theory would predict (Evans, 1996, p. 1120). He argues that the ties through which officials are linked to society must be of a certain type to be developmentally effective. In his book *Embedded Autonomy: States and Industrial Transformation* Evans holds that officials must be sufficiently insulated to circumvent capture by special interest groups, while they simultaneously must be sufficiently connected to crucial organisations and groupings outside the government apparatus that can ensure efficient implementation. Hence, state-society synergy requires particular kinds of network linkages embedded in formal institutional frameworks (Evans, 1995).

The concept of social capital was also adopted by advocates, such as Giddens, of the third way doctrine of governance. Giddens (2000, p. 165) claims that the good society is one that strikes a balance between government, market and the civil order. In other words, he advocates a new kind of “happy equilibrium” of governance mechanisms than the one that characterized the “golden age of welfare capitalism”. The third way programme includes a reappraisal of civil society, a well-balanced utilization of the market mechanism, and a “reinvention” of governments to make them flexible, efficient and facilitating rather than bureaucratic. The third way doctrine states that governments are to function as catalysts that actively nurture social capital and entrepreneurial cultures. Governments are to form partnerships with the public and the private sector and draw upon the resources of civil society (Giddens, 2000).

Although it is based on somewhat different ideological and behavioural assumptions, the third way doctrine does not represent a break with New Public Management. Third way governance was adopted by left-



leaning parties in response to the neo-liberal hegemony. They accepted the fundamentals of neo-liberalism but integrated progressive ideas like community building, inclusion and participation into it. The third way doctrine is a mixture of different approaches and is perhaps best seen as an elaboration of the NPM paradigm. It accentuates the activist features of the NPM by underlining the government's role as active network broker, forging links between the business sector and various community groups to upgrade the local economy in response to shifts in the global economy (Harrison, 2006, p. 189, Miller, 2005, p. 17). Third way governance also tends to emphasize the importance of coordination and integration. The spread of public and semi-public agencies in the United Kingdom gave rise to fears of a crisis of governance with regard to accountability and coordination. Against this backdrop, Tony Blair spoke of "joined-up solutions to deal with joined-up problems" (Harrison, 2006, p. 190, Xuza and Swilling, 2008, p. 269).

Third way governance is usually associated with Tony Blair's New Labour government and the democratic government under Bill Clinton. However, the 1990s saw the emergence of an international network of political leaders who subscribed to the Third way of running a country, such as Gerhard Schröder in Germany and Thabo Mbeki in South Africa (Gumede, 2005, p. 64, Harrison, 2006, p. 189).

## **The Good Governance Agenda Enters the Development Scene**

The good governance agenda gained dominance in international development circles in the 1990s. Like the third way doctrine, it highlights the importance of establishing complementary relations between public, private and civil society actors. In part, it is a holistic response to the failure of the one-sided market-based approach of the 1980s. The structural adjustment reforms in the 1980s did not deliver on their promises, and many developing countries were even left worse off since they lacked institutional frameworks that enabled markets to function. It became increasingly clear that market reforms required stronger and more efficient governments, although more limited in scope (Fukuyama, 2004, p. 5). The turn towards "good governance" became possible after the end of the Cold War, when political issues were allowed to enter the development debate more openly (McNeill, 2006, p. 292). In light of these developments, the World Bank discarded its one-sided focus on free market reforms and began to emphasize the importance of institutions that sustain market relations. The concept of governance appeared in a 1989 World Bank report

on Africa, which argued that Africa's development problems were rooted in a crisis of governance. The report stated that Africa did not need less but better government, focused on the promotion of economic activities (Leftwich, 1993, McMichael, 2004, p 227).

While the free market agenda of the 1980s focused on getting the prices right, the central aim of the good governance reforms is to get the institutions right. Good governance reforms aim to strengthen not only the formal institutions that govern economic and social interactions, but also the capability of governments to implement policies and enforce laws in a predictable manner (Pradhan, 2006). The new institutional economics (NIE) provides an intellectual rationale for this change of emphasis. NIE maintains that markets are embedded in broader social, political, and legal institutional frameworks that enable and sustain market relations. By emphasizing the importance of institutions, NIE highlights a blind spot in neo-classical economic theory, namely that it takes the existence of markets for granted and that it neglects the institutional frameworks required for their maintenance (Harrison, 2005). NIE underlines the fact that in the absence of formal legal institutions, economic exchanges may not be carried out at all because of the high transaction costs involved. From the viewpoint of NIE, advanced market economies, where most exchanges are impersonal, require the presence of a rule-governed state that can guarantee a predictable third-party enforcement of contracts (North 1990).

Consequently, the "state" made a re-entry into the international development discourse, not as a dirigiste monolith but as a transparent, accountable, decentralized and responsive body embedded in the global economy. Thus understood, the state is expected to act in concert with civil society. This understanding of governance gained influence in significant official publications in the 1990s. For instance, the World Bank's World Development Report of 1999/2000 asserts that institutions of good governance should encompass partnerships among all elements of civil society (cited in McMichael, 2004, p. 296).

The good governance agenda is based on the assumption that economic liberalization and democratic governance are complementary and mutually reinforcing dynamics. Its advocates hold that democratisation within the framework of a free market economy will induce governments to become more accountable and responsive, since the citizens are empowered to evaluate them on the basis of their performance, and dismiss them if they do not perform well. "Good governance" relies upon the basic features of a liberal democratic polity, such as an independent judicial system, an efficient, accountable and transparent administration of public funds, respect for the rule of law and human rights at all levels of government, a

pluralistic civil society and a free press that act as checks on the government (Hyden, 2006b, Leftwich, 1993, Woods, 2000, Harrison, 2005).

A central aim of the good governance agenda is to improve the responsiveness of the government by bringing it closer to the people. Through decentralizations and by allowing more public participation in policymaking and implementation, governments are assumed to become more effective, efficient and accountable. Moreover, through public participation, the general sense of 'ownership' in policies and projects is believed to increase. Some scholars speak of public participation almost as a cure-all measure against a range of governance failures. In the words of Manor, the use of participatory decision-making structures:

(... ) make it more likely that government agencies and institutions will become more responsive to the felt needs of grass-roots communities, and more capable of perceiving, understanding, and incorporating local "knowledge" about the management of resources and the conduct of society's business. They make it more likely that policy innovations will be realistic...and creative to ordinary people. They tend to increase the flow of information between state and society, in both directions. They enhance the chances that popular cynicism about any government initiative will be broken down or minimized. They make it likely that groups at the local level and indeed at all levels of society will develop a sense of ownership about development projects, so that such projects become more sustainable because such groups make efforts to sustain them (Manor, 1998, p. 127).

As seen in the quotation above, participatory decision-making is believed to generate similar effects across a wide range of contexts.

Besides emphasising participation, the good governance agenda incorporates theories on social capital as well as New Public Management ideals. The discourses on civil society, social capital and the doctrines of decentralization, New Public Management, public participation and good governance thus headed towards somewhat of a convergence in the international development discourse of the 1990s (Cornwall, 2002, McNeill, 2006, p. 279).

Since the beginning of the 1990s, the World Bank, the IMF and a range of bi-lateral donors have promoted governance reforms in developing countries. The reform programmes usually include restructurings of the public sector, tax, legal, and financial reforms as well as reforms of the processes through which politicians and officials are elected and monitored.

## The Character of the Governance Shifts

The shifts in governance of the last decades, especially after the ending of the Cold War, are of course many and complex. Three central changes in governance have been highlighted by a range of social scientists. Firstly, the international context of government action changed after the ending of the cold war. National policies became increasingly synchronized as individual states internalized governance rules adapted to the global economy. To varying degrees, central government authority has been transferred to international organisations and policy-making arenas located above or beyond parliamentary governments, such as the European Union and the WTO. These developments are sometimes seen as serious challenges to the sovereignty of individual states. Some scholars even maintain that contemporary states have become “denationalized” or “transnationalized” (Burns and Kamali, 2003, Jessop, 2004, Sassen, 2006). Rhodes (2000) argues that the state has become “hollowed out” as a result of privatizations and the diffusion of state functions to sub-national and international arenas. It is important to note that the supposed hollowing out of the sovereignty of individual states does not mean that “the state”, as a form of regulation of social relations has lost force. Rather, it means that the character of formal regulation has changed. Critics of this development claim that it is mainly developing countries that have lost their sovereignty as they have been compelled to adopt governance rules designed primarily for advanced industrial countries (Stiglitz, 2006, p. 9). Others maintain that the changing context of state action, which emerged after the end of the Cold War, was merely a short exception. In Kagan’s (2008) view, the early post-Cold War years were characterized by the assumption that the world would converge on liberal democratic capitalist institutions, but a situation similar to the geopolitical order of the nineteenth century has returned with the growing power of Russia and China. In light of the increasing geopolitical competition, the power of the West to demand institutional reforms in developing countries has decreased (Kagan 2008).

Secondly, the distribution of power within countries has changed in the OECD countries. While central banks have become more independent, central government authority has been diffused downwards to local and regional governments against the background of various devolution and decentralization reforms (Payne, 2000, p. 203). Sassen finds that the balance of power within states has shifted in favour of the executive wing in relation to parliaments, while the political sphere has become pervaded by “the utility logic of the private sector and the global capital market” (Sassen, 2006, p. 185).

Thirdly, the relations between the private and the public sector have been altered. The boundaries between public, private, and civic sectors, as well the borderline between politics and administration are said to have become more vague and ambiguous in the OECD countries (Börzel, 1998, Rhodes, 2000, Pollitt and Bouckaert, 2004, Sassen, 2006, p. 185). Similarly, in “developing” countries, the interactions between donors, decentralized government structures and non-government groups have become increasingly complex (Cornwall, 2002, p. 61).

In light of these general trends, several analysts argue that the political economy has changed to such an extent that it is justified to speak of a rise of a new mode of governance in the OECD countries. This mode of governance is said to have emerged alongside, or even replaced, the liberal democratic model. Hirst (2000, p. 20) contends that the liberal democratic model of government seems less and less convincing as a descriptive account of contemporary societies.

Schmidt (2008) speaks of a general shift from traditional public administration emphasizing hierarchy, rules and procedures to the New Public Management approach which introduced private sector practices into the public sector in the 1980s. In the 1990s NPM was eclipsed by the networked governance approach, which emphasizes partnerships with civil society to complement both the state and the market in dealing with complex governance challenges (Schmidt, 2008, p. 111).

Jessop describes the shifts in governance as a general change in statehood from “Keynesian” welfare states to “Schumpeterian” workfare regimes. The latter denotes a complex, negotiated system oriented towards international competitiveness, innovation, flexibility, and ‘enterprise culture’. While markets and government hierarchies were the main mechanisms of governance in the Keynesian welfare system, inter-firm networks and public-private partnerships are the main forms of coordination in the Schumpeterian workfare regimes. Moreover, while the Keynesian regimes were geared towards social rights and full employment in relatively closed national economies, Schumpeterian workfare regimes focus on the strengthening of global economic competitiveness through permanent innovation and flexibility in open economies. The workfare regimes subordinate social policy concerns to the demands of labour market flexibility and global economic competition according to Jessop (1998, 2004).

Ansell (2000) speaks of a new structure of governance which he calls the “networked polity”. The logic of governance in networked polities is not based on the implementation of comprehensive programmes dictated by the centre of government, like in the liberal democratic model. Rather, governance relates to specific projects and particular issues, and is thus mainly based on

the summoning of unique configurations of actors from the private and the public sector into multi-organisational project teams (Ansell, 2000).

According to Burns and Kamali (2003) a multi-layered and polycentric, “organic” structure of governance has developed parallel to, in interaction with and at times in competition with parliamentary governments. At the same time, the position of parliaments in contemporary societies has become increasingly marginalized. Organic forms of governance are based on direct participation of private actors in various policy making processes, ranging from the local to the international level. Given the spread of organic governance structures, national democratic institutions tend to be increasingly bypassed by direct, local forms of “democracy” according to which organized interests, citizen groups and lobbyists engage directly in policy issues of concern to them (Burns and Kamali, 2003, p. 271).

John (2001, p. 17) describes the transformation as a shift from government to governance. He contrasts the liberal democratic ideal, referred to as “government”, with a stylized model of the contemporary political structure that he identifies as “governance”. According to John, the “government” model is characterized by representative democracy, routinized policies, direct central government control, few institutions, and a hierarchically organized, consolidated bureaucratic structure which is relatively closed to horizontal and international policy networks. In contrast, “governance” is based on a multiplicity of institutions, a decentred, fragmented structure of government, extensive horizontal and international policy networks, innovative and dynamic policies, decentralized governments, and new democratic experiments emerging alongside the representative democratic model.

The analyses above suggest that the reform countries have undergone a relative shift from hierarchically organized legal-rational administrations with clear lines of accountability, towards decentralized and target-oriented public sectors with a strong element of private sector involvement in their decision-making structures. The thesis will hereafter refer to the latter form of governance as ‘networked’ governance, which denotes a mode of governance located outside the conventional representative political sphere based on the direct participation of private and civic sector actors in projects, policymaking and implementation.

Whether it is meaningful to speak of a general shift in governance from hierarchies towards networks can of course be questioned. Networked forms of governance have always, in practice, been integral to Western liberal democracies. As John (2001, p. 11) points out, direct participation of private companies in local politics is not a recent phenomenon. It is not that the networked governance paradigm has progressively displaced traditional

governance paradigms, even if it has become more pervasive in the last few decades. Different governance paradigms may well coexist, as Schmidt (2008, p. 116) notes. The changes in governance are therefore best seen as relative. Moreover, the analyses referred to above are based on sweeping generalizations and theoretical assumptions. Context-specific differences across countries and regions are therefore neglected. Yet, it is doubtless that the debates on governance are indicative of a general tendency. As Meyer et al (1997) assert, many features of contemporary state institutions are constructed and diffused as world-wide models, of which New Public Management principles and the good governance agenda are examples. Western reform models and experiences have been diffused globally through political networks, management consultancies like PricewaterhouseCoopers, Ernst and Young, and Deloitte and Touche, independent think tanks such as the Adam Smith Institute, and international organisations like the OECD and the Commonwealth Institute (Pollitt and Bouckaert, 2004, Miller, 2005, pp. 22-23). The policies spread by such agencies tend to be “context-independent”, in the sense that they are assumed to trigger similar effects across a wide range of different contexts.

Given the diffusion of world-wide policy models, many countries do display a great deal of similarity in their formal institutional structures and policies. However, this does not mean that policy outcomes will be similar everywhere. Policymakers drawing on theoretical models based on generalisable causal relationships risk disregarding significant context-specific circumstances. As Pollitt and Bouckaert (2004, p. 39) point out, each political regime exhibits its own unique institutional features. While a policy may fit well in some contexts, it may well be inconsistent with local practices and economic conditions in others (Meyer et al., 1997). It is therefore reasonable to assume that, given the great variation found across countries and localities with regard to their pre-existing institutional structures, the contemporary reforms generate different context-specific effects. In other words, although similar policy models have been adopted in the OECD countries and in many developing countries, the outcomes are likely to differ considerably. As Mann (2002) puts it, globalizations continue their multiple and disjunctive advance, but not toward a singular world society or system.

## **The General and the Specific in Governance Analyses**

This thesis assumes that the characteristics of pre-existing governance structures have a significant impact on reform outcomes. Differences in the kinds and the degrees of decoupling between formal policy models and observable practices must therefore be taken into account. For this

reason, it is problematic to assess and analyse the outcomes of the reforms through an uncritical usage of ideal-typical models and concepts that comprise preconceived behavioural assumptions, such as state, market and civil society. As I argued at the beginning of chapter three, the concepts of state, markets and civil society refer to institutionalized practices that may be very differently structured in different countries. If such concepts are assumed to denote different societal spheres characterized by specific logics of action or forms of organisation, they are not universally applicable, if applicable at all. In other words, the conceptual triad of state, market and civil society is not context-sensitive and risks preventing “our seeing governance practice as it is”.

A similar, related problem in analysing governance concerns the combined usage of theoretical concepts signifying different forms of coordination. As already noted, if governance is analysed by the use of theories of hierarchies, markets and networks, which derive from different disciplines such as economics, political science and sociology, there is no explanation as to why people do not consistently act as *homo economicus*, *homo bureaucraticus*, *homo altruist*, or *homo reciprocans*. The problem is that such an approach is not founded upon a single, coherent theory of action and interaction. If people always behaved like *homo economicus*, most forms of governance would not be possible. “Good governance” requires different forms of decision-making and coordination to operate in concert in particular ways in different institutional contexts. For instance, the judiciary must be oriented towards legal rationality rather than profit maximization, and civil servants must not exploit public office for personal gain. The problem of merging theories developed in different disciplines in order to analyse governance is that no explanation is given for why actors do not always act on the same rationale under all circumstances. A theory of governance must be able to explain how different forms of decision-making and coordination operate (or not) in concert, which means that it has to be founded on an explicit theory of action and interaction explaining why actors tend to invoke different logics of action in different institutional contexts. For instance, the theory must be able to explain why all judges and civil servants do not always act as profit-maximizers and accept bribes, even when they are able to.

This thesis does not assume that people automatically know when to behave in accordance with the logics of hierarchies, markets and networks. Neither does it presume that people instinctively invoke specific logics of action in allegedly well-demarcated spheres like “government”, “market” and “civil society”. Drawing on various institutional theories, it outlines an analytical framework and a theory of interaction that enables context-



sensitive analyses of governance. By including the concepts of transaction domain and domain consensus it shows how and why actors tend to draw on different logics of action in their roles of consumer, civil servant and parent. Furthermore, government agencies, parties, civic associations and private enterprises are seen here as legal entities constituted by the same formal institutional order rather than as components of different societal spheres such the state, the market or the civil society. As legal entities, formal organisations, whether public or private, are viewed as placeholders for various activities. This means that formal organisations are seen as bundles of individual actions and interactions. Determining the nature of the activities taking place in formal organisations is seen here as a matter of empirical investigation rather than a priori reasoning.

The next chapter discusses these issues in more detail in conjunction with a description of the analytical framework of the thesis. Chapter five first provides the reader with a theoretical background in which some central issues related to institutional theory are considered.



## 5. Analytical Framework

This chapter provides the analytical framework of the thesis. It first considers some theoretical dividing lines between historical-sociological and rational choice varieties of institutional theory, and then goes into the ontology of institutional reality and the linkage between agency and institutions. After that, it considers the relationship between social identities and the formation of individual and collective interests. Against this background, it introduces the concepts of transaction domain and domain consensus in order to demonstrate why actors tend to draw on different logics of action in different institutional contexts. The chapter contends that the conditions for formal governance are affected by the historical processes through which formal institutions have evolved and diffused over the world into contemporary formations. In order to illustrate this line of reasoning, it briefly accounts for the evolution and diffusion of modern forms of statehood.

### **The New Institutionalism in the Social Sciences**

#### **Rationalist and Historical-Sociological Institutionalism**

The importance of institutions for any kind of societal coordination has been highlighted in different ways by sociologists, economists and political scientists, both in classical writings of scholars such as Weber, Tocqueville, Marx, and Pareto and in more recent works such as North (1990) and Scott (2001). Nee (1998, p. 3) describes the current institutionalism as an “emerging interdisciplinary paradigm in the social sciences”, making it particularly suitable as a theoretical basis of governance analyses. However, as Hall (1997, p. 190) points out, the potential for interdisciplinary integration must not be overstated given the methodological, epistemological and theoretical divides that cut across the different institutional approaches. The different institutionalisms view the formation of human preferences and the causes of the creation and reproduction of institutions differently. They place different emphasis on nomological-deductive and idiographic/historicist explanations as well as on individual actions vis-à-vis larger socio-economic and cultural structures. A distinction can also be drawn between institutional theorists who emphasise the micro level of analysis and scholars who focus on the macro level. While the former examine how institutions are structured to solve collective action problems as they

are experienced by individuals, the latter trace the historical development of different institutions and investigate how they affect individual preferences and behaviour (Scott, 2001).

The varieties of institutionalism thus provide different explanations of institutional creation, reproduction and change. These differences have clear implications for how governance is understood and analysed. The following section accounts for some of the main dividing lines within institutional theory. Two main branches of institutionalism are considered; historical-sociological and rationalist institutionalism. Thereafter, the chapter describes the way in which this thesis approaches governance using institutional theory.

Institutional theories that draw on rational choice models are usually founded on methodological individualism, that is, they account for social phenomena in terms of individual acts and choices. Rational choice scholars, moreover, treat the identity and interests of actors as more or less constant and given in that actors are assumed to be maximizing their self-interests. On the basis of this assumption, rationalist scholars construct general theories of human action and interaction. Rationalist institutional theories therefore lean toward nomological-deductive reasoning and covering laws explanations. This kind of institutionalism mainly stems from economics and economic history, but, some political scientists also draw on the rationalist perspective in analysing politics (Bennett and Elman, 2006). As already noted, many economists have applied their theories to the study of governance and institutions, whereby, as Fukuyama notes (2004, pp. 44-45), some of the major sociological insights into the study of human organisation has become obscured.

In the rationalist view, institutions tend to be understood as strategic environments within which actors pursue predetermined interests. There are two standard ways of thinking about institutions in the rational choice tradition. In the first, institutions are seen as an external framework consisting of constraints and incentives within which self-interested individuals act and make decisions (Scott, 2001, p. 35). For instance, North, one of the most prominent representatives of new institutional economics, defines institutions as “humanly devised constraints that shape human interaction. They can be either formal or informal, created such as a constitution or evolve over time such as common law” (North, 1990, p. 3-4). The second rationalist interpretation of institutions only acknowledges the existence of rational actions conditioned by expectations about the actions and reactions of others. When such expectations become stable and applicable to situations recurring over long periods of time, they become institutions (Shepsle, 2006).

Historical-sociological institutional approaches aim at a high degree of descriptive realism, and therefore discard simplified behavioural assumptions. Historical-sociological institutionalism leans toward methodological holism, or rather, methodological relationism. From this viewpoint, individual acts are irreducible to individual psychology. Actions are assumed to be performed in relation to wider socio-economic and cultural environments, implying that people do not form preferences and set priorities independently of the institutional context (Fay, 1996). Instead, institutions are seen as constitutive of human identities and interests, meaning that identities and interests are assumed to be changing and variable. Institutions are not simply understood as external constraints, but as internalized rules and norms that establish criteria through which people develop identities and discover preferences. Historical-sociological institutionalism also emphasizes the cognitive significance of culture. Weber for instance, argued that humans are “cultural beings, endowed with the capacity and the will to take a deliberate attitude towards the world and to lend it significance” (Weber, 1949 , p. 149). Historical-sociological institutionalism assigns causal significance to culture in its own right (Meyer et al., 1997, p. 149). In line with this, Scott defines institutions as social structures with a high degree of resilience providing stability and meaning to social life. Institutions are composed of cultural-cognitive, normative, and regulative elements and they are transmitted by various types of carriers including symbolic systems, routines and artefacts (Scott, 2001, p. 48).

In the sociological perception of institutions, actors may act on the basis of norms of appropriateness, that is, norms that prescribe contextually legitimate forms of action (Aspinwall and Schneider 2000). Historical-sociological institutionalism underlines the fact that human actions are not merely guided by incentives, constraints or counteractions but also by cultural-cognitive frames, narratives, common situation definitions and feelings of solidarity (Scott, 2001, p. 39). From this perspective, the study of human actions and human relations is located in the realm of human meaning and intentions (Collins, 2004, p. 45). Since humans ascribe meaning and significance to their actions, actions must be explained in terms of reasons that rational humans act on, rather than in terms of causes (Searle, 2001, p. 88). It follows that human meaning-carrying activities and intentions are variable and historically bound. Consequently, covering-laws explanations do not apply to social life. Thus, historical-sociological institutionalism places greater emphasis on idiographic explanations than do rationalists. From this perspective, explanations of different social events must be based on very limited, historically and culturally situated generalizations that are

valid only for a particular place or time (Fay, 1996, p. 162). Historically oriented institutional analyses are thus context-sensitive and only accept a very limited generalizability of theories across cases (Immergut, 1998).

## The Creation and Evolution of Institutions

Given their different starting points, the two “institutionalisms” considered here highlight different causes and driving forces behind the creation and evolution of institutions. In some rationalist versions, institutions are viewed as deliberately created responses to various societal needs. From this point of view, the creation of new institutions derives from the recognition of a recurrent problem to which no existing institution provides a satisfactory response (Scott, 2001, p. 96). The genesis and reproduction of institutions are explained in more or less functional terms (Hall, 1997, p. 190). For instance, the existence of property rights and parliaments result from the identification of a need and a subsequent creation of institutions that respond to this need according to this perspective. Governments can then be said to exist in order to counteract market failures. This suggests that people are capable of assessing and agreeing on different institutional options from a neutral standpoint. The problem is of course that institutions are rarely chosen in this way.

While the functionalist-rational perspective cannot explain the existence of “dysfunctional” institutions, some rationalist approaches draw on game-theory to account for the emergence of “suboptimal” phenomena. For instance, in a classical analysis, Olson (1965) argues that the problem of free riding often hinders organized collective actions. Similarly, the prisoner’s dilemma game shows how interaction between rational and self-interested individuals may result in sub-optimal, “irrational” outcomes. Ostrom (1998) defines such situations as “social dilemmas”, which occurs whenever individuals in interdependent situations face choices in which the maximization of short-term self-interest yields outcomes leaving all participants worse off than feasible alternatives” (Ostrom, 1998, p. 3).

In the game-theoretical approach, institutions that leave all participants better off are difficult to create by design. Insofar as they do exist, they have been established because cooperative actions have been enacted and regularly maintained by a number of interrelated actors. From this viewpoint, institutional change is brought about when it is no longer in the interest of actors to sustain a given institution (Mahoney, 2000, p. 518). Institutions are simply an “equilibrium way of doing things”, implying that if a key actor wants to act according to a different set of rules, the existence of the institution is threatened (Shepsle, 2006).

Williamson's (1975) pioneering work on transaction cost theory represents an intermediate position between functionalist and game-theoretic approaches. He draws on game-theory to show that rational entrepreneurs tend to change the organisation of their firms in order to minimize transaction costs. The transaction costs increase when individual actors with imperfect information face social environments characterized by uncertainty and risk. In such situations, entrepreneurs are inclined to transfer exchanges from the market into an organisational framework. If the exchanges already take place inside the organisation, they tend to develop more sophisticated control systems (Williamson, 1975, p. 30). Thus, in this approach the use of a particular mode of governance, such as hierarchy or market, corresponds with the transaction cost level in the social environment.

Power-centred institutional analyses emphasize the fact that institutions usually distribute costs and benefits unevenly, and that actors therefore tend to have conflicting interests with regard to the preservation of an existing institutional structure. From this perspective, institutions are reproduced because they are supported by groups whose interests are served by their continuation. Consequently, even if the majority of the people prefer institutional change, an institution only persists as long as the groups that benefit from it have the power to uphold its reproduction (Mahoney, 2000, p. 521). Institutional stability (or equilibrium) is reached when, given the bargaining strength of interrelated political actors, none of them find it advantageous to devote more resources into restructuring the current institutional agreement (North, 1990, p. 109). An existing institutional order is thus seen as an outcome of power-struggles between competing social forces. In democracy research, this perspective is represented by scholars like Vanhanen (1991), who argues that democratization is explained by the ways in which power-resources are distributed among competing groups in different countries. He points out that democratic systems only tend to persist in countries where competing groups are powerful enough to avoid being dominated or usurped by one single group. If this is the case, the prospects for democratic consolidation appear gloomy in a country like South Africa where there are huge inequalities in terms of access to various power-resources.

According to historical-sociological institutionalism, the reproduction of institutions cannot merely be explained in terms of cost-benefit rationality, functionality, or elite power, since institutions may be reproduced just because people see them as meaningful or legitimate. For example, non-democratic institutions may persist because they are accepted as legitimate for customary reasons. This is not to say that humans are

cultural dopes incapable of rational, purposive actions; nor does it rule out power-based explanations. Rather, it is to say that most human interests and powers are constituted by institutions. Consequently, most interests are context-bound. Rationalist and Marxist theories usually explain action with reference to universal preferences or predetermined interests, and deviants from rationalist or Marxist predictions have therefore sometimes been labelled “irrational”, “backward” or “victims of a false consciousness”. Historical-sociological institutionalism does not deny materialist interests, but view them as embedded in various institutional settings that frame and guide human actions (Somers, 1994, pp. 633-634). As Spruyt (1994, p. 69) suggests, it is reasonable to assume that people have reasoned preferences to support one institution over another. Following Weber, Spruyt argues that there tends to be an ‘elective affinity’ between certain ideas and certain material practices, which means that people engaging in certain activities, such as business or warfare, are inclined to adopt ideologies that make these activities seem meaningful and justifiable to them. Elective affinity is merely an inclination to certain ideas. It is not an instrumental construction of values or ideas in order to promote and rationalize people’s material interests (Spruyt, 1994, p. 69). In other words, there is no necessary correlation between ideology and occupation. Friedrich Engels, for instance, was a fox hunting factory owner as well as an ardent critic of capitalism (Ferguson, 2001, p. 5). People may also be ignorant about different institutional options. For these reasons, one cannot merely infer that people’s preferences for an institution derive from material interests.

From the viewpoint of historical-sociological institutionalism, institutional change does not necessarily stem from changes in utility functions or changes in the distribution of power between actors, but from changes in actors’ subjective beliefs and preferences. Institutional change may derive from inconsistencies in the cognitive frameworks of interrelated actors, since cognitive discrepancies may lead to a breakdown in the consensual beliefs required for the reproduction of an institution (Mahoney, 2000, p. 525).

Sociologists also focus on the establishment and spread of institutions through processes of isomorphism, i.e. processes in which organisational and institutional models are diffused and homogenized across a wide variety of contexts. DiMaggio and Powell (1983) emphasize that institutional isomorphism may occur for reasons other than efficiency concerns, since many organisations not only compete for resources and customers but also for political power and legitimacy.

Institutional and organisational isomorphism may occur for different reasons. Competitive isomorphism refers to processes in which the institutional and organisational forms that have proven the most efficient



available are spread. This type of process is mainly relevant in environments characterized by free and open competition. Coercive isomorphism stems from external pressures exerted by groups or organisations upon which an organisation is dependent or from expectations from the public or the international community. For example, companies may adopt environment standards or governments may adopt human rights prescriptions or pursue good governance reforms under pressure from the international community. While this type of institutional diffusion can be explained in terms of power, isomorphism may also occur through mimetic processes, that is, processes of imitation even if the imitated institutional model is not necessarily the most appropriate in the context in which it is implanted. Developing countries may, for instance, model their political institutions on Western prototypes. Mimetic isomorphism tends to occur when decision-makers face uncertainty and goal ambiguity and when they lack sufficient knowledge of alternative institutional choices (DiMaggio and Powell, 1983). Meyer et al (1997) argue that many institutional features of modern states have spread through processes of mimetic isomorphism. As noted above, they maintain that “states” are in many respects constructed as world-wide models or as sets of worldwide institutional and organisational arrangements.

## **Institutionalism and Path-dependency**

The various “institutionalisms” thus assign significance to different change and reproduction factors. While all institutional approaches acknowledge that “history matters” through the concept of path-dependency, they tend to focus on different forms of path-dependency. Path dependence refers to “historical sequences in which contingent events set into motion institutional patterns or event chains that have deterministic properties” (Mahoney, 2000, p. 507).

An outcome of a historical process, such as a particular institutional structure, is path dependent to the extent that it relates to a set of “initial” historical conditions. This does not mean that an outcome is entirely determined by these conditions. Rather, as Goldstone (1998, p. 834) points out, the outcomes depend on choices and consequences of intermediate events between the initial conditions and the outcome. It means, however, that once a process is set into motion it tends to continue along certain paths. An event may give rise to a reactive sequence of temporally ordered and causally connected events in which each event is in part a reaction to antecedent events. An initial event may also generate self-reinforcing

institutional patterns that are reproduced over time. In the case of self-reinforcing sequences, the initial event constitutes a critical juncture in which a particular institutional arrangement is chosen out of two or more alternatives. A self-reinforcing sequence may be founded on “increasing returns”, which means that once a particular institutional pattern is adopted it gets more and more difficult or costly to change the pattern or to choose previously available options, even though the alternatives would have been better or more efficient. For instance, sub-optimal solutions such as the impractical QWERTY keyboard have been maintained through path-dependent, self-reinforcing processes (Goldstone, 1998). From a power-centred perspective, initial events that give rise to an institution may not necessarily reflect pre-existing power arrangements. After the institution has been adopted, it may empower certain groups at the expense of others, and the privileged group may then use the power it has gained to reinforce and expand the institution (Mahoney, 2000, p. 511, p. 519).

While rationalist approaches tend to analyse path-dependency in terms of cost-benefit rationality or elite power, historical-sociological institutionalism highlights the fact that institutions may be reinforced through processes of “increasing legitimation”. Thus, once a particular institution has been chosen it can be reinforced through processes of increasing legitimation, although other previously obtainable institutions could have been equally or even “more” legitimate. Path-dependent legitimation processes are characterized by positive feedback cycles in which an initial institution constitutes a standard for legitimacy for future decisions (Mahoney, 2000, p. 525).

In conclusion, rationalist institutional approaches tend to take self-interested and maximizing behaviour as givens and view institutions mainly as strategic environments. By contrast, according to historical-sociological institutionalism identities and interests are changing and variable according to the institutional context. On these bases, the institutionalisms provide different explanations of institutional creation, reproduction and change. The following section discusses some problems of rational choice institutionalism.

## **On the Problems of Rationalist Institutionalism**

Without neglecting their usefulness, the problem of rational choice approaches is that they cannot explain why actors tend to draw on different logics of action in different institutional contexts. In contrast to rationalist approaches, this thesis does not consider interests and identities as given, at least not beyond a very basic level. It assumes that the acquisition of resources needed for survival is an ultimate motive for human action,

and that humans therefore need to transact either with other people or the natural environment in order to subsist (Lin, 2001). Following Searle (1996), it also presumes that humans are endowed with a consciousness and intentionality, that is, a capacity to represent objects and states of affairs in the world other than itself, as well as a capability to assign meaning to objects and states of affairs (Searle, 1996, p. 7). It is the human capacity to assign meaning to objects and conditions in the world that makes pure rational choice approaches problematic. As noted, if actors only acted strategically to maximize narrow self-interests, most forms of governance, including liberal democratic welfare states, would be impossible. Miller (1992) has shown through various “impossibility theorems” that many forms of organisation simply would not exist if people always acted strategically to maximize their narrow self-interests. North also notes that it is impossible to explain the occurrence of Western forms of statehood and the rule of law only by using rationalist theory:

Third party enforcement means the development of a state as a coercive force able to monitor property rights and enforce contracts effectively, but no one at this stage in our knowledge knows how to create such an entity. Indeed, with a strictly wealth-maximizing behavioural assumption it is even hard to create such a model abstractly. Put simply, if the state has coercive force, then those who run the state will use that force in their own interest at the expense of the rest of society (North, 1990, p. 59).

Although rational choice models provide highly sophisticated explanations of various social phenomena, they cannot alone explain a variety of actually existing forms of governance. To begin with, rationalist theories neglect a range of different motives for actions such as emotions, altruism and duty (Abrahamsson, 1993, p. 64, Collins, 2004, p. 144). Some scholars may still insist that all human actions are ultimately driven by self-interests. Such statements are impossible to refute since any argument against them can be changed to fit the assumption. Suffice it to note that with regard to observable practices it is obvious that all human actions are not motivated by a self-seeking, instrumental rationality. By taking maximizing behaviour as a given, some rationalist approaches disregard the possibilities for, and mechanisms of, cooperation and collective actions (Wendt, 1994, p. 390). Moreover, as Ruggie (1998, p. 871) points out, rationalist approaches lack a concept of constitutive rules, i.e. rules that create the possibility of various organized social activities such as markets or party politics (Searle, 1996, p. 27). Rational choice institutionalism tends to focus solely on regulative rules, conceived of as incentives and constraints, and the efficacy of such rules in coordinating self-interested actors (Ruggie, 1998, p. 871). Furthermore,

rationalist institutionalism fails to see that many self-interested reasons for action are inconceivable outside institutional contexts. This implies that both identities and interests are context-dependent. In order to explain why this is the case, it is necessary to clarify the ontology of institutional reality.

## The Ontology of Institutional Reality

Unlike buildings and other physical objects, institutional reality has a social ontology. Searle (1996) distinguishes between features of the world that are entirely independent of human attitudes - observer independent features - and features of the world that only exist in social relations - observer relative features. The latter include institutions like money, parliaments, property, marriage and elections (Searle, 1996, pp. 7-12). Through speech acts and writing, humans can collectively assign functions or statuses to objects or persons that do not have the function inherently. For example, in the case of money, a piece of paper is attributed a particular status and function which is not inherent in it. Institutional reality is thus constituted by subjective attitudes and cannot exist outside human relations. If a piece of paper is to be considered as money, more than one person has to think that it is money (*ibid*, p. 207). This means that institutions cannot be understood as coherent ontological entities or external sets of incentives and constraints since they are intrinsically social and cognitive. As Emirbayer (1997) points out, institutions are only meaningful in human relations insofar as they are systematically activated by interrelated actors in various social and economic transactions. Hence, "society" is held together just to the extent that certain institutions are recurrently activated (Collins, 2004, p. 41). Yet, money, government and property are components of an epistemically objective institutional reality (Searle, 2005, p. 4). In other words, even though institutions have a subjective ontology, they are real in their consequences. For example, the United States presidency is an observer relative, and thus an ontologically subjective phenomenon. Still, it is an objective fact that Bill Clinton was President. This means, however, that institutions are only maintained as long as they enjoy collective acceptance. Collective acceptance may range from grudging acceptance to enthusiastic support (*ibid*, p. 8). This is not to say that everyone must accept the institution. An institution persists as long as the actor who invokes it can call upon a sufficient number of other holders of institutionalized power, in case of need, so as to make it effective despite resistance. Collective acceptance is thus important in crucial power-centres, but not necessarily among those who have to take the consequences of the executed power (Stinchcombe, 1987, p. 162).

However, when the number of actors who do not recognise a system of institutions reaches a critical mass, it will break down, as Searle (1996) points out. Hence it is only possible to deliberately create institutions if they achieve a sufficient degree of collective acceptance. Institutional reality therefore has a seemingly volatile structure (*ibid*).

Institutional facts exist within frameworks of constitutive rules. Constitutive rules enable various organized social activities, and they range from being informal and unspoken to being formal and codified. According to Searle (1996, p. 47) constitutive rules usually have the form “X counts as Y in context C”. For example, a certain person who meets certain qualifications (X) can be counted as a member of parliament (Y) in a certain country given that he or she has been elected according to certain procedures (C). Institutions also establish what Searle (2005, p. 10) calls deontic powers, that is, rights, duties, obligations, authorizations, permissions, empowerments, requirements, and certifications. Both formal and informal institutions such as private property, governments, contractual relationships, friendship and family involve rights, duties and obligations. By establishing rights and obligations, institutions determine different power relations. Such power relations are sustained by structures of desire-independent reasons for action, that is, duties and obligations associated with different social positions such as judge, doctor or police officer. For instance, when an individual joins the judiciary she/he invokes an institutional structure and thereby creates reasons to perform certain future actions regardless of whether s/he then will have a desire to carry them out or not. If one recognises an institution as binding one thereby creates reasons for future actions regardless of one’s subsequent desires. This is precisely what sustains the rule of law; even though the implications of an action may contradict personal desires or convictions of officeholders, she/he will execute the action provided that she/he is obliged to and has recognised the institution as binding. This implies that domains of desire-based reasons for action such as markets or elections must be buttressed by systems of desire-independent reasons for action (Searle, 2005, p. 11).

Many interests and desire-based reasons for action only exist within institutional structures. To take an example, it would not be desirable to win an election unless the desired public office was collectively recognised as such. Similarly, money, in the form of pieces of paper, is only sought-after as long as it is collectively accepted as a means of payment. (Searle, 2001, p. 208). Hence, institutions, be they formal rules and channels for political interaction or informal practices, are constitutive of many interests and they often create reasons for actions. Moreover, they function as cognitive filters that support particular definitions and interpretations of the means

and the ends of different actions, and they determine the ways in which different interests are mobilized and organized. Institutions thus constitute a context in which individuals interpret their interests and define their preferences. Social interaction can therefore not be analysed merely as an aggregate of individual desires and preferences (Immergut, 1998).

## **Identities, Interests, and Institutions**

As we have seen above, it is problematical to assume that interests are stable regardless of the institutional context. In so doing, rationalist theories disregard the possibilities for, and mechanisms of, cooperation as Wendt (1994, p. 390) points out. Interests and identities are not fixed. They change across different institutional contexts. Interests are taken here to be dependent on social identities. Social identities refer to sets of meanings that an actor attributes to himself/herself while taking into account the perspective of others. Social identities develop through interaction as actors adopt the attitudes of others and learn to see themselves in the way others see them (*ibid*, 1994, p. 385). Interacting actors tend to develop different, mutually agreed-upon beliefs and practices that prescribe appropriate responses to various social situations (Bourdieu, 1998, p. 25, Collins, 2004). Through interaction actors may also learn to distinguish some actors as a “we” and others as “them”. On the basis of identification with others as a “we”, actors may develop collective interests. Wendt (1994, p. 386) defines self-interest and collective interest as outcomes of the degree to which, and manner in which, a social identity entails identification with the fate of the others. Identification may range from conceiving the other as an adversary to seeing her or him as an extension of the self. Collective identities are based on a positive identification with the welfare of others that are identified as members of a group. Collective identification is based on feelings of solidarity and collective definitions of interest. Without positive identification, interests are defined without concern for others, who are then seen as objects that can be manipulated for the satisfaction of the self (*ibid*, p. 386).

Collective identities can be constructed on the basis of an infinite number of characteristics. Emblems, flags, narratives, shared experiences, customs, norms or phenotypic traits such as pigmentation can be given significance that matters for group identification (Smith, 1991, p. 72). Actors often attach emotions to collective representations and institutions. On this basis, actors can develop strong feelings of solidarity and commitment (Collins, 2004, p. 15). Collective identities may therefore constitute an important source of meaning for people (Castells, 1997, p.

6). Symbols and practices that sustain collective identities often serve to restrict solidarity and cohesion to particular in-groups. Group boundaries can therefore be reproduced for generations even though changes occur within the parameters of the group-membership (Barth, 1969).

Having collective interests means that actors are rational on a higher level of social aggregation. In order to differentiate between rational action based on collective interests and self-interests, Lin (2001, pp. 150-151) distinguishes between transactional and relational rationality. If social relations are defined in accordance with the transactional rationale, relationships are part of profit-seeking calculations. By contrast, social actions driven by relational rationality advance the maintenance of relationships even in cases when they are not optimal in terms of costs and benefits. According to the relational rationale, the preservation of the relationship is the main priority. Consequently, social exchanges need not be symmetric or balanced in terms of costs or benefits (*ibid*, p. 160).

Taken together, in addition to self-interests there is a range of different motives behind human actions. Actors may of course be coerced to perform certain actions. In addition to that, they may, given that they have recognised an institution as binding, see it as a duty to carry out an action. They may also act on the basis of norms of appropriateness and perform certain actions because they are expected to by others. Furthermore, they may act in the interest of a collectivity with which they identify and sympathise, or they may perform actions merely because they deem them meaningful, and so on.

Since actors generally have multiple identities and roles that they invoke in different situations, interests change according to the context. As Ahrne (1994) points out, people's actions are shaped and structured in relation to different institutions and organisational contexts in everyday life. In the various situations that people encounter, they invoke different roles and identities. Roles and identities make up cognitive schemes of shared understandings and expectations that provide different norms of appropriateness, and repertoires of socially acceptable practices that apply to different social situations (Davis, 1992, p. 11, Wendt, 1994, p. 385). It is important to note that roles and identities may be both self-ascribed and ascribed by others. In many situations, identities are ascribed rather than selected. An individual may in the course of a day invoke the role or identity of, or become identified as, buyer, seller, citizen, voter, family member, relative, parent, employee, man, friend, fellow being, South African, black, Zulu, or worker. The kind of identification determines how people draw boundaries of the self, and thus, in which terms they define their interests (Wendt, 1994, p. 386). In the role of worker, an actor

may show solidarity with his or her peers in the political domain while she/he acts on more narrowly defined self-interests as a consumer in the market. In other words, roles, identities and interests are situational and changing according to context.

Institutionalized roles and identities function as scripts that inform actors what to do, and what others are likely to do, in different situations. When actors act within different institutional settings, they draw on experiences from the past in order to deal with the present and the future (Emirbayer and Mische, 1998). Within institutional systems, actions tend to be based on a prediction of other people's actions, whose actions in turn are based on a prediction of the actions of still others (Stinchcombe, 1987). On the basis of experience and learning processes, actors tend to develop rationalities and strategies that are sensitive to different institutional contexts. To take a simple example, it is socially accepted for actors who identify as buyers and sellers in the housing market to act in strategic and maximizing ways. Hence, within the housing market, actors may be expected to be profit-maximizers and develop strategies in line with this expectation. However, the same actors are usually expected to act on the basis of a relational rationality when they are identified as friends or family members. As Davis (1992, p. 46) notes, people may indeed be profit-motivated as consumers, but as parents they usually have little thought of profit when they care for their children. Thus, actors tend to invoke different identities associated with different logics of actions in different institutional settings. Identities, interests and logics of actions thus differ across contexts, and they must therefore always be analysed in relation to the dynamics of situations that involve different actors and institutions. Consequently, any approach that assigns unitary identities and fixed interests to actors, such as particular interests associated with group categories like race, class, ethnicity, gender, or sexuality, must be considered as problematical (Emirbayer, 1997, p. 308). This is not to deny that social categories and role expectations based on, for instance, nationality, religion, gender, class or ethnicity, may shape people's life chances. It is merely to say that such categories mean different things in different contexts. Actors tend to be embedded in different institutional contexts associated with different identities and interests that change over time and space. Institutional orders are therefore rarely static but subjected to re-evaluation on the part of reflexive and rational actors (*ibid*, p. 288).

Given the relational character of identities, interests and institutions, it is problematic to view societies as coherent institutional wholes such as "feudal society". Institutions may co-vary with each other and in periods of transition from one order to another. There usually occurs a 'lag-effect' where institutional remnants of old orders persist against the



pressures of the new. “Society” is therefore best seen as a complex of contingent, institutionally structured relationships (Somers, 1994, p. 626). The following section describes how I draw on this understanding of agency and institutions in analysing governance.

## **Transaction Domains, Domain Consensus and Governance Regimes**

As noted, in order to understand how governance is generated in complex societies, it is necessary to explain why actors draw on different logics of action in different institutional contexts. This thesis maintains that institutions establish different agreed-upon situation definitions according to which actors invoke particular roles and logics of action in different institutional contexts. It calls such mutually agreed-upon situation definitions transaction domains. The term transaction domain refers to a mutually agreed-upon definition of a situation according to which a particular logic of interaction, exchange or decision-making is considered socially acceptable. Transaction domains lay down particular routines according to which certain logics of action, such as profit-maximization, relational rationality, legal rationality, reciprocity, commitment, duty, and so on are considered appropriate or lawful. Each transaction domain is moreover associated with different deontic powers, i.e. rights, obligations, permissions, authorizations, and empowerments, pegged to a particular role or identity. Power and authority therefore tend to be differentially distributed within different domains. Hierarchical forms of governance may be accepted in some domains, whereas consensual forms of decision-making are required in others. For instance, civil servants in the administrative domain may be obliged to comply with orders, while members of a political committee are expected to make decisions in a more consensual manner.

In everyday life people generally encounter a range of different transaction domains in which they invoke different roles, identities and forms of decision-making. As consumers, family members, voters or civil servants, people enter into different transaction domains where they have different rights and obligations and where they consequently act according to different logics of action.

The distribution of resources and authority in different institutional settings is determined by the character of the overall structure of transaction domains, that is, the macro-distribution of different repertoires of socially acceptable practices and principles of decision-making and exchange. Accordingly, governance can be understood as relational processes of

concerted actions relying upon institutions that prescribe different logics of action in different institutional contexts. This suggests that societies do not exist as abstract coherent systems but as groups of people, brought together in particular places, who recurrently act according to a set of common transaction domains. Large-scale collectivities of actors may appear like coherent and clearly distinct entities such as “Canada”, provided that they have established a relative domain consensus, in that a sufficient amount of actors continue reproducing a set of common institutions. Domain consensus is a concept developed in organisation theory, and refers to “a set of expectations both for members of an organisation and for others with whom they interact, about what that organisation will and will not do” (Thompson, 1967, p. 27). I use this concept here to signify a general acceptance of a set of transaction domains. This definition applies to expectations about what actors will and will not do in social life in wider sense. Domain consensus is established when interacting actors share similar cognitive dispositions regarding behavioural expectations, rights and obligations that apply to a set of transaction domains.

Using this terminology, a governance regime denotes the way in which different transaction domains are interrelated in a particular institutional setting. A governance regime consists of a myriad of transaction domains around which domain consensus has emerged. Within the framework of a governance regime, resources are produced and allocated in different and distinctive ways. For example, in a liberal-democratic, capitalist welfare state actors may carry out different informal obligations as friends or family members; they accept that most rights to make collective decisions are delegated to politicians and officials; they may invoke their rights as citizens in relation to different welfare institutions while they simultaneously acknowledge the authority of public officials; they moreover accept that most private goods are allocated via the market, and that “democracy stops at the factory gates” as the well-known aphorism goes. Actors thus recognise a shared “script” according to which they are officially expected to invoke different logics of action in the roles of consumer, party member, citizen, public official, friend, relative, politician, and private company employee.

This means that institutions must be collectively accepted or complied with, reluctantly, carelessly or willingly, not only by groups in control of coercive means, but by a wider stratum of the population. Complex institutional orders like Western welfare regimes are made up of a multitude of transaction domains that structure social relations in different ways, each of which cannot rely solely on the probability of third party enforcement. This is not to rule out power-based explanations. It is to say that different forms of power are widely diffused in contemporary societies, and that

power is often exerted without a coherent purpose or functionality.

At least three different types of power can be distinguished within institutional systems. Firstly, there is coercive power in the Weberian sense, signifying “the probability that one actor in a social relationship will be in a position to carry out his will despite resistance” (Weber, 1968, p. 53). Within institutional systems, the exercise of coercive power tends to require a number of power-holders devoted to the same institutionalized norms.

Secondly, there is power in the sense of control of various needed resources, such as knowledge, labour, capital or legitimacy. Control over resources is seldom absolute, but if there exist asymmetries in the exchange relationship in that one of the parties has discretionary control over resources needed by the other, the one actor is provided with power over the other (Pfeffer and Salancik, 1978, pp 41-60). Valuable resources such as authority, skills, money or other instruments of power tend to be unevenly distributed among actors and organisations in any social setting. As a result, some actors and organisations usually have more bargaining strength, influence and control than others.

Thirdly, there is symbolic power, signifying the power to create or maintain institutions and to impose certain views or schemes of perception (Bourdieu, 1998, p. 46, p. 57). Only some actors have the power to set agendas or claim that “X counts as Y in C” in different social settings. Actors may also refuse to accept that “X counts as Y in C” and in so doing set an example for others.

In complex social settings one actor rarely controls all the conditions necessary for the achievement of an action, although some actors and organisations have more bargaining strength, influence and control over needed resources than others (Pfeffer and Salancik, 1978, pp. 41-60). Moreover, much power is possessed and exerted by ordinary people who therefore may constrain elite actions (Whitmeyer, 1997). For instance, people may find it hard to accept that particular logics of exchange are applied to certain domains of social life. In Sweden there is strong resistance to the introduction of market principles in the health care sector and in the higher education system. Some Swedes also find it offensive that the middle classes increasingly buy domestic services (mostly informally) instead of cleaning their homes themselves, since this is perceived as a return to the maid system of the old class society. Thus, what is accepted in some institutional settings may be contested in others.

## Analysing Context-specific Forms of Governance

By examining how governance regimes are constructed as different sets of interrelated transaction domains around which domain consensus has been established, it is possible to analyse governance in much more context-sensitive ways than by using concepts like state and civil society. Moreover the concepts of transaction domain and domain consensus allow the analyst to surpass simple dichotomies like *gemeinschaft* and *gesellschaft* and make more nuanced analyses of contemporary societies. Liberal democratic societies are not entirely based on self-interested market rationality as implied by the *gesellschaft* label. The defining feature of liberal democratic societies is that people are part-time individualists and part-time collectivists in different domains of social life (Picard, 2005, p. 91). As noted, if people were consistently self-interested, the liberal democratic order would collapse. The citizens of liberal democratic societies defend collective and individual interests in different social situations and on different levels of aggregation, which may be difficult to understand for outsiders.

Naturally, the character of governance regimes differs across countries and regions even in liberal democratic societies. As Esping-Andersen (1990) shows, different emphasis has been placed on market principles, administrative mechanisms and the family with regard to the distribution of welfare in Western capitalist welfare states in the post-war era. In countries like the United States, Canada or Australia, governments have mainly supported market solutions in the form of private welfare schemes, while only a minimum of means-tested welfare benefits have been provided by the government. The corporatist welfare regimes of continental Europe such as Austria, France, Germany, and Italy have been influenced by the church and therefore more committed to maintaining traditional family institutions. The corporatist welfare system has consequently promoted motherhood and discouraged female participation in the labour market. By contrast, the social democratic regimes in Scandinavia have established general social rights that have become extended to the middle classes. Governments are therefore assigned a heavy social burden in the social-democratic regimes. As a result, people have become more independent of market forces and the traditional family, while at the same time they became more dependent on the government (Esping-Andersen, 1990, pp. 27-28).

Wood and Gough (2006) apply Esping-Andersen's regime approach to regions and countries "which experience problematic states as well as imperfect markets". They add two regime types; informal security regimes

and insecurity regimes. Informal security regimes refer to institutional arrangements where people depend mainly or solely on community, family or kinship relationships to meet their needs. Insecurity regimes denote unpredictable social environments in which all institutional orders, including patterns of clientelism and informal rights, have collapsed. Such environments are consequently characterized by very high levels of social insecurity (ibid, p. 1699).

As this typology suggests, formal welfare and labour regimes may be structured in very different ways. Moreover, regimes can differ considerably with regard to the scope and character of their informal sectors.

### **State-Market-Civil Society; Components of a Formal Order**

Governance may occur through both formal and informal institutions. However, governance by means of hierarchies and markets tends to require a certain degree of formalization of social relations. A critical question regarding contemporary governance regimes concerns whether most economic and political activities rely upon, or are harmonious with, formal institutions. By formal activities I refer to actions that adhere to and rely upon the protection of formal rules (Portes, 1994, p. 427). The distinction between the formal and the informal is generally blurred since formal and informal activities tend to be intertwined in complex ways. Moreover, if actors actually conformed to all rules and regulations, some formal organisations would collapse. Yet, in order to achieve governance in contemporary complex societies, most actors and organisations have to accept and rely upon some formal institutions in their daily operations. In the absence of a minimum of shared rules, the capability to co-ordinate tends to be severely constrained because of the high levels of transaction costs involved. Any formal mode of governance thus requires certain established rules that can be enforced by a third party in case of need. What matters most in terms of governance is therefore not necessarily whether an actor belongs to a public, private or voluntary organisation, but whether s/he acts in accordance with formal rules. As noted, it is difficult to maintain a clear-cut analytical division between state and society or state and economy. This thesis therefore argues that public, private and civic associations are best understood as components of the same formal institutional order. In effect, this means that the idea of society being divided into distinct institutional spheres such as those of state, market and civil society is abandoned. Government agencies, parties, civic associations and private enterprises are instead regarded as legal entities constituted by the same formal institutional order, within which they are

allowed to operate in different ways according to a set of constitutive and regulative rules. From this perspective, formal politics, defined as the making and amending of collectively binding rules, emerges from political interaction processes between parties, interest organisations, officials, academics, lobbyists, civic associations, private companies etc that operate within the same formal institutional order. Within the framework of the formal order, public agencies, private corporations and civic associations may enter into conflicting or mutually empowering relations, scrutinize each other, or try to bring about institutional changes according to their particular interests. What matters most in this context is that they pursue and conciliate their interests within formal institutional constraints. It follows that the formal order may be defended by private actors against violations committed by public actors. Thus, formal rules are not always defended and enforced by “the state”.

The preconditions for governance are affected by the ways in which actors define individual and collective identities and interests, and the ways in which they invoke and act on these interests in different situations. Informal institutions such as customs, status systems, gender relations and other non-organisational identities may affect formal structures in various ways. Therefore, the entire set of formal and informal roles and identities must be taken into account in analysing governance. Different identities and roles may overlap and people may find it difficult to integrate them into a consistent pattern of values (Ahrne, 1994). “Informal” group loyalties and roles may prevail over formal roles. For instance, a public official or a private company employee may act in accordance with various informal logics of action, such as those of a criminal organisation. If informal roles, institutions and identities overshadow the formal order on a major scale, formal governance regimes will collapse.

From this viewpoint there is no contradiction between Putnam’s (1993) statement that a strong society empowers the state and Migdal’s (1988) assertion that a strong society may undermine a state. This is because Putnam and Migdal simply refer to different institutional orders. Putnam’s “strong society” operates within the confines of the formal institutional order whereas Migdal’s “strong society” contests it. A strong civil society, in the sense of a counter-hegemonic counterpart to the state, can only flourish in an environment where the formal institutional order is accepted and sustained by public, private and civic organisations jointly. Weak states in Migdal’s sense are not sustained by formal rules since they are co-opted or contested by clans, warlords and patron-client networks that follow rules other than those formally sanctioned.

## Exit, Loyalty and Voice from an Institutional Viewpoint

The ways in which actors relate to the formal institutional order may be conceptualized in terms of exit, voice and loyalty (Bekker and Leildé, 2003). Hirschman (1970) argues that exit, voice and loyalty represent three options people have when they experience decline in the organisations within which they operate. People may accept it and remain loyal to the organisation, or they may express their discontent through voice, hoping that this could improve the situation, or they can exit the organisation. Politically, Hirschman conceives of exit in terms of withdrawal from a relationship within formal institutional constraints. For instance, dissatisfied citizens or customers may express voice and complain about a particular good or service, or they may exit and buy the service elsewhere in the market, or even migrate to another country. Hirschman does not pay equal attention to exit in the sense of defection from the formal rules of the game, although he mentions that exit from the political realm tends to be branded as criminal (ibid, p. 17). From an institutional viewpoint, the exit option can be understood in terms of defection from the formal rules of the game. People may engage in activities that rely upon the formal institutional order and from this position express loyalty or voice, i.e., support for or resistance to the activities of public and private organisations operating in the formal sector, or they may exit the formal order, that is, quit acting in accordance with formal institutions and engage in various illegal or informal activities or resist formal activities actively.

In the context of a formal political order, exit can be expressed in a variety of ways. A large section of the population may strive to secede on the basis of a shared collective interest to form a separate nation-state. In such cases separatists may view the costs of loyalty to the existing formal order as higher than the costs of armed conflict. Alternatively, people may pursue various exit strategies on the basis of individual interests, for instance by migrating from the country or by disregarding the law. It is important to note that the exit option only makes sense in contexts where most economic and political activities are embedded in a formal institutional order. The distinction between formal and informal becomes irrelevant in cases where the informal is the standard operating procedure in every domain of social life (Portes, 1994, p. 444). Likewise, the voice option is primarily relevant in settings where a formal legal order is firmly institutionalized, and where the alteration of laws or the introduction of formal rights consequently matters in practice.

In a liberal democratic regime, people have to remain loyal to the basic rules of the game in order for the system to work, as Leftwich (1997, p. 527)

notes. The loyalty to the formal order may be founded on a shared sense of structural interdependence, a shared collective identity that provides for a general sense of ownership in the formal order, and/or the fact that people have economic stakes in the formal order, for instance, by being employed in the formal sector, by owning property or by having social rights to defend. Since most collective interests are mediated through representative institutions, people need to have stakes that are shared by others in the formal order. Groups sharing collective interests are then represented by various political organisations. Democracy therefore requires institutionalized channels for political interaction, structured so as to reflect the interests of different constituent groups and organisations. The institutionalized channels enable negotiations, bargaining and cooperation between the parties included. Thus, in a system of mass democracy, a critical mass of people must accept the formal channels for political expression and use them to air their voices and express their collective interests. Discontent groups have to struggle to change the character of the formal order, rather than ignoring or fighting it. Competing groups must also accept that they may not win the election and that the policy changes introduced by the government may be counter to its collective interests. However, in a liberal democratic order, the losers tend to have rights which guarantee that they do not lose too much. As Przeworski (1988, p 64) argues, liberal democracy can be seen as a system of power in which the most significant political forces recognise institutions that guarantee that their interests are not affected in a “highly adverse manner in the course of democratic competition”, At the same time “no group can guarantee that its interests will automatically or always prevail” (Przeworski, 1988, p. 64).

Networked modes of governance function somewhat differently. As noted, networked modes of governance are based upon direct participation of private and civic actors in project planning and implementation. Public, private and civic actors are summoned together on the basis of some kind of mutual interest in achieving governance around a particular project or issue. A governance network may revolve around the development of a city plan, or, as in the case of Integrated Development Planning in South Africa, attempt to jointly promote socio-economic development in a locality. Networked governance can be seen as a complementary division of labour between actors and organisations, public, private or civic, which operate within the formal order. Thus, networked governance not only requires a basic loyalty to the formal rules of the game. The actors involved also have to harmonize their goals to achieve governance. In other words, networked governance requires both goal and domain consensus.

Somewhat optimistically, Kooiman (2000, pp. 150-151) argues that



networked governance fosters co-operative behaviour, mutual adjustments and communicative actions rather than strategic and instrumental forms of rationality. Perhaps Kooiman overgeneralises from the Dutch experience. The Dutch system of “consensual corporatism” can be seen as an example of a political system that successfully incorporates key features of the networked mode of governance. Complex links have been established in the Netherlands between the public and the private sectors in order to promote agricultural and industrial development. According to Werlin (2003), the Dutch institutional order is held together by a common devotion to the politics of accommodation, pragmatism, and consensus, as well as a shared respect for independent experts and for the judiciary. The Dutch system of consensual corporatism relies upon a context-specific domain consensus which may have been established because of the country’s particular geographical location. Cooperation in the Netherlands has always been essential in order to collectively defend the country against the sea, as Hill and Hupe (2006) point out.

Networked governance differs from the liberal democratic model in that the actors involved in governance processes are not necessarily representative of nation-wide interests. As noted in Chapter 3, the spread of networked modes of governance in the last few decades is sometimes explained as a result of a general decline in the popular interest in traditional party politics. Proponents of networked governance argue that it is more flexible than the liberal democratic model in that new collective interests in society, which are not represented in parliament, can become included more rapidly (Burns and Kamali, 2003). However, networked governance may only be seen as representative to the extent that the policymaking arenas and project committees in which governance occurs include people who are regarded as representatives of wider interests in society. Furthermore, it may be difficult to tell whether the nodes in a governance network represent wider public interests or narrower, private interests. Public-private networks may of course be seen as benefiting wider interest in society, but whether this is the case or not must be assessed empirically. The character of the interests and identities (both self- and other-defined) of the actors involved in a project committee or a policymaking arena may thus be decisive for the legitimacy of this mode of governance in the eyes of the wider public. These matters must, however, be determined empirically. As noted in the introductory chapter, this thesis examines the implications of the introduction of a networked governance model in a South African context. The way in which different identities and interests are brought into play in relation to networked governance arrangements is thus a major concern of this thesis.

## Governance and Path-dependency

In accordance with historical-sociological institutionalism, the analytical framework used in this thesis is sensitive to historical and cultural variation. Although it relies on generalisable concepts, it only allows limited, historically situated analyses of governance given the open-systems character of human societies. Different governance regimes have emerged out of long-term interaction processes among people acting according to institutions with different origins that coincide in certain places and blend into various combinations (Ahrne, 1990). No mono-causal theory can therefore explain the institutional variation (or similarity) found in the world. This analytical framework acknowledges that there are many causes of the creation, diffusion and reproduction of institutions besides cost-benefit rationality, functionality and elite power, such as mimetic isomorphism. Given the prevalence of mimetic isomorphism, many countries have similar formal policies and institutional structures, although there are significant differences in the degrees of decoupling between the formal models and observable practices across countries and regions.

It is assumed here that the conditions for formal governance are affected by the historical processes through which formal institutions have evolved and diffused over the world. The gap between formal models and observable practices is likely to be greater in areas where formal institutions have been imposed rapidly through coercive and mimetic isomorphism, than in areas where formal institutions have evolved over longer periods of time in response to various domestic and geopolitical pressures.

This theoretical framework focuses on four analytical dimensions, considered to be of relevance for governance; resource dependencies (for instance on land, labour, capital, goods, legitimacy, knowledge etc), institutions, social identities (determining group boundaries and the articulation of collective interests) and the geo-political context. The interplay of these dimensions throughout history has generated highly fractious social relations in some areas of the world and more conciliatory relations in others. Thus, the emergence of different governance regimes results as much from historical accident as from conscious policy design. To illustrate this line of reasoning, the thesis briefly considers various scholarly attempts to explain the evolution and diffusion of modern forms of statehood.

The institutionalization of the rule of law, civil rights and universal suffrage is the outcome of a long and winding trail of interacting historical processes. It is only partly a result of conscious policy design. Gellner (1989, p. 255) emphasises that limited and accountable governments have not been established through the consent of the parties concerned. They emerged in a

few Western European polities when various parallel long-term developments coincided to generate a particular internal and external balance of power that enabled this particular form of domain consensus to be reached.

According to Gellner's (1989) deliberately simplified account, the historically predominant form of governance was based on shared norms and rituals, through which small communities of peasants or hunter-gatherers maintained their cohesion, solidarity and social roles. In areas where the agrarian production generated a sufficient surplus, specialists in warfare and in codified, scriptural belief-and-legitimation systems usually appeared. In general, warlords and religious specialists formed ruling coalitions in which the former offered military protection in exchange for religious legitimation from the latter. In such circumstances, peasants and tradesmen were dominated by a ruling stratum of kings, lords and clerics that were fed by the agrarian production and by the extraction of taxes from trade. The power of the rulers in such regimes depended on the loyalties of subordinate power-holders. Only a limited degree of central control and stability could therefore be attained, and conflicts between contestants for power were prevalent. While this type of governance regime generated a great deal of political turbulence, it was relatively static in terms of economic and cognitive development. The constant threat of arbitrary dispossession and extraction of the surplus production by lords "disincentivized" peasants from increasing their production. Intellectual innovation was discouraged since new ideas risked challenging the ideological hegemony of the religious class (*ibid*, pp. 99-103). Beyond the domains dominated by emperors, kings, lords and clerics, the potential for innovation and social change was circumscribed by the conformist, communitarian mentality of the local community (Gellner, 1996, p. 8). Moreover, in the absence of laws that assigned exclusive intellectual property rights to new ideas or innovations, few were willing to systematically invest private resources in such ventures (North and Thomas, 1973).

Scholars like Gellner and Douglass North and Paul Thomas essentially view the pre-capitalist order, described above, as a general prisoner's dilemma-like situation, from which only England and Holland managed to break out on their own in the 17<sup>th</sup> century. Gellner asks how the switch from the rule of coercers to rule of producers, from subsistence farmers to a market economy, was possible. His answer is that it was not possible and did not happen in most places: "On a single occasion, it did happen and it transformed the entire world" (Gellner, 1989, p. 277).

More recent historical research has downplayed the story of Western exceptionalism, emphasizing that intellectual change and economic growth also gained momentum in Asia in the late seventeenth and eighteenth

century. Yet, it is that clear that certain institutional features that were specific to North-Western Europe gave these developments a greater cumulative force for change than in the rest of the world. North-Western Europe and its North American colonies profited from stable legal and financial institutions that guaranteed rewards to economic advances. The European powers had also created efficient links between war, finance and commercial innovations which gave them a huge comparative advantage. Finally, modern forms of statehood based on national identities began to evolve in Europe (Bayly, 2004, p. 59-64). These developments made North-western Europe more dynamic, economically, intellectually and politically, than the rest of the world at the end of the eighteenth century (*ibid*, p. 473).

## **The Evolution of Formal Governance Regimes**

### **The Early Development of Territorial Statehood**

Western Europe in the tenth century was marked by the disintegration of the Western Roman Empire. It consisted of multiple overlapping defence systems, power-centres and jurisdictions dominated by feudal lords, the Christian commonwealth and the institutional remnants of the Holy Roman Empire in the Germanic principalities. As a result, different legal and moral orders and overlapping jurisdictions based on Church, Roman and folk laws as well as manorial customs co-existed (Rokkan, 1999, Sassen, 2006, p. 77). The church, lords, kings, emperor, and towns often exercised competing claims to jurisdiction. Moreover, bishops, lords, kings, emperor, and towns were all able to sign treaties and wage war (Spruyt, 1994, p. 12). A number of parallel long-term developments caused this order to change. Six centuries later parts of Europe had become organized into sovereign states. As Spruyt (1994, p. 16) points out, the rise of sovereign states entailed a radical break with older institutional forms based on non-territorial logics of organisation. The question is how this major institutional change came about.

In their seminal analysis, North and Thomas (1973) argue that feudal bonds and labour services were gradually replaced by new contractual arrangements and cash transactions between the eleventh and fifteenth century brought about by parallel demographic, technical and economic developments. Between the eleventh and the thirteenth century the population in Europe grew rapidly. New areas were cultivated, and urban centres grew along with a growth in trade. The expansion of towns and trade contributed to an increasing specialization and monetization of the economy making the feudal manor less effective and less self-sufficient. Money payments therefore gradually replaced manorial labour services.

By the fourteenth century the population had declined and land became abundant. This led to a shift in the patterns of resource dependencies and the lords in Western Europe had to compete for labour. As a result, the feudal obligations were further weakened and the peasants strengthened their rights to the land. When the population increased again in the middle of the fifteenth century, the basic feudal institutions had been dissolved to be replaced by market relationships and stronger property rights to the land. Besides the growth of towns and the increasing monetization of the economy, new military technology contributed to making feudalism obsolete. Warfare began to require far more revenues than could be acquired from the feudal manors. The military unit therefore had to grow in order to survive (North and Thomas, 1973).

While most scholars agree that changing military and economic circumstances led to the breakdown of feudalism, the causes of the emergence of sovereign states are contested. Some scholars, such as Tilly (1992), claim that the changes in the character of warfare largely explain the emergence of sovereign states. He argues that the changes in warfare triggered a process of territorial centralization. In Tilly's words "war made states and states made war". Against the background of intensified geopolitical competition, the rulers became increasingly dependent on soldiers, material resources and legitimacy. The European political and military elites were forced to take major risks since they relied on indirect rule via local and regional powers, and often faced resistance against taxation and conscription from feudal lords and peasants (Tilly, 1985, Tilly, 1992).

Spruyt criticises the argument that states emerged in Europe as a functional response to rising costs of warfare on the grounds that this line of reasoning suggests a functional, teleological process of state-making. In his view, there was nothing inevitable about the emergence of the sovereign territorial state:

This efficiency of scale argument suggests a functional, teleological process. It posits states as the inevitable result of exogenous constraints and thus commits the fallacies of unilinear explanations (...) Society does not necessarily generate the most efficient solution to environmental change. Society consists of a variety of identifiable actors who pursue a complex set of objectives. Political entrepreneurs seek to expand their power, burghers seek economic security, peasants might desire less control by their feudal and ecclesiastical lords and so on. Out of these competing interests come social alliances which create institutions. One cannot argue that a particular institution emerged as an efficient response to the environmental stimulus. That would be to deduce preferences from outcomes (Spruyt, 1994, p. 83)

In Spruyt's account, the weakening of the medieval order of empire, church and feudal lordships entailed a shift in the relative power of different social and political actors. This development enabled new forms of political interaction and, thus, new social bargains. The rise of an influential group of town dwellers following the increase in urban centres triggered new sets of arrangements between kings, aristocracy, towns, and church. Spruyt emphasizes that the burghers, who generally favoured changes in the existing institutional and conceptual frameworks, came to occupy a key position in these political bargaining processes. Towns were important resource bases for the rulers. The burghers in turn, preferred to side with powers that sustained systems of rule based on principles and procedures which protected private property and provided favourable circumstances for trade. To safeguard their interests and institutions, the burghers preferred to ally with other power-holders that could safeguard their interests and institutions. In some cases they formed city leagues, such as the Hanseatic League, or they entered into alliances with rulers in exchange for the granting of specific protections such as improved taxation arrangements (Sassen, 2006, pp. 52-53). Thus, in the wake of the decline of the medieval order a political repositioning took place when different social groups made new bargains in response to the changing circumstances. Depending on the nature of the political bargains, new institutional arrangements were established in Western Europe, most notably the sovereign state, the city league and the city state. In France the king and the burghers formed an alliance, enabling the monarchy to assert sovereignty over the church and the nobles. By contrast, in Germany the emperor of the Holy Roman Empire allied with the feudal lords against the burghers to win imperial control over the towns of Italy. However, the lords thereby gained increasing independence and the German towns consequently formed city leagues to safeguard their interests against the lords. In Italy, the nobles had similar interests to the burghers since they too engaged in commercial activities. Due to the failure of the imperial strategy, the Italian towns gradually developed into city states. Spruyt argues that sovereign states were established where the monarchy and the burghers were able to form coalitions. There was an affinity of interests and perspectives between the monarchs and the burghers in that both parties were anti-feudal and anti-clerical. Moreover, both monarchs and burghers favoured the adoption of centralized, rule-based administration founded on Roman law. Yet, as Spruyt (1994, pp. 105-108) suggests, they did not intend to establish modern forms of statehood. As monarchs and burghers pursued their different material and ideological interests, they unintentionally laid the foundation for the development of a state system.

Moreover, the seeds of liberal democratic political institutions were sowed in the centralizing polities. Collins (1999, p. 125) stresses the importance of alliances between rulers, who needed to expand and legitimize taxation, and towns that sought protection of property and trade, for the emergence of parliamentary rule.

From the twelfth to the sixteenth century fewer and fewer political centres extended their control over a larger and larger portion of Europe (Poggi, 2003). The processes of territorial centralization involved changes in institutions, social identities and patterns of resource-dependencies. According to Tilly (1985) the centralizing processes began with a unification of the elite stratum through the enlargement of the administrative apparatus. In these processes lords and other local power-holders were gradually subordinated under direct rule.

Poggi (2003) maintains that the new administrators began to identify more and more with the interests of the sovereign and the central administration. Thus, a new class consisting of administrators and officials who primarily identified with the overarching interests of the “state” came into being. In other words, the administrators developed a particular, synoptic ‘governmentality’ concerned with the promotion of the power and wealth of the territorial nation-state as a whole. This entailed a gradual “depersonalization” of the public office domain. In this way, hierarchies culminating in the office held by the sovereign were established. Rule could then be exercised in a much more focused and continuous manner.

Against the background of intensified geo-political competition, the rulers became increasingly dependent on soldiers, material resources and legitimacy. In order to gain legitimacy and get access to resources, the rules therefore tended to yield a variety of rights to key resource-holding groups. This led to the establishment of proto-parliaments and representative bodies such as the Estates General in France and the Spanish Cortes (Burns and Kamali, 2003, p. 268).

While attempts at reforming the church might have been unsuccessful in different circumstances, the pan-European church lost its hegemonic position in the processes of territorial centralization. These developments enabled the emergence of a new historically specific type of authority, namely sovereign authority, which claimed full jurisdiction over a fixed geographic territory and its population (Sassen, 2006, pp. 42-45).

Eventually, sovereign authority proved to be the most effective and efficient of all the institutional arrangements that emerged in the wake of the weakening of the feudal order. Moreover, the sovereign states only recognised similar units as legitimate actors in the system of international relations. The Hansa, for instance, was not recognised

as an equal participant at the Peace of Westphalia (Spruyt, 1994, p. 16). Thus, by mutually recognizing formal borders and specific channels of communication such as embassies, the sovereigns established domain consensus at the international level. This contributed to selecting out non-territorial political institutional arrangements.

Government administrations under sovereign authority achieved the symbolic power to launch major nation-building processes in which cultures and laws were standardized and national markets created through the removal of internal trade barriers, matched by tariffs for foreign competitors (Rokkan, 1999). Churches became part of the central administrations that promoted national collective identification after the Protestant Reformation. According to Anderson (1991), the rise of a free market of printed media in the vernacular language also encouraged the emergence of national identities as people began to identify with print-language mediated, imagined communities. The processes of centralization thus entailed significant cognitive shifts in the form of a reification and objectification of national sovereign authority.

Framed by the boundaries claimed and protected by the sovereign, the aristocracy and the burghers developed collective identities and interests that were formulated in terms of both class and nation since they had developed vested interests in the national institutional order. Struggles for control of the centralized administrations within the institutional structure of territorial statehood thus followed. In countries like France and Spain the balance of power tilted in favour of the monarch who gained power from the representative bodies and developed an absolutist system of rule. In Holland an oligarchy of merchants gained power. In England, parliament challenged absolutism and prevailed over the monarch. The absolutist regimes established local and regional monopolies with the support of the aristocracy. Taxes were imposed on the peasantry and the burghers in a way that restrained economic growth. By contrast, in England and Holland constitutional regimes that protected private property rights, patent laws and free labour, were established. Taxes in these regimes were extracted from urban and rural households with their consent (North and Thomas, 1973, p. 18). The groundwork was thereby laid for a limited version of liberal democracy and the rule of law, through which trade and private property were protected from abuses of power by the king or the nobility.

Geo-political fragmentation, political centralization, and power-sharing institutions were not unique European features, but these features happened to combine at a certain point in time in England and Holland in remarkably dynamic way. The entrepreneurial classes in England and Holland strengthened their position as a rights-bearing collective. The



burghers managed to carve out a private domain, sustained by civil rights, that prevented their suppression by religious and military powers (Sassen, 2006, p. 101). As a result, a domain consensus, based on the separation between the private and the public domains, and sanctioned by relatively efficient administrative organisations, was established. It can be argued that this development represented a combination of top-down and bottom-up forms of state-building. On the one hand, dominant elite groups sought to exercise symbolic power by imposing uniform administrative, legal and cultural structures. On the other, there was a demand for public goods and third-party enforcement of contracts by the burghers.

The type of domain consensus established between the sovereign and the burghers in the United Kingdom turned out to be a golden-egg-laying goose. It gradually became clear that a government would do better if, instead of exploiting its subjects to the limit, it protected the interests and rights of producers and tradesmen. The institutional developments in the United Kingdom thus triggered various processes of mimetic, competitive and coercive isomorphism.

## **The Wanderings of the Golden-egg-laying Goose**

Institutional reforms, with the aim of promoting capitalism, agricultural commercialization and industrialisation were launched in a range of countries with centralized administrations, generating similar changes in the patterns of resource dependencies across the reform countries. In addition, the commercialization of agriculture and the rise of industrialism led to a growing interdependence of the commercial, industrial and administrative sectors. At the same time, pre-existing communal “moral economies” weakened or dissolved as former smallholder peasants became proletarianized and moved into urban areas in search of employment. People became increasingly dependent on the sale of labour or on poor relief (Esping-Andersen, 1990, Zaretsky, 1985, p. 296). Europe was partially relieved from the demographic and social pressures following the growing agricultural commercialization, since it was able to export its “surplus populations” to the colonies (Bayly, 2004, p. 60). As Ferguson (2004, p. 103) points out, the British settlement in Australia was designed to solve the domestic problem of crimes against property. Yet, the national elites of Europe became increasingly pressured to actively respond to the “agrarian question”, since uncontrolled urbanization risked destabilizing the institutional order upon which their privileges rested. Conservatives and liberals were the first to set up the new welfare arrangements to avoid disorder and institutional disintegration. The responsibility for the poor and other dependent groups

was gradually transferred from the family and the local communities to asylums and other government institutions. Increasing emphasis was also placed on the family domain in educating both men and women to pursue different tasks in the market-based society (Zaretsky, 1985, p. 296).

Social relations became increasingly formalized in the wake of the diffusion of the Napoleonic code-like legislation throughout Europe in the nineteenth century. In this way, more and more people became subject to a legal order in which they possessed identical rights. This resulted in a growing demand for trained lawyers that were capable of servicing disputes (Bayly, 2004, p. 264). Even the popular reactions elicited by the “great transformation” became increasingly formalized. According to Tilly (1976) the long-term tendency of collective action in Western Europe was towards the forming of proactive social movements that made claims in the formal institutional order, beginning with direct resistance to centralization, in the form of taxation and conscription, on the part of local communities. In other words, collective action in Western Europe shifted from exit towards voice as new interest groups that demanded improved wages, formal protections, and extended citizenship rights were mobilized. The nature of the ruling coalitions thus changed in the wake of the great transformation. Their character differed from country to country depending on the social identities upon which new interests were mobilized, and the ways in which classes and status groups formed alliances within the framework of territorial political institutions. Different interactions between classes and groups such as workers, aristocrats, farmers, the bourgeoisie, and state officials generated different coalition structures and governance regimes in Europe.

Depending on the nature of the coalitions formed, there were different institutional outcomes. In Scandinavia, the farmers supported working class organisations in establishing wide-ranging welfare regimes in exchange for agricultural subsidies, while the right-wing was divided. By contrast, the strong position of the bourgeoisie in the Anglo-Saxon countries engendered less generous welfare regimes. In continental Europe, the corporatist model, favoured by conservative groups and by the Catholic Church, became predominant. This model derives from the organisation of the medieval city economy and distributes social rights according to status group memberships (Esping-Andersen, 1990).

Following the gradual inclusion of people into different formal governance regimes through the extension of the franchise and the introduction of various citizenship rights in the late 19<sup>th</sup> century, administrative power became increasingly directed at improving the social and economic situation of the majority of the people. At the same time, the defence of wages and employment became a national political concern. These developments

promoted a growing economic and political nationalism, and thus, a growing popular loyalty to, and stake in, national institutional orders (Carr, 1985). Hence, inclusive formal governance regimes with institutionalized channels for political interaction and checks and balances on executive power were established in Western Europe. They evolved through a complex, long-term interplay of geo-political circumstances, resource dependencies, institutions and social identities, upon which different collective interests were mobilized. Ironically, what began as sovereign war machines in the early modern era developed into fully-fledged, mass-democratic welfare states in the latter half of the twentieth century.

In settler colonies such as the United States, Canada and Australia formal institutions were successfully established since the British institutional culture had already formed the constituents. The settler colonies even promoted increasing representation in government affairs (Ferguson, 2004, p. 90). Domain consensus thus already existed, in relative terms, among the settlers, as Gellner (1996, p. 185) points out:

The Mayflower model, applicable to the situation in which a group of intellectually serious, self-conscious and lucid ideological migrants actually discuss and draw up the contract for a community which they are about to establish, is unusual, though it does sometimes occur. But even when this happens it can happen precisely because moral consensus between the members of this kind of community already exists. It precedes, rather than is created by, a collective act of will. It is possible just because a culture has already in effect formed the constituent assembly of a new society, and has given its members the will and concepts for so doing. Far from being pre-social raw human material, the Pilgrims were morally formed. It was precisely that which blessed their enterprise with success (Gellner, 1996, p. 186).

When the “non-settler” colonies gained independence in the 20th century, they became incorporated into the international state system and declared conformity to a worldwide model of formal state structure. As Meyer et al (1997) point out this model includes key features such as the claim to sovereign authority and self-determination over a territory and a demarcated population. The world wide model of state structure also defines appropriate constitutions, national goals, formal legal and administrative systems, ministry structures, domestic organisations and legitimate courses of action in a range of domains of social life such as politics, education, science, financial markets, the family and religion and legitimate identities around which political interests can be mobilized and organized (ibid). Formal state institutions thus spread

rapidly through processes of mimetic isomorphism in the wake of the decolonization processes. Still there was often a high degree of decoupling between formal models and observable practices in the former non-settler colonies. In these areas “the state carried the taint of being a foreign, white imposition on local, self-governing communities” as Bayly (2004, p. 265) notes. The tendency in sub-Saharan Africa was therefore that neither political parties nor public administrations accommodated themselves to the formal rules (Hyden, 2006a, pp. 26-30).

At the same time the former colonies tended to be integrated into a system of international resource-dependencies, which was not conducive to the development of a domestic market. The economies of the former colonies were often dependent on the export of one or a few export staples, such as sugar, cocoa, or oil. The mines or the plantations were usually run by foreign-owned companies which employed unskilled domestic labourers for low wages, while most skilled labour was brought in from abroad. This created economic enclaves that were profitable for the foreign companies and a selected few local interests, but not for the host societies as whole (Feinstein, 2005, p.93).

The prevailing patterns of domestic and international resource-dependencies, social identities and informal institutions were often inconsistent with the formal structures adopted when the former colonies became independent states. In other words, the specific kind of domain consensus required for the formal models to work was not in place. Several scholars have highlighted this tendency in different ways.

Hydén (1983) underscores the fact that the combined patterns of social identities and resource-dependencies have impeded the establishment of formal governance structures in Sub-Saharan Africa. His argument is that the economies in sub-Saharan Africa tend to be based on a rudimentary division of labour with a low degree of product specialisation, and thus a low degree of interdependence of the units of production. As a result, African governments are “suspended in mid air over society”, and therefore unable to function as “integral mechanisms of the day to day productive activities of society” (Hyden, 1983, p. 7). Economic activities are instead governed by informal social bonds that Hydén calls “the economy of affection”. The notion denotes networks of support among groups connected by kin, community or other personal affinities. Even politicians and bureaucrats are inclined to use public office to nourish relatives and other personal allies. As a consequence, the identities and interests related to the economy of affection tend to override formal roles and rules.

Chabal and Daloz (1999) also emphasise the inconsistency between formal models and the informal ways in which social relations and

collective interests are organized and defined in sub-Saharan Africa. In their view, public office has not become depersonalized in sub-Saharan Africa since office-holders tend to prioritize social identities and collective interests based on group memberships in communities and networks held together by ethnic, lineage or personal affiliations. African politics are therefore dominated by patron-client networks guided by a short-term logic of reciprocity between personal allies. The persistence of personalised relationships in the supposedly public domain undermines the formal order in Africa, according to Chabal and Daloz (1999).

Given the considerable degree of decoupling between formal models and actual practices in Sub-Saharan Africa, Jackson and Rosberg (1982) conclude that the weak states of Africa only exist as juridical entities recognised by the international state system, while they lack an empirical existence as formal institutional orders.

The following chapter turns the focus to the context-specific circumstances of South Africa. The presence of a large and growing indigenous population makes South Africa different from other settler colonies such as the USA, Canada, Australia and New Zealand (Feinstein, 2005, p. 1). Formal institutions in South Africa were established in a complex interplay of processes of coercive, competitive and mimetic isomorphism. On the basis of the analytical framework outlined above, chapter six provides a brief overview of the historical trajectory of governance in South Africa, leading to the current situation.



## 6. Governance in South Africa in Historical Perspective

This chapter places the analytical framework of chapter five in a South African context. It focuses on how governance has changed in South Africa as different groups, formed around a variety of social identities and institutions, with differential resource-dependencies have interacted under various geo-political circumstances in ways that have led to the formation of specific governance regimes from the 1600s until the present. Hence, the chapter examines a chain of historical events initiated in the period of early colonization with path-dependent consequences for the current political-economic situation in South Africa.

### **Governance Prior to and During the Early Colonial Period**

#### **Pre-colonial Governance**

The Cape area was inhabited by the Khoikhoi and the San (grouped together as Khoisan) who had lived there for millennia. The Khoikhoi society was centred on extensive pastoral agriculture while the San lived as hunter-gatherers. The Khoisan peoples were held together by kinship ties and informal rankings, and they moved across vast areas of land in accordance with strategies based on seasonal vegetation changes and ritual observances (Fagan, 1984, pp. 31-34). The eastern and north eastern parts of today's South Africa were settled by Bantu-speaking ancestors of the Zulu, Swazi, Xhosa, Sotho, Tswana and Pedi peoples (Feinstein, 2005, p 16).

Given the endowment of natural resources in the area and the institutional structure of the pre-colonial societies, they lacked the conditions required for sustained economic development. The pre-colonial societies of Southern Africa tended to be organized into chiefdoms or hunter-gatherer communities. The chiefs usually ruled through various councils, and by distributing rewards, mainly cattle, to their subjects. The chiefdom system was relatively unstable and succession disputes were common (Davenport and Saunders, 2000, pp. 72-75). Because of the abundance of land, the pre-colonial societies could easily break up into smaller factions, rendering continuous political and geographical stability difficult. In addition, the indigenous communities were engaged in similar economic activities and they consequently lacked incentives to trade. Cattle, the main asset of the indigenous societies, were not only of economic significance, but had functions of great cultural and institutional significance. Cattle were the

means of exchange and means of accumulating, storing, and reproducing wealth. Surplus was accumulated in cattle, and they were also used to pay dowry and tribute, or were seized in raids. Thus, the main economic resource was circulated rather than accumulated in the pre-colonial societies of Southern Africa (Feinstein, 2005, p. 20).

## The VOC regime

The arrival of the Dutch East India Company, the Vereenigde Oostindische Compagnie (VOC) at the Cape in 1652 entailed institutional changes at the tip of Africa. The VOC had no intentions to set up a colony, but the company needed more supplies than it could produce from a few gardens in Cape Town. In 1657, it therefore released nine company servants and allowed them to establish private farms in the hinterland to grow grains and breed cattle and sheep. VOC servants were often peasants or labourers from Europe who, by getting employment in the company as sailors or soldiers, could leave a marginalized existence in their country of origin. The VOC also allowed French Huguenots who fled religious persecution to settle in the Cape. In this way, a class of freeburghers, with vested interests in the development of the settlement, emerged at the Cape (Giliomee, 2007a, pp. 46-47, Terreblanche, 2002, p. 154).

During its first decades of existence, the governance regime established at the Cape settlement was designed to serve the short-term interests of the VOC. The company was practically a sovereign power. It had the right to recruit soldiers, wage war and enforce Dutch laws and company regulations in its settlements (Giliomee, 2007a, p. 41). The VOC did not allow any production of manufactured goods at the Cape since it wanted to avoid competition with manufacturers in Holland. The freeburghers had to sell all their produce to the company at low, fixed prices since the Company did not want to pay market prices to supply their ships (Feinstein, 2005, p. 23).

Initially the VOC commander Jan Van Riebeeck considered enslaving the Khoikhoi but, as he feared that this could lead to unmanageable conflicts, he assigned the Khoikhoi the status of free people. The settlers were thus prohibited to enslave or conquer the Khoikhoi (Elphick, 2007, p. 50). Instead, the VOC imported slaves from other parts of Africa and Asia. Between 1652 and 1808, when the slave trade was abolished, about 63000 slaves had been brought to the Cape (Shell, 2007, p. 53). Even though the Khoikhoi were not immediately subordinated to the colonial order, their society would still change due to the colonial presence. The Khoikhoi had resources other than labour which were vital to the European settlers, mainly land and cattle, and the settler's hunger for land and cattle would prove fatal



for the Khoikhoi's way of life. As the freeburghers stole or bought cattle and annexed previously communally owned pasture lands, upon which they established individual ownership, they eroded the Khoikhoi's economic independence and disrupted their long-standing mode of governance based on the distribution and circulation of cattle. Deprived of cattle and pasture land, the Khoikhoi societies ceased to function as coherent units (Elphick, 2007, p. 50, Fagan, 1984, p. 38-40, Ross, 2001, p. 28). They gradually lost their economic independence, and became subjects to Dutch law. As such, they were fairly well-treated by the Dutch courts (Elphick, 2007, p. 52)

In the VOC regime different legal status was assigned to different groups. There were four main status-groups in the settlement; company servants, free burghers, natives, and slaves who were considered as private property. Although race and status-group belonging often coincided, the latter rather than the former was the main determinant of rights and obligations in the colony. The master-servant relationship permeated all domains of social life such as the labour market, the Courts, the family and the church. The public domain was reserved for company servants, freeburghers and to some extent, natives while slaves belonged to the private sphere since they were regarded as property. Given the structure of the VOC regime, the poor European settlers developed a strong fear of ending up on an equal footing with the slaves (Giliomee, 2007a, pp. 45-47). Claiming that this order was based on a domain consensus would of course be offensive. Nonetheless, it relied only to a limited extent on outright coercion. As Giliomee (2007a, p. 45) points out, the VOC regime depended on the different groups policing themselves by "accepting and internalizing their official status group". While slaves were physically punished in gruesome ways if they did not comply with orders, the master's control of the slave did not primarily depend on coercion, especially not on isolated farms. The slaves were incorporated into a paternalist system in which they belonged to a hierarchically structured household. The slave system mainly relied on symbolic power and resource-control. Uprooted from their own family and culture while at the same time lacking rights in the public sphere, the slaves had few options other than remaining loyal to the paternalist household (Shell, 2007, p. 56-57).

The VOC established a local government system which provided the burghers with a formal channel for political interaction regarding local government affairs. The system consisted of drostdy, the seat of local government, an appointed company official, the landdrost, and four burgher councilors, heemraden (Giliomee, 2007a, p. 59). The councils had the authority to appoint veldcornetten, i.e. officials organizing the military force, the commandos, which had been established by the VOC (Terreblanche, 2002, p. 165, p. 170).

The VOC pursued mercantilist policies, giving a considerable degree of direct control over the economy to their administrators, many of whom exploited this power to enrich themselves. VOC officials often ran private businesses and granted themselves loans, contracts and monopolies. As a result, the borders between the public and private domain basically dissolved at the Cape and the power over the economy became concentrated in the hands of a small, closely knit patronage network of officials, merchants and members of the landed gentry, based on kinship and marriage ties (Peires, 2007, pp. 87-88).

By the early eighteenth century, the economic capacity of the Cape colony had expanded beyond the needs of the VOC, and the negative impact of its monopoly began to be felt by many freeburghers. Against this background, an increasing number of freeburghers were induced to move away from Cape Town, and, thus, further away from direct VOC control (Feinstein, 2005, Terreblanche, 2002). In 1714 the VOC agreed to establish a so-called loan farm system, which gave farmers the right to use new land for a small annual fee. Many farmers encouraged their sons to establish their own farms in the interior, which led to the emergence of a frontier economy in which land was plentiful and cheap while labour and capital were in short supply (Giliomee, 2007a, p. 62). Under these circumstances, a new class of roving cattle farmers, trekboers, came into being. The relatively small group of trekboers made claims to a vast areas of land in the interior, upon which they established huge cattle farms, even in areas that allowed more intensive forms of farming (Feinstein, 2005, p. 25). The loan farm system gave rise to an unsystematic colonization of the Cape, which constrained the development of a more economically dynamic, urbanized society. Although the VOC government did not appreciate this development, it continued to endorse the loan farm system since it provided potentially rebellious poor burghers with an avenue of new life opportunities (Giliomee, 2007a, p. 63)

The administration of the interior was left to the settlers themselves, with the exception of the landdrost. As a result, the networks of patronage that dominated Cape Town were reproduced on a smaller scale in the interior (Peires, 2007, p. 88). After introducing the loan farm system, the VOC devolved the responsibility for the defence of the interior to the burghers. The commandos thereby came under civilian control, and the trekboers achieved a considerable degree of self-sufficiency. It also became more difficult for the VOC to enforce its laws and regulations in the interior. Several trekboer farmers, who lacked the financial means to purchase slaves, began to subjugate Khoikhois as serfs illegally. Slaves and serfs were prevented from staging rebellions since they were scattered among a large number of farms and estates (although rebellions did

occur, such as in 1799 when a major revolt was staged by the Khoisan). In this way, the paternalist family domain, based on unfree labour, was extended to the frontier areas where family-run farms became virtually autonomous (Terreblanche, 2002).

Taken together, the specific factor endowments, the absence of major geopolitical pressures and the setting up of a collective defence system, enabled the trekboers to establish a more or less self-reliant paternalist serfdom regime. It is reasonable to assume that the uncontrolled manner in which the Boers settled had major path-dependent consequences for the subsequent history of South Africa. Feinstein (2005, pp. 25-27) contends that the Boers became isolated from new ideas, were unwilling to take part in commercial activities and viewed the claim of each man to a large farm as an inherent right. In some respects the trekboers had more in common with Africans than Europeans, although they were continuously tied to the market since they needed weapons and tools from the outside world, according to Giliomee (2007a, p. 67).

It seems as if the regime established by the trekboers primarily served the myopic concerns of individual farmers. The trekboer society in the interior was to some extent a 'stateless' society, designed to serve the micro-interests of the farmers, rather than broader, synoptic concerns derived from an overall 'governmentality'. At the same time, a sense of political consciousness had developed among some Cape Burghers who embarked upon a bottom-up process of state-building in which they fought for a clearer definition of their rights, the codification of laws and representation in the Company's Council of Policy regarding matters that affected them. The 18<sup>th</sup> century also witnessed the development of new collective identities among the people of the Cape, defined in terms of their race, religion, culture and their differential access to various resources. Most of the European settlers came from the Netherlands, Germany and France. They therefore could not draw on a single national identity derived from their country of origin. Instead, they began to see themselves as members of a distinct community called Afrikaners (Giliomee, 2007a, pp. 70-71)

The system of governance established by the VOC had considerable path-dependent consequences for the ensuing history of South Africa. According to Giliomee, three policy decisions made by the VOC had a particularly profound effect on the subsequent character of the colony: Firstly, it promoted independent agricultural production by Europeans. Secondly, it used slaves rather than free workers which meant that the colony became characterized by the mentality of a slave society. Thirdly the VOC allowed an unsystematic colonization of the interior (Giliomee, 2007a, p. 60)

In short, in terms of resource dependencies, the European settlers' hunger for land and labour entailed disorderly colonization and the establishment of a slave society. Pre-colonial modes of governance were thereby interrupted and the natives were subordinated to the settler regime. The VOC regime assigned different legal status to groups, which contributed to promoting social identities and group boundaries along intersecting class, racial, ethnic and religious lines. Through the commando institution, and in the absence of major geo-political threats, the early European settlers achieved a high degree of self-sufficiency and were able to mould a paternalist order that served their short-term interests.

## **The British Colonization of South Africa**

The power of the VOC declined by the end of the 18<sup>th</sup> and its rule over the Cape ended in 1795. Three years later, the company disintegrated. The Cape was sporadically occupied by Britain between 1795 and 1803, and was conclusively annexed by the British in 1806, although it did not get formal status as a proper British colony until 1814 (Peires, 2007, p. 85). With the British takeover of the Cape, a gradual "Anglicisation" of the institutional order followed.

The British Colonial Administrations encouraged British settlement in the current Eastern Cape, where the settlers came into conflict with the Xhosas. This resulted in a row of more or less informal, low-intensive wars along the Eastern Cape frontier which lasted until the 1850s. Queenstown was laid out by the British in 1853 as a part of a strategy of creating a defensible boundary on the Eastern frontier (Davenport and Saunders, 2000, p. 140).

Many of the British settlers who were drawn to the Cape were artisans with an urban background. They often left the smallholdings to which they were allocated to take up trade, manufacturing and other skill-based careers in the towns. This group of settlers had enjoyed limited democratic rights in Britain and they demanded similar rights and equal treatment by the British colonial administration in the Cape. They had little tolerance for the monopolies established by the first European settlers (Peires, 2007, p. 86). The British immigrants, along with European Jews, became very successful in South Africa. Most prominent positions in the private and the public sector came to be held by English speakers (Giliomee, 2007c, p. 189)

The British viewed the VOC regime as a failure. The company had neglected education, inhibited the development of trade and enterprise and failed to check trekboer expansion. Some English commentators also called attention to the Afrikaners' lack of major cultural achievements. Convinced that English institutions were superior, the British government

took it as its task to develop and civilize the Cape, and it embarked on a process of administrative and cultural standardization (Giliomee, 2007b, p. 96). Given the lousy performance of the VOC system, the British reformers believed that the Afrikaners were disqualified from holding official positions (Peires, 2007, p. 89). They abolished the loan farm system, which they saw as a main cause of the lawlessness on the frontier, and in its place they introduced a system of quitrent title, requiring farms to be properly surveyed and clearly marked by beacons (Giliomee, 2007b, p. 84). The British reformers improved the capacity for land surveying; they did away with monopolies and local taxes, and developed the infrastructure and the postal service system so as to facilitate trade. In addition they reformed the public administration and the judiciary in order to come to terms with the widespread clientelist practices of the VOC era. From then onwards, the future judges were brought in from the British bar and all Cape lawyers needed a British degree. The landdrosts were replaced by Resident magistrates and the hemraaden were abolished (Peires, 2007). The burghers thus lost their traditional channel of representation in local government. British local government conventions and terminology such as mayor, town clerk, councillors, by-law powers, the standing committee system and the concept of a municipal corporation were introduced in the Cape Colony in 1836 (Ismail et al., 1997, pp. 41-42). English was gradually imposed as the only official language. Free public schools that gave instructions in English were established in the main towns (Giliomee, 2007b, p. 96). The British also introduced several humanitarian reforms. The slave trade was abolished in 1808. Through the passing of Ordinance 50 in 1828, “people of colour” were given the right to own land and they were no longer required to sign indentured labour contracts in the Cape. Slavery was abolished altogether in 1838. The prohibition of unfree labour provided labourers with some rights, but the purpose of the labour market reforms was not entirely humanistic, since they also contributed to distributing labour more evenly between English and Afrikaans farmers (Peires, 2007, p. 89).

The 1853 Cape constitution established the Cape parliament and granted all male citizens who had certain income or property qualifications the right to vote, regardless of their racial identity (Ross, 2001, p. 52). A limited version of bourgeois liberal democracy was thereby established in the Cape, even if the liberalization came with important restrictions. The breaking up of unfree labour relations entailed the commodification of labour and the free men became dependent on employment to survive. The racial structure established during the slavery days remained largely intact, though, as Peires points out, “the distinction was no longer

between free and unfree but between rich and poor” (Peires, 2007, p. 89). Moreover, labour repressive measures such as pass laws and anti-squatting laws were introduced in the Cape Colony. Thus, while the paternalist order in the Cape was dismantled, new repressive labour laws that served to maintain the system of unfree black labour were introduced (Terreblanche, 2002). Yet, the emancipation of slaves did lead to significant changes in that it marked the end of “the days of complete submission” as Giliomee (2007b, p. 92) notes.

Many Cape Afrikaners found themselves being colonized by a foreign power and had difficulties accepting the new institutional order. The governmentality of the British administrators not only threatened the vested interests of the Afrikaners, it also represented a conception of government power and law that was unfamiliar to them. As British subjects everyone in the colony was equal before the law, at least formally. Consequently, all social relations, including the labour patterns and property relations established by the first European settlers, had to be altered. Many Afrikaners viewed the emancipation of slaves as an intrusion into their household domains and as interference in the “proper” relations between master and servant (Terreblanche, 2002, p. 185, Feinstein, 2005, p. 30). The British reformers were therefore unable to forge domain consensus in the newly established governance regime. The Dutch-speaking settlers continued to defy any form of *gelykstelling*, i.e. social leveling, when slaves demanded formal rights. Moreover, by abolishing slavery the Colonial administration removed an important form of property in the Cape colony (Giliomee, 2007a, pp. 79-80).

The attempts to impose British institutions upon the Cape Colony triggered feelings of cultural humiliation and nationalist reactions among the Afrikaners and the black South Africans. With the arrival of the British, Afrikaner entrepreneurs began to use printed media to forge their own print-language mediated, imagined community. The first Dutch-speaking newspaper in the Cape appeared in 1824 (Giliomee, 2007b, p. 96). In the wake of the British reforms, many Cape Afrikaners chose the exit option and migrated into the interior in the 1830s and 1840s in what is now called the “the great trek”, instead of voicing their concerns or remaining loyal to the new institutional order. There were several reasons for the great trek. The abolishment of the loan farm system led to an increasing competition for land in the Cape, which pushed up the land prices. The shortage of land also prevented the Boers from upholding their extensive system of cattle farming (Feinstein, 2005, p. 30-31). Some Afrikaners could not accept their loss of patriarchal authority over slaves, and the lack of representation in government affairs after the removal of the *heemraden*. Thus, lack of

land, labour and representation left many Afrikaners feeling increasingly marginalized in the Colony, and they chose to exit the colonial order by joining the Great trek (Giliomee, 2007b, pp. 110-111).

Despite resistance from various indigenous groups the Vortrekkers managed to establish two inland republics, the Republic of the Orange Free State (Oranje-Vrystaat) and the South African Republic (Zuid-Afrikaansche Republiek) in the 1850s (The Voortrekker republic of Natalia was annexed by the British and turned into a separate colony in 1845). At that time, the British seeing little point in maintaining British control over the interior, recognizing the Boer Republics' right to independence (Feinstein, 2005, p. 30-31).

The Afrikaners who left the British sphere of influence managed to recreate the paternalist regime, which prevailed in the Cape before the arrival of the British colonial authorities, in their new republics. The constitution adopted in the South African republic concluded that "the people desire to permit no equality between coloured people and the white inhabitants, either in church or state" (Feinstein, 2005, p. 74).

The political economy of the Boer republics was characterized by a surplus of land and a shortage of labour and capital. This pattern of resource-dependency resulted in a growing competition for black labour between larger and smaller landowners. Against this background the Boers were divided into two groups who established different relations with the black peasants. A smaller group of notables promoted squatting by rent-paying tenants while a larger group of small landowners offered sharecropping contracts to black peasants. As a result, black South Africans did not become proletarianized to the same extent in the Boer republics as in the Cape. They even did reasonably well in the Boer republics (Terreblanche, 2002).

The two Boer republics were in a dire economic state during the first decades of their existence, and their formal institutions were very weakly established. In the South African republic, regions with different personal leaders fought for power in the 1850s and 1860s. By the 1880s, the Free State Boers had established domain consensus, whereas the South African republic remained weak and heavily indebted (Giliomee, 2007c, 194).

After decades of more or less intensive conflicts between settlers and the Xhosas along the Eastern Frontier, the area was eventually incorporated into the Cape Colony in the mid-1850s, with the exception of Transkei which remained African territory. The British governor introduced direct rule over the Xhosas in an attempt to assimilate them into the formal order of the Cape Colony. In the face of defeat and institutional breakdown (and the simultaneous spread of a cattle disease), many Xhosas sought salvation

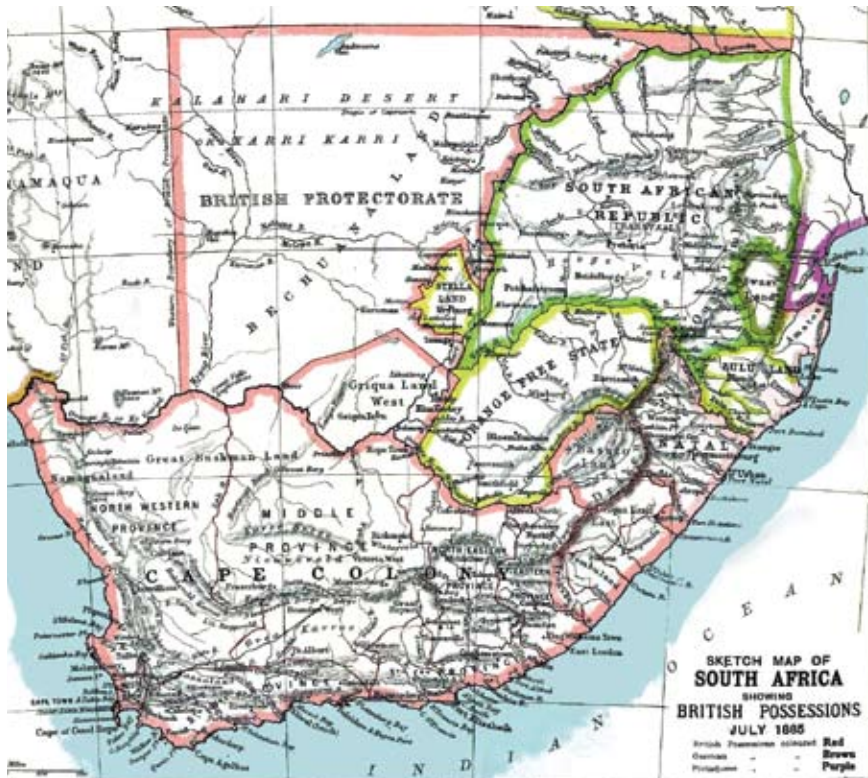


Figure 6.1 South Africa 1885

and relief in a religious prophecy. This set off the millenarian Cattle-killing campaign in 1857 in which thousands of Xhosas slaughtered their stock and destroyed their crops in the expectation that this would drive the white men into the sea (Davenport and Saunders, 2000, pp. 141-142, p. 148). As a result of the Campaign, about 40 000 Xhosas starved to death. A similar number entered into the colonial society to become wage labourers. About 10 to 20 percent of the Xhosas, who did not follow the prophecy, established themselves as a relatively successful farmer class. The Xhosa farmers became integrated into the formal institutional order sanctioned by the liberal Cape government, in which they enjoyed various civil rights and had access to education, information, knowledge and markets on equal terms with the white settlers (Manson et al., 2007c, p. 177).

To sum up, the British annexation of the Cape colony entailed the establishment of a limited version of liberal democracy in the Cape Colony. While the population was given equal legal status in theory, the unequal pattern of resource-distribution remained, leading to an increasing commodification of labour. Many Xhosas were subordinated to the colonial order as labourers. At the same time, some Xhosas



established themselves as a property-owning farmer class. The British institutional reforms threatened the vested interests of the early European settlers, who identified themselves as Afrikaners, many of whom chose to exit the colony for the interior where they sought to establish an institutional order that was familiar to them. Since the British had no geo-political interests in the South African interior, they recognised the Boer Republics' right to independence. This situation would change with the advent of the mining revolution.

## **The Making of the Modern South Africa**

### **Social and Economic Changes in the Wake of the Mining Revolution**

Diamonds were discovered in South Africa in the late 1860s. With the discovery of valuable minerals, the political-economic situation changed radically all over Southern Africa in the late 1800s. Prior to the mining revolution, the South African economy was poorly developed. The mining revolution became the engine for a more general process of economic modernization. In this respect South Africa differs from other European colonies in Africa in which the domestic markets remained underdeveloped. This was mainly because South Africa, with its favourable climate, attracted a large number of people with sophisticated economic skills to settle there permanently. The European immigrants brought with them sophisticated financial and legal institutions through which the mining economy could become integrated into the wider South African economy. As a result, the mining revolution generated a more wide-ranging transformation of the South African economy than would have been the case in the absence of a rapidly expanding local market embedded in a formal institutional order (Feinstein, 2005, pp. 97-98).

The discovery of gold and diamonds entailed massive social consequences. The financial and commercial elites shifted their interests from the Cape to the Rand gold mines in the South African Republic, outside of British control. Racial attitudes and the relations between different groups in the South African society also changed in the wake of the mining revolution. The Cape liberalism lost ground in favour of the ideology of segregation, which sought to legitimize territorial, socio-economic and political segregation between whites and blacks. The Cape elite gave up the idea of assimilating black Africans into the European institutional order, and instead believed that black people had to be ruled in accordance with their own institutions in reserves set aside for natives. The Cape constitution was altered in 1887 and 1892 to exclude blacks from the vote and to raise the property qualifications for the franchise (Giliomee, 2007c, p. 187, Terreblanche, 2002, pp. 253-260).

Different institutional orders were established in “black” and “white” areas. By the end of the nineteenth century when the frontier wars had come to an end and most of the land had been taken over by European settlers, individual title mainly remained a privilege of the European settlers while communal tenure became the norm in the Reserves or on Crown land set aside for blacks (Davenport and Saunders, 2000, p. 191). In this way, institutions and land use practices, which still remained after the democratic transition in 1994, were consolidated.

The mines required access to cheap labour, and the Cape elite therefore began to promote measures to force blacks to seek wage employment. As a result, the black peasant economy of the Eastern Cape weakened and Transkei gradually turned into a labour reservoir. At the same time, the Cape government introduced various subsidies and grants to promote the commercialisation of white farms (Seekings and Nattrass, 2006, p. 75, Terreblanche, 2002, pp. 253-260).

A racial division of labour was established in the mines. The mineworkers were also residentially segregated on the basis of race. Skilled labourers were brought in from Europe to perform more complicated tasks for higher wages than Black workers, who had to do heavy labour for a minimal wage. While the European immigrant workers were allowed to live in their own homes, black workers became pass-carrying “gastarbeiters” in the cities, where they had to live in closed compounds. This discriminatory way of organizing labour relations set the standard for the subsequent structure of South Africa’s industrial economy (Callinicos, 2007, p. 206, Manson et al., 2007b, p. 163).

The migrant labour system enabled the mining sector to justify wages below the subsistence level on the grounds that employment in white areas was just a complement to the economic life in the reserves (Terreblanche, 2002, p. 262). The transformation of the reserves into labour reservoirs entailed considerable shifts in governance in the reserves. Women became household heads, and by performing unpaid labour in the households they subsidized the mining economy, which paid artificially low wages to the migrant workers. Moreover, as the colonial authorities set up a system of indirect rule which relied on clientelist ties with compliant traditional leaders, they became accountable to the colonial government rather than to their subjects. As a result their authority, along with the social solidarity in the rural areas, weakened (Callinicos, 2007, p. 205).

The mining revolution also brought about major socio-economic changes in the Boer Republics. After the 1880s the frontiers closed and the land prices increased. Land ownership became concentrated in the hands of larger landowners and mining companies, putting poorer Boer farmers, who often lacked market access, under pressure. It became more and more

difficult for a new generation to buy their own farms, especially due to the high birth rate among the Boers. Many of them were thus forced to stay on the farms with their parents and siblings, and eventually, the farms could not support the increasing number of people. These developments gave rise to the so-called 'poor white problem', i.e. the emergence of an impoverished, mainly Afrikaans-speaking, white proletariat who migrated to the towns where they, most reluctantly, had to compete for unskilled jobs with African workers (Feinstein, 2005, p. 84-85).

In brief, the mining revolution entailed a heightened level of economic interdependence across Southern Africa. Growing demographic pressures in combination with an increasing lack of land led to a growing proletarianisation of both blacks and whites. At the same time, racial identities gained in significance with the growing influence of the ideology of segregation. Consequently, a racial division of labour was established in the mines. In terms of institutional developments, the mining revolution attracted many Europeans immigrants, who brought with them sophisticated financial and legal institutions. Black South Africans were not fully included in the formal institutional order. While white settlers enjoyed individual property rights, communal tenure became the norm in the reserves.

## **The New Geo-political Context**

In the wake of the mining revolution a new geo-political situation emerged in Southern Africa. Prior to the discovery of diamonds and gold, only the coast line of South Africa was of strategic interest to the British Empire. The emergence of the mining economy had massive geopolitical implications. The independent Afrikaner republics and the black kingdoms became strategically important to the British, who began to see them as political anachronisms that held back economic development (Manson et al., 2007b, p. 164). In the 1870s the British Empire therefore set out to defeat all independent South African polities (Feinstein, 2005, p. 35). The British expansion sparked off a process of centralization among the Black kingdoms. Some kingdoms, such as the Zulu state, successfully resisted the Europeans for a time but eventually most of them succumbed to the European pressure (Davenport and Saunders, 2000, p. 75).

At the end of the 1870s, the South African republic remained divided and headed for bankruptcy. In 1877, it was annexed by Britain and turned into a British colony. The British administration reformed the public administration and improved the Republic's finances, but this takeover was not fully accepted and a resistance movement emerged. The annexation

promoted nationalist sentiments and collective loyalty among Afrikaner republicans, who, under these circumstances, were able to finally unite themselves and forge domain consensus on a governance regime. In the 1880s the Republic's sovereignty was reclaimed after Afrikaner republicans had defeated a small British force. In 1886 the world's largest single source of gold was discovered in the Republic. Its economic performance improved drastically and Johannesburg became the main economic hub in Southern Africa (Giliomee, 2007c, p 195-196).

The policies pursued by the South African Republic contradicted British interests in several respects. The Republic used economic protectionism to promote industrialization, thus coming into conflict with the interests of the British-dominated mining industry, which complained about high prices (Giliomee, 2007c, p. 196). The Republic also remained sensitive to the labour needs of its farmers. British mining companies were critical of the way in which the agricultural sector was organized in the Republic, since it did not 'release' sufficient amounts of labour for the mines (Feinstein, 2005, p. 35, Terreblanche, 2002, p.230, pp. 242-243). Moreover, in the wake of the economic boom, many European immigrants entered into the Republic. The Afrikaners feared that the growing uitlander (foreigner) presence and the increasing British influence would come at the expense of Afrikaner traditions (Davenport and Saunders, 2000, p. 107, p. 242). The South African Republic therefore excluded the uitlanders from getting citizenship and the right to vote. Externally, the Republic strengthened its economic and political relations with Germany, and it established a railway link to the Portuguese-controlled port of Delagoa Bay, through which it gained access to a coastline beyond British authority. Britain needed to ensure that the gold-mining industry sent its gold to the Bank of England rather than to a powerful European rival like Germany, and it could therefore not tolerate a wealthy, potentially antagonistic independent state in Southern Africa. Officially the British referred to their concern over the treatment of immigrants as a justification for the imposition of Imperial authority over Southern Africa. In 1895, Britain tried to provoke a war by attempting to stage an Uitlander rebellion which could justify a British invasion. This strategy failed and the Boer republicans became ever more hostile to British imperialism (Nasson, 2007, p. 206-210).

The tensions between the Brit and Afrikaner erupted in 1899 with the outbreak of the second Anglo-Boer war. The Boer republics, which had entered into a pact, were successful initially but the Empire struck back with a much larger army and captured the capitals of the republics. The Afrikaners did not cease fighting despite the fact that Bloemfontein and Pretoria had fallen into British hands. Instead, they launched a guerrilla

warfare campaign in the rural areas. The British responded with a ruthless scorched earth strategy, in which imperial troops burned down thousands of farms and interned women and children in concentration camps in order to cut off Afrikaner troops from their agrarian lifeline of civilian food supplies, shelter and moral support (Nasson, 2007, p.214).

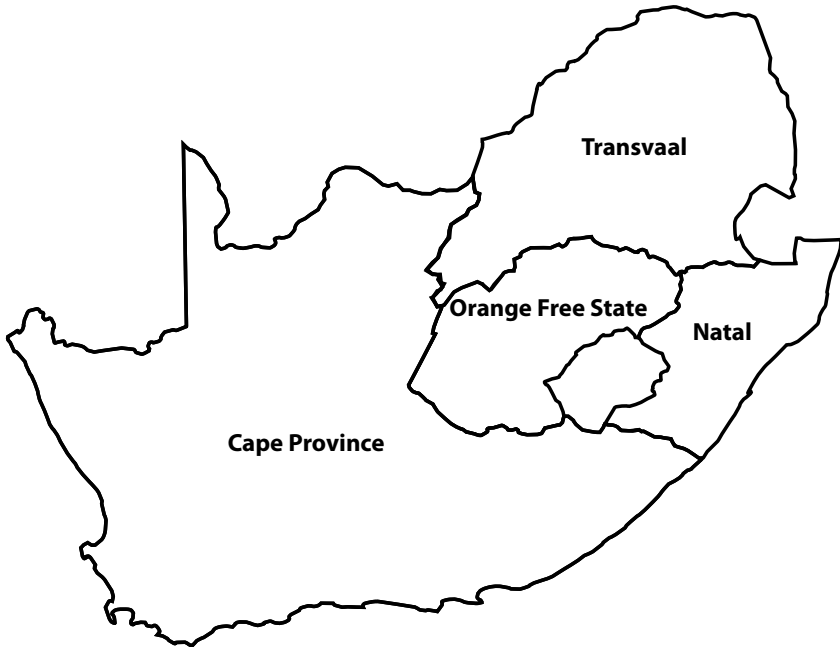


Figure 6.2 Provinces in unified South Africa as of 1910

## The Unification of South Africa

By 1902, both sides were eager to put an end to the war. The Anglo-Boer war was the most costly war fought by Britain since 1815. At the same time the Afrikaner society was on the brink of collapse and Britain wanted to avoid a situation in which the prospects for the post-war reconciliation and reconstruction were undermined. It sought to create a unified and efficient capitalistic society in South Africa, for which it was dependent on the loyalty of the Afrikaners, who apparently were a much more powerful group than the British had imagined. Britain therefore allowed the Afrikaner general Jan Smuts to outline the peace terms. The terms granted the former republics the right to decide on franchise matters (Nasson, 2007, pp. 216-217). Lord Milner, the British High Commissioner for South Africa, cautious not to

jeopardize the relations with the Afrikaners, did not insist on any changes in the field of race relations. Milner was chairman of the South African Native Affairs Commission, which recommended the establishment of separate constituencies for black people in each of the South African colonies. The Native Affairs Commission's report is often seen as an early blueprint for the apartheid society (Brits et al., 2007a, Picard, 2005, . 28).

In the pre-union period the political activities of black South Africans became increasingly formalized and their capacity to express voice was improved. For many black South Africans, who had hoped that the British victory would unite the four Provinces on equal terms, there was therefore widespread disappointment about the terms of the peace. The 1910 constitution consolidated the white hegemony by creating a unified, three-tiered state under British dominion. The union comprised the four provinces of the Cape, Transvaal, Orange Free State and Natal, which constituted the second tier of government. Most of their powers and functions were transferred to the central government. Local governments based on the British model made up the third tier (Ismail et al., 1997, p. 43). The Cape was the only province which allowed property-owning non-white males to vote. In the rest of the Union of South Africa only white men were given the right to vote in parliamentary elections (Davenport and Saunders, 2000).

The South African Party (SAP), which won government control in the 1910 elections, was faced with the difficult task of conciliating the dominant collective interests of the whites. The conflicting claims of different groups such as Afrikaner landowners, the British business elite and the white proletariats had to be accommodated. South African politics would thereafter be characterized by a struggle revolving around the development of 'black' labour policies that compromised neither growth nor the legitimacy of the legal order among whites in general. The different groups, who varyingly identified themselves in terms of race, class and ethnicity, and whose resource dependencies differed, supported different kinds of institutional changes. The SAP, which mainly represented the interests of employers, favoured repressive measures that served to increase the supply of cheap African labour. The National Party and the Labour Party instead favoured discriminatory measures that protected jobs for white workers against African competition. Against the background of a growing shortage of labour and land and increasing unrest among white workers, the Parliament of South Africa passed both repressive and discriminatory laws. Wage labour became organized along colour lines and skilled jobs were reserved for whites through the passing of the Colour Bar Act in 1911. The 1913 Native Land Act addressed the shortage of labour and included a

formula for distributing African labour between the gold mines and larger farms (Terreblanche, 2002, pp. 249-250, p. 269). The act defined less than ten percent of South Africa as black “reserves” and it banned any acquisition or lease of land by blacks outside these areas, except in the Cape where the Act was declared invalid in 1917 (Ross, 2001, p. 86). Moreover, the land act ended black share-cropping and tenant farming, which entailed a further proletarianization of large sections of the African population and a further consolidation of the migrant labour system (Terreblanche, 2002, p. 262).

As noted, the social identities upon which new political interests were mobilized in South Africa in the wake of the “great transformation” were based on a combination of racial and class identities. The South African ruling regime responded to the agrarian question, that is, the social upheavals following the breaking up of the pre-industrial socio-economic relations, in a racially discriminatory manner. Black smallholding peasants were resettled to “native reserves” in which indirect rule, relying on clientelist ties with compliant African chiefs, was established. The colonial governments then used different taxes as well as “extra-economic” measures such as laws, to push black South Africans to seek wage employment (Seekings and Natrass, 2006, p. 75). Thus, although Britain turned South Africa into a unified economy through the removal of the tariffs and customs set up by the former Republics, the growing structural interdependence was not matched by the development of a unifying South African national identity (Giliomee, 2007c, p. 185). The people living in South African retained distinctive collective identities. While national identities emerged in Western Europe where the majority of the populations were gradually included in formal governance regimes from the late 1800s and onwards, the majority of the South African population remained excluded from political participation. At the same time, the informal racial hierarchy derived from the slavery days became increasingly formalized and enforced by a central administration.

## **Voice and Exit after the Unification**

After the unification of the country, black South Africans further improved their capacity for voice. The South African Native National Congress, which changed its name to the African National Congress (ANC) in 1923, was established in 1912. The founders of the SAANC were Christian democrats and liberals who had been educated by missionaries. Consequently, they advocated a non-violent struggle for democracy. The SAANC served as a pressure group that sought to open the way for African participation in the economy and for inclusion into formal political institutions (Gumede,

2005, p. 4, Terreblanche, 2002, p. 349). A delegation of SANNC leaders met with the minister of Native Affairs in Cape Town in 1912 in a fruitless protest against the Natives Land Bill (Brits et al., 2007a, p. 236).

While the SAANC opted for voice and raised demands for rights and inclusion into the formal legal order, marginalized and proletarianized white groups, mainly unskilled, Afrikaans speaking rural-urban immigrants, were inclined to take unofficial actions to challenge the authority of the union. The decade after the unification of South Africa witnessed increasing tensions both between whites and between whites and blacks. Many Afrikaner workers and smaller farmers turned to the National Party and the workers formed labour movements along racial lines (Terreblanche, 2002).

The Anglo-Boer war and the concentration camp experience had left an enduring anti-British legacy among the Afrikaners (Nasson, 2007, p. 221). When the First World War broke out, South Africa was ordered to invade German South West Africa. Several former Boer generals disapproved with the war policy and staged an unsuccessful rebellion against the sitting government. Against this background, black commentators contrasted black loyalty with Afrikaner disloyalty to the Union, and pointed out that the Afrikaners, who unlike them had access to formal channels for political interaction, still contested the formal order by unofficial and violent means (Brits et al., 2007a, p. 239-240). The SANNC, which had established itself as a widely accepted channel for black political protests, chose to express voice within formal sector constraints. In 1919 it turned to the British prime minister to protest against the pass laws and the colour bar, but the meeting did not result in any concrete measures (ibid, p. 243). More informal and violent forms of black resistance did occur however. A movement of independent black churches preached a form of millenarian resistance to the white dominance in the rural areas. One millenarian sect called the Israelites established themselves outside Queenstown where they set up huts and a tabernacle without paying tax. When a police force was sent out to disband the increasingly militant sect, the Israelites, who were prepared for battle, went to the attack. The police opened fire and about 180 people were killed (Brits et al., 2007b, p. 248).

During and after the First World War inflation pushed up the costs of mining production in general and the wage bill of white employees in particular. The mining companies therefore sought to increase the proportion of black to white workers in order to reduce the production costs. Faced with rising unemployment and insecurity, white mineworkers became increasingly militant. The situation exploded in 1922 with the outbreak of an armed rebellion. The Rand Revolt began as a major mineworker strike, but turned into an armed rebellion when Afrikaner



workers mobilized on the basis of the commando institution, and drew on the tactics they had developed in the Anglo-Boer war. The sitting prime minister, Jan Smuts, called in the army which defeated the rebels after heavy fighting in which over 200 people were killed. The Rand revolt was a striking manifestation of the triumph of racial over class solidarities, as Feinstein (2005, pp. 80-81) points out. The white mineworkers even mobilised under the slogan “Workers of the World Unite and Fight for a White South Africa” (Davenport and Saunders, 2000, p. 296).

### **Establishing a White Governance Regime**

After the suppression of the Rand rebellion, the mining companies temporarily strengthened their position while the government tried to secure its legitimacy among white workers by excluding blacks from the official labour relations system (Terreblanche, 2002). The victory of the mining companies was short-lived though. As the white workers were unable to challenge the Union establishment by using force, they expressed voice through formal channels and advanced their interests via the ballot box. In the 1924 general election, the SAP government was defeated by a coalition of the National Party, which primarily represented Afrikaans-speaking farmers, unskilled workers and small property owners, and the South African Labour Party, which was mainly backed by English-speaking workers. Unsurprisingly, the Nationalist-Labour Pact government was less sympathetic to the interests of the mining companies than its predecessor (Feinstein, 2005, p. 82). As the Pact government assumed power, it managed to incorporate the corporate sector, the landowners, government officials and the previously militant white labour force into a mutually acceptable institutional order (Terreblanche, 2002, p. 272). This laid the groundwork for the forging of a lasting domain consensus among white South Africans. Establishing domain consensus was challenging since there was a strong resistance from the Afrikaners to any form of capitalism which served individual self-interests rather than the collective interests of the Afrikaner community. Afrikaner nationalists therefore developed the doctrine of volkskapitalisme, which stipulated that free enterprise was allowed as a means to accumulate wealth to advance the collective interests of the Afrikaners (Giliomee, 2007e, p. 293).

In line with the volkskapitalisme doctrine, the Pact government was determined to eradicate the ‘poor white problem’. Administrative power was therefore primarily used to improve the social and economic situation of poor whites, who mainly tended to be Afrikaners. In order to accomplish this objective, the government introduced various welfare benefits; it

expanded the public sector; it promoted industrial development and it introduced various discriminatory labour market regulations, policies and public works schemes. Until 1924 most of the welfare aid had been provided by churches, although some organised white workers had industry- or firm-specific disability and insurance schemes. From 1924 and onwards, the social citizenship rights of the white workers were extended and a new labour and welfare system, ensuring low unemployment and high wages among white male wage earners, was introduced. Blacks and Indians were almost entirely excluded from the welfare benefits. The civilised labour policy ensured that whites were paid higher wages for doing the same jobs as blacks so that they could maintain a “tolerable” standard of living from a European standpoint (Seekings and Natrass, 2006, p. 76-78, p 82-83). At the same time, black and whites remained territorially segregated both in rural and urban areas. White local governments allowed the development of unplanned shantytowns for blacks in which the residents got little in return for their tax money (Brits et al., 2007b, p. 251).

In order to create full employment for whites, the Pact government sought to promote industrialization by substituting imports through tariff protections, in the belief that the manufacturing sector would employ a higher proportion of white workers. The government also believed that industrialization would strengthen the position of South Africa internationally. JBM Hertzog, the prime minister of the Pact Government, was an Afrikaner nationalist who strived for a sovereign and independent South Africa. He therefore wanted to weaken South Africa’s dependency on mining company directors and shareholders, who, in his view, primarily represented foreign interests. The mining companies had for long resisted import substitution policies since the introduction of tariffs would increase their costs of production. Besides, the previous governments had been unwilling to use tariff protection on a major scale. By contrast, the Pact Government actively promoted industrialization. The basis of the economy thus shifted from farming and mining to large-scale factory production. However, although the import substitution strategy succeeded, the burgeoning industrial sector was inefficient and South Africa therefore remained dependent on gold mining (Feinstein, 2005, pp. 114-118, p. 135).

From the mid-1920s several important shifts occurred in the political arena. The organisational capacity of the main black political movements declined. The ANC had become eclipsed by the more dynamic trade union organisation called ICU. However, by the end of the 1920s, the ICU disintegrated and the ANC remained incoherent. Many black intellectuals continued to endorse liberalism and most of them believed that whites would meet the demand for black representation as blacks became more

and more economically successful (Brits et al., 2007b, p. 248-249, Giliomee, 2007d, p.261). By the end of the 1920s, the Afrikaners had strengthened their political power and the National party came to power on its own in the 1929 election. Despite this, the Afrikaner intelligentsia were worried that the poor white problem, which was aggravated during the great depression, risked white survival in South Africa (Giliomee, 2007e, p, 280, p. 283). White women were given the right to vote in 1930. By this time, the Afrikaner nationalism had assumed an ever more aggressive and religiously oriented form. In response to the worldwide economic depression, the South African Party and the National party merged into the United Party in 1934. Most English-speaking whites identified themselves both as South Africans and as British. The majority of them accepted the Afrikaner JBM Hertzog as their leader and voted for the United Party (Giliomee, 2007e, p. 285, Saunders, 2007, p. 273). After the formation of the UP, an Afrikaner nationalist faction broke out to form the Purified National Party. The nationalists promoted the interests of “Afrikanerdom” not only through the National Party but also through interlocking Afrikaner organisations, churches, social movements and the Broederbond, an influential secret society (Davenport and Saunders, 2000, pp. 369-372). In 1935, the Broederbond was made up of about 2500 Afrikaners located within ideologically significant sections of society such as the educational system, the civil service, and the clergy (Picard, 2005, p. 33). The nationalists created the image of the Afrikaner volk as endangered by other groups, mainly British imperialists, foreign capitalists and the black masses (Terreblanche, 2002, p. 298). Against this background, English-speaking South African whites began to feel increasingly threatened (Saunders, 2007, p. 275). In other words, the cultural gap between the two white ethnic groups widened.

In 1936, the Parliament passed a bill according to which Cape blacks would have to vote on a separate roll. A separate Natives Representative Council, in which issues regarding ‘black’ matters would be discussed, was established. At that time the ANC lacked organisational capacity to mobilize resistance to the act. Thus, the black South Africans lost all direct representation in the Parliament and were provided with a token channel for political interaction with the government, which one ANC leader called a “toy telephone” (Giliomee, 2007e, p. 287).

In conjunction with the outbreak of the Second World War, Hertzog wanted South Africa to remain neutral while the more internationalist Afrikaner leader Jan Smuts wished to side with Britain. The United Party caucus voted in favour of Smuts who formed a new government and took South Africa to war. Many Afrikaners opposed South African participation

in the war, and the war decision increased their anti-British sentiments. As a result the white community became even more polarized. In 1940, Hertzog's supporters formed the reconstituted National Party under Hertzog's leadership, which gained in popularity (Giliomee, 2007e, p. 295).

In the early war years the situation looked hopeful for the ANC. The United Party government under Jan Smuts signalled that it was prepared to scrap segregation policies and recognise that all South Africans were part of a common economic order. Moreover, there were strong indications that the Smuts government began to recognise black social citizenship. The government introduced old-age pensions, a disability grant and unemployment insurances for blacks and it increased the funding for black education. In addition, given the labour shortages during the war, the pass laws were loosened and the urbanization of blacks increased. Both the ANC and the black workers had become better organized by the 1940s, and their protests grew. Black workers organized several strikes and the Natives Representative Council was adjourned. The ANC demanded the abolishment of the migrant labour system, the removal of the colour bar, the recognition of black trade unions and the full inclusion of blacks into the formal institutional order. Many Afrikaners reacted against the rise of black protests, and the government had to withhold the reform process. Smuts rejected discussions with the ANC leader Alfred Xuma and black strikes were forbidden (Giliomee, 2007e, pp. 295-299).

Yet, after the war the United Party appointed a commission to investigate the possibility of reform. The commission's report suggested a gradual removal of the obsolete racial policies, which eventually would lead to the full inclusion of blacks into the political domain. However, the United Party Government failed to see that it had alienated a large part of the Afrikaner population (Giliomee, 2007f, p. 309-310). The nationalists had built up their ideological position among the Afrikaners for decades, not least through the Broederbond. Moreover, Afrikaner farmers and workers were concerned about the urbanization of blacks. The farmers had difficulties to compete for labour with urban employers and were disappointed with the sitting United Party government since it did not ensure them a sufficient supply of cheap labour. Many white workers were upset by the fact that black workers had moved into better paid, semi-skilled industrial jobs during the Second World War, when many skilled white workers were conscripted into military service (Davenport and Saunders, 2000, pp. 369-372). According to Giliomee, South Africa's participation in the Second World War was decisive for its subsequent development since it provoked outrage among Afrikaner nationalists who saw it as an indication of South Africa's continued subordination to British interests. The National party

was able to bring together cultural nationalists, farmers lacking cheap labour and workers demanding protection from black competition under one umbrella (Giliomee, 2007e, p. 302-303). It was in these circumstances that the National Party won the general election in 1948, marking the beginning of the apartheid era.

## **Governance under Apartheid**

When the National Party (NP) took power, all reform ideas based on the gradual inclusion of black South Africans into a unified political system were ruled out. Instead of including the majority in the formal order, the National Party increased the degree of exclusion of the popular majority. When the Western world entered into the booming “golden age of welfare capitalism”, the Nationalist regime used comprehensive social engineering to create an ethnically exclusive welfare regime at the southern tip of Africa. The National Party government primarily represented the collective interests of Afrikaner workers, farmers and lower middle classes. Its victory shocked the English-speaking community, especially the business leaders. To many British voters, apartheid was merely a plan to protect Afrikaner jobs and social standing. In its first fifteen years of power, practically no English-speaker voted for the National party (Giliomee, 2007f, p. 315, Picard, 2005, p. 36).

The NP government consciously restructured South Africa’s socio-economic relations to uplift Afrikaners. Nearly all departments of the state were brought under party control, and the public sector was deliberately enlarged in order to create employment opportunities for marginalized Afrikaners. In this way the entire government became “Afrikanerised”. The educational system was reformed to increase the educational level of the Afrikaners. In order to favour white workers employed in high-wage, capital-intensive sectors, the government continued to promote import substitution, using subsidies of capital, an overvalued exchange rate, and a system of import licensing that covered practically all imports. The government also used a publicly owned investment company, the Industrial Development Corporation (IDC) to improve the position of Afrikaner firms and to set up public companies for strategic reasons. In 1950 the government established the Suid-Afrikaanse Steenkool en Olie (SASOL), a huge public corporation company whose objective was to convert coal into gas, petrol and diesel, by means of capital provided by the IDC (Feinstein, 2005, Seekings and Natrass, 2006, p. 133, p. 141). The NP also promoted the enlargement of the Afrikaner haute bourgeoisie through politics of favouritism that involved the allocation of quotas, government contracts, concessions, and inside information.

Farmers were compensated for the overvalued exchange rate through subsidies and cheap loans which made their farms larger and more efficient (Terreblanche, 2002, pp. 302-304). Thus, the National Party government drew on the post-war mixed economy model primarily to improve the lot of the Afrikaners. Many Afrikaners became loyal to the National Party because of the patronage resource it controlled, and, as a result of this practice, the administrative culture based on civil service neutrality in relation to party politics was swept away (Picard, 2005, p. 37). While the bureaucracy became a stepping stone and a means of socio-economic improvement for the Afrikaners, administrative power was primarily a means of control and repression in the eyes of the black population of South Africa,

The introduction of apartheid was in many respects a critical juncture, particularly in that it ruled out any reform plan pointing in a conciliatory direction. Yet it represented an elaboration of the pre-existing segregationist regime based on the idea of separate “traditional” political systems for the reserves. Through the introduction of apartheid, racist sentiments among whites became increasingly formalized. The aim of apartheid was to segregate the entire South African society along racial lines, entailing the segregation of residential areas, workplaces and public amenities and education institutions, as well as the criminalisation of mixed marriages and sex across racial lines. The segregation of the franchise was completed under apartheid. Separate legislatures for blacks were established in the reserves and separate municipal institutions for blacks were established in towns outside the reserves (Seekings and Nattrass, 2006, pp. 18-22). Apartheid not only continued developing separate suburbs and townships for different racial groups, it also broke up and segregated racially integrated areas in the cities. The removed people were dumped in areas lacking adequate infrastructure and located far away from their workplaces. These areas did not develop any economic or social dynamism on their own and they soon became characterized by high crime rates and poverty (Giliomee, 2007f, p. 318-319). The apartheid regime consolidated indirect rule in the reserves by incorporating the chiefs into the local administration of the rural homelands. In this way, an unaccountable and autocratic mode of governance became entrenched in the homeland areas (Ntsebeza, 2004).

The nationalist government had to simultaneously promote economic growth and sustain its legitimacy among the wider white population. In attempting to accomplish these objectives, it used comprehensive social engineering which intensified the discriminatory character of the labour market (Terreblanche, 2002, pp 315-318). In the long run, the National Party government failed to reconcile these two objectives. In practice, it prioritised the preservation of white supremacy over economic

development in the longer term. Three aspects of the NP government's economic policy would have particularly serious path-dependent effects on the economic development of South Africa. Firstly, registered unions were prevented from having mixed white and black membership, which removed the possibility of direct collective bargaining between employers and black workers. Secondly, the colour bar introduced in 1911, which excluded blacks from skilled jobs, was maintained. Thirdly, the government deliberately provided blacks with inferior education since it did not want the "Bantu" to compete with Europeans on equal terms in the labour market (Feinstein, 2005, p. 157-158). The educational policy of the National party rested on the idea that there was "no place for Africans above the level of certain forms of labour". For the first two decades of National Party rule, the government kept its spending on black education at the same level, so that the per capita spending on the education of black children fell by a third due to the population growth during this period (Giliomee, 2007f, p. 320). The NP government thus restrained the occupational mobility of blacks, and introduced stricter influx controls in order to equalize the supply of black labour between rural and urban areas. The aim was to avoid rural labour shortages and to hold back the urbanization and urban unemployment rate among blacks. Through the influx control system the government sought to ensure that the number of blacks available to manufacturing employment never exceeded the demand (Terreblanche, 2002, pp. 315-318). The influx control system required a huge bureaucratic apparatus of labour bureaus, supported by a harsh police force. All blacks who became unemployed in an urban area had to report within three days to a labour bureau where they were placed on a waiting list. If there were no jobs available, they were directed to district labour bureaus where they were provided with employment on farms and in rural industries (Feinstein, 2005, p. 154). Thus, while the apartheid distributional regime secured full employment for white people through a combination labour-market, industrial, and educational policies, it simultaneously directed black workers to unskilled jobs in the mining and the farming sectors (Seekings and Nattrass, 2006).

The labour market policies favoured the farming and the mining sectors, creating a split between the major economic interests in South Africa since the mining and the manufacturing sectors had diverging interests in several respects. Firstly, the two sectors had completely different markets. While the mining sector had no interest in expanding the local market, it was of critical importance for the manufacturing sector since it was not efficient enough to compete internationally. As a result, the manufacturing sector had an interest in improving the wages of the majority while the

mining companies wanted to hold back their production costs. Moreover, mining and manufacturing required different kinds of labour. The mining sector was based on large numbers of migrant black workers, whereas the manufacturing sector required motivated workers who were allowed to continuously develop their skills and improve their productivity. Finally, the manufacturing sector required good industrial relations, whereas the mining companies did not mind operating under a coercive system in which trade unions were illegal (Feinstein, 2005, p. 129-130). Organized industry and commerce were critical of the influx control system since they needed continuous access to semi-skilled African workers who were permitted to reside permanently in the urban areas. The National Party government favoured organized agriculture. The farmers' business lobby was the only one that developed close institutional links with the Native Affairs Department regarding activities that affected the agricultural labour supply. The government was not entirely insensitive to the demands of the manufacturing sector, however. It made concessions, for instance by allowing a minority of 'detrribalized' Africans to remain in urban areas (Terreblanche, 2002, pp. 315-318). Yet, the costs of protecting white labour and of neglecting sufficient investments in education for Africans were high since these measures held back the development of a skilled labour force. By confining a large proportion of African labour to low-productivity, low-wage jobs on farms and in mines while at the same time preventing the higher-productivity sectors of the economy from absorbing more labour, the National Party government restrained the long-term growth of the economy (Seekings and Nattrass, 2006, p. 144). It elaborated the repressive economic system created for white farmers, and, later, for the mining sector, instead of adapting their policies to the industrial economy. When it assumed power in 1948, the contribution of industry to GDP was 90 percent compared to 12 percent in 1911 (Feinstein, 2005, p.128-129). The NP government seemed to believe that the system of migrant labour would work even in an industrial economy, and that it was possible to promote economic growth and sustain a system based on white supremacy simultaneously. It thereby failed to recognise that the needs of manufacturing diverged significantly from the needs of the mining and farming sectors. Thus, as Feinstein (2005, p. 162) argues, the apartheid system was based on ideological considerations that proved to be economically unfeasible in the longer term.



## The Polarization of Politics

The ANC had transformed itself into a mass-organisation by the 1940s, becoming a more and more radical movement, especially after the establishment of its youth league in 1944 (Lodge, 2007, p. 326). Liberal ideas began to lose their appeal in favour of both Marxism and nationalism in the rank and file of the ANC. Under the increasing influence of its youth league, the ANC challenged the legitimacy of the National Party government in the late 1940s. In 1949 it launched a Programme of Action that demanded 'freedom from White domination' and the right of Africans to self-determination. The programme advocated non-violent means of protest such as boycotts, strikes, civil disobedience and non-cooperation (Davenport and Saunders, 2000, p. 383). To curb any expression of voice, the government criminalized different forms of protests on the basis of national security concerns. For instance, in 1950 the NP government introduced the Suppression of Communism Bill which included a ban against all doctrines that demanded any political, industrial, social or economic changes within the Union by encouraging disturbances or disorder (ibid, p. 385). The ensuing protests such as the Defiance Campaign of 1952 were successfully contained. After the victory of the National Party in the 1953 election, the ANC decided to take up a new strategy (Terreblanche, 2002, p. 347). In 1955 it adopted the Freedom Charter which affirmed that South Africa belonged to its entire people. The charter called for the de-racialization and democratization of all political institutions and equality for all before the law. It also demanded the nationalisation of banks, mines and heavy industry, as well as land redistribution. However, Nelson Mandela maintained that the Charter was an essentially liberal rather than socialist document. An African nationalist faction within the ANC found the multiracialist ideology of the Charter unacceptable, and they seceded from the ANC in 1959 to set up the Pan African Congress (PAC). The authorities responded in a highly repressive manner to the demands of the "black" social movements. After the Sharpeville massacre in 1960 widespread civil unrest followed. The government showed no willingness to change its policies or even listen to the black expressions of voice. The protest movement became more and more inclined to actively resist the formal institutional order. Instead of demanding rights and full political inclusion, the ANC began to opt for a radical institutional transformation of South Africa along socialist lines. As a result, the situation became increasingly polarized and the government banned both the ANC and the PAC. From this time and onwards, the ANC leadership applied direct, armed resistance to the apartheid order. In cooperation with the South African Communist

Party (SACP), the ANC established a military wing called Umkhonto we Sizwe (MK) in 1961. The government clamped down on all domestic resistance movements and several key ANC leaders were arrested. By 1965 most ANC leaders had either fled the country or been sentenced to prison. The ANC and the SACP ceased to function within South Africa and all domestic protest organisations became inoperative for several years. The ANC was better organized than the PAC and it established itself in exile where it began to receive Soviet funding. The South African Prime Minister Hendrik Verwoerd appointed John Vorster as Minister of Justice. Vorster clearly prioritized security concerns over civil rights and introduced various police state laws (Davenport and Saunders, 2000, pp. 404-406, Giliomee, 2007f, p. 336-340, Lodge, 2007, p.329, Terreblanche, 2002, p. 349).

While the black resistance turned militant, the white population of South Africa became increasingly loyal to the National Party regime. The negative effects of its economic policies were not yet visible in the 1960s, when the economy appeared to be in a perfect condition with continuously high growth and low inflation. At the same time, against the background of the cold war and the African decolonization process, an intense competition between the West and the Eastern bloc for the hearts and minds of the new African states followed. Britain therefore signalled that it would support African nationalists against the dominance of whites in any African state. South Africa left the commonwealth and became a republic in 1961 after a referendum. These geo-political changes had a profound effect on the English-speaking white community in South Africa, who found themselves increasingly isolated on the African continent where the possibility of the development of a liberal democratic alternative to African nationalism and socialism seemed more and more improbable. Moreover, in 1959 Verwoerd declared that apartheid was to be substituted by the allegedly non-racist policy of 'separate development', in order to make it appear as a form of decolonization. According to the new policy, the reserves were to be turned into independent 'Bantustans' for the different black ethnic groups of South Africa. Many English-speaking whites saw this as an important ideological shift from an outdated white supremacy doctrine to a more rational and refined policy of separate development. Consequently English-speakers began to vote for the National Party, which won the 1966 election with 58 percent of the votes (Giliomee, 2007f, pp. 334-336, p. 344).

In the wake of the shift from apartheid to separate development, Transkei was given a form of self-government in 1963. The defenders of this policy shift argued that by establishing a 'Bantu Authorities System' and by providing self-government to the Transkei, the government restored an African political system that was "rooted in their own soil", although

the Transkeian constitution was drafted in Pretoria. The constitution established a system of government with a cabinet elected by an assembly. The assembly consisted of the four principal chiefs of Transkei, together with sixty regional chiefs and forty-five elected “commoners”. The system primarily empowered the chiefs who consequently elected their favourite, Chief Kaiser Matanzima, as the Chief Minister of the Transkei. In this capacity Matanzima basically collaborated with the National party regime (Davenport and Saunders, 2000, p. 408, pp. 418-419).

While the government placed increasing emphasis on the role of the Bantustans, it simultaneously tightened the influx controls and removed “surplus” blacks from the white areas. 362}. These interventions led to growing tensions between the Bantu Affairs Department and opponents of the influx controls such as black migrants and some employers (Terreblanche, 2002, p. 322-323). In order to curb black urbanization the NP government tried to decentralize industries to the borders of the Bantustans by offering tax concessions, cheap power, water, and housing as well as subsidized public transports for the workers. At the same time, it developed “Bantu towns” and resettlement villages in the Homelands to accommodate resettled black South Africans, but fewer jobs than expected were created on the borders and in the reserves. To prove that their policies were efficient in stemming black urbanization, the government therefore further extended the controls system (Davenport and Saunders, 2000, pp. 426-427, p. 430).

By the end of the 1960s, the demand for unskilled labour decreased while the demand for skilled labour simultaneously increased. As a result, the structural unemployment grew and the Bantustans became increasingly deprived. The high growth rate of the black population from the 1950s and onwards also contributed to the growing unemployment (Seekings and Nattrass, 2006, pp. 143-144, p. 381). The NP government finally increased its spending on black education in order to meet the growing demand for skilled labour (Giliomee, 2007g, p. 347).

## **The Beginning of the End of White Rule**

In the 1970s South Africa entered into a serious economic crisis due to several coincident international and domestic circumstances. Internationally, the gold standard was abandoned, the ‘golden age of welfare capitalism’ ended and the world economy entered into a recession. Domestically, the costs of gold production rose since the main gold veins had been exhausted. Moreover, as noted, the long-term effects of the structural weaknesses of the economy were increasingly felt (Feinstein, 2005, p. 202). At that time,

the Afrikaner economic movement had basically achieved its objectives, and most Afrikaners had become urbanized and middle-class. As a result, the power of Afrikaner farmers and small business people weakened while Afrikaner capitalists and owners of larger industrial and commercial firms strengthened their positions. The latter group had very different views on policy issues such as the colour bar, black wages, education and urbanization, compared to the former (Feinstein, 2005, p. 179-180, Picard, 2005, p. 45). At the same time, most whites could get high wage jobs on the basis of their skills and they no longer depended on job reservation. The majority of white families could afford private welfare and health care schemes and were thus less dependent on the government (Seekings and Nattrass, 2006, p. 164). Against this background, the white population became more inclined to recognise the negative economic impact of the protection of white supremacy. This led to splits within the National Party, and eventually, to the relaxation of the original Apartheid policies for black workers living in the Republic of South Africa (Feinstein, 2005, p. 179-180).

The early 1970s witnessed growing industrial unrest and major strikes. The NP government became increasingly pressured by the industrial sector to “decracialize” its labour market policies for Blacks that resided in the Republic (Shubane, 2007a, p. 354, Terreblanche, 2002). At the same time, the rapid increase of unemployment among unskilled black workers posed a growing threat to the social and political order in the urban areas, in the view of the white population. The government therefore sought to force unemployed blacks back to the Bantustans to maintain control of the towns. In this way they confined most poverty and unemployment to remote areas (Seekings and Nattrass, 2006, p. 164). While the labour market policies for insiders were relaxed in the 1970s, the policies on rural outsiders turned more and more repressive. The main objective of the influx control system shifted from allocating labour to restricting urbanization. This change in policy, in combination with the growing structural unemployment and the sharp increase of the black population, entailed a significantly worsened socio-economic situation in the Bantustans in the 1970s. The government dealt with these problems in various ways. It continued to promote industrial decentralization to the border areas and the Bantustans, for instance by introducing quotas that determined the maximum ratio of white to African workers in urban centres. “Bantu Affairs Administration Boards”, mainly staffed by white officials, replaced urban Bantu councils, which had been set up in the early 1960s, in administering the black townships. The Administration Boards limited the amount of available housing for blacks in white urban areas. At the same time black dormitory areas in Bantustans

near industrial centres and a system of commuter migration in order to control the influx of blacks into the Republic were established (Shubane, 2007b, p. 362, Terreblanche, 2002, pp. 327-328). The late apartheid regime continued to promote a capital-intensive growth path despite the high level of unemployment. While most employment opportunities were concentrated in the urban areas, the Bantustans functioned as dumping grounds where the unemployed could be kept in check more easily (Seekings and Natrass, 2006). Still, at the end of the 1970s, South Africa's major cities were surrounded by enormous informal settlements. At that time more than 50 percent of the black population was below the age of sixteen, and many of them lived beyond both government and family control (Giliomee, 2007g, p. 348).

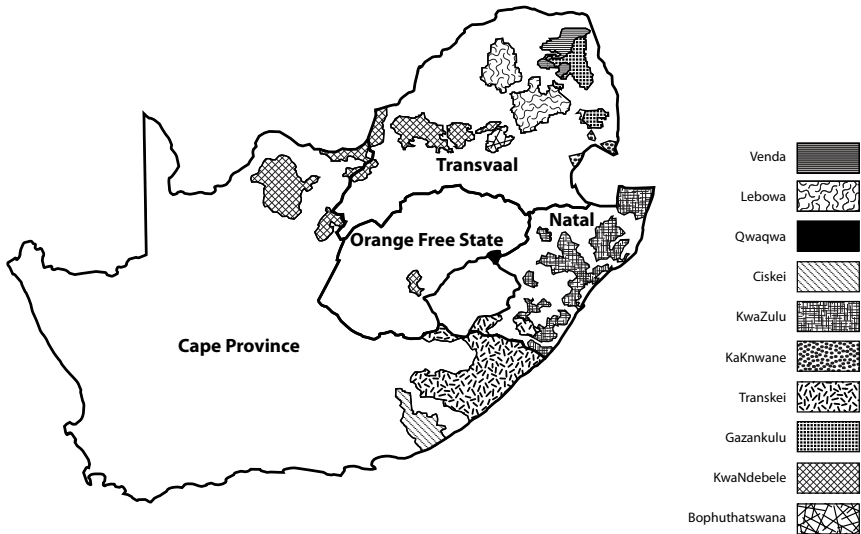


Figure 6.3 The Bantustans of South Africa

In order to relieve the pressures to accommodate black South Africans politically, the Bantustans were gradually given self-government status or independence in the late 1970s. In this way homeland citizens lost their South African citizenship and their rights were attached to the new states. Transkei was the first homeland to become a nominally independent state in 1976 followed by Boputathswana in 1977, Ciskei in 1979 and Venda in 1980 (Giliomee, 2007g, p. 373). Six other homelands were given limited self-government status. In practice the Bantustans were only independent

in name. They were only recognised by the Republic of South Africa and remained highly dependent on resource transfers from Pretoria, labelled as foreign aid. Consequently, they were widely regarded as satellites of the Republic of South Africa, even if the homeland leaders did not always comply with the apartheid regime (Davenport and Saunders, 2000, p. 434). The independent Bantustans were ruled in more or less clientelist and authoritarian ways. Lennox Sebe who became president of Ciskei in 1981, established one of the most repressive police forces in southern Africa and his Ciskei National Independence Party practically undermined all formal opposition (*ibid*, p. 480).

The politics of the apartheid regime, the increasing poverty among blacks and the rise of the Black Consciousness movement in student circles led to mounting protests in the 1970s. The internal opposition to apartheid grew stronger and stronger, indicating that the black majority was becoming increasingly inclined to actively resist the formal institutional order (Davenport and Saunders, 2000, pp. 426-427). The 1970s also saw an increase in exit activities in the form of a growing lawlessness and an intensified level of violence committed both by the government and by marginalized groups. The growing resistance erupted in the Soweto uprising in 1976 when black youth, inspired by the black consciousness movement, protested against the Bantu Education system and the situation that black South Africans found themselves in. By the end of October 1977 between 600 and 700 lives had been claimed in the revolt (Shubane, 2007b, p. 365). At the same time, the ANC organized guerrilla campaigns and attacks on strategic targets in South Africa. In light of these developments along with the decolonization processes taking place in Angola and the installation of the Marxist FRELIMO-regime in Mozambique, the government became increasingly pressured.

In the late 1970s the NP government, under the leadership of P.W Botha, introduced the notion of 'total strategy' to respond to what was presented as a Soviet-supported 'total onslaught' by Marxist enemies against the Republic (Davenport and Saunders, 2000, p. 460). Using this strategy, the NP government won the loyalty of most of the white minority. In the 1977 general election the National Party secured 134 out of 164 seats in Parliament. Under the pretext of securing capitalism in Southern Africa, close links were formed between the business community and the government. By means of different lobby and research organisations, the former persuaded the government to scrap its interventionist policies, to accept a free enterprise approach, and to improve the quality of life of urban blacks to allow the development of a black middle class as a buffer against communist revolution (Terreblanche, 2002, pp. 329-332). The growing

geopolitical and domestic pressures forged a new domain consensus among the majority of white South Africans. Moreover, the public and private sectors began to cooperate more closely in order to secure the existing institutional-economic order. Thus, the end of the 1970s witnessed two corresponding tendencies. The white population displayed a higher degree of loyalty to the National Party regime, while the black population became increasingly inclined to actively resist the formal order, or simply withdraw from it by engaging in non-political illegal activities.

Botha strengthened the power of the prime ministers' office and set up channels for direct political interaction between public and private representatives. The State Security Council, established in 1972, became a key governance arena regarding security and foreign policy concerns. It oversaw the work of the comprehensive National Security Management System (NSMS), an enormous governance network intended to function as an early warning system with regard to local security problems. Within its framework, officials and businessmen met under the chairmanship of a military or police officer to identify local security problems and discuss ways to improve the living conditions in the townships in order to increase the legitimacy of the regime. Thus public and private sector representatives interacted directly to address various security and service delivery matters. The NSMS approach was based on the idea that blacks were mainly interested in having their social needs met, rather than ideological and political change (Giliomee, 2007g, pp. 368-369, Miller, 2005, pp. 48-50, p. 58).

By the end of the 1970s the economic crisis had worsened. The exporters found it more and more difficult to find new markets and the level of investments fell because of the growing international hostility to the apartheid regime. The inefficiency of the domestic industrial sector and the low level of labour productivity also held back the growth of exports. From 1977 until the democratic transition, there was a continuous outflow of capital except for the years 1981-84. In addition, the gold price fell and the rand depreciated against all major currencies. As a result, South Africa went into a continuous balance of payment crisis (Feinstein, 2005).

## **The Turbulent 1980s**

In the face of the serious crises of legitimacy and accumulation, the National Party government under the leadership of P.W. Botha opted for institutional reforms. New strategies for the economic development of the homelands were introduced in an attempt to improve their economic performance. For this purpose the government established a Decentralization Board and

Development Bank. By means of tariffs on the one hand, and resources from the Development Bank on the other, the decentralization board sought to actively promote industrial development in the homelands (Davenport and Saunders, 2000, p. 466). The Ciskei government actively promoted economic development on its own. After the independence of Ciskei in 1981, its government provided favourable tax and labour concessions to industries. Ciskei consequently experienced a considerable inflow of foreign investments (*ibid*, p. 480).

Formal union rights were granted to African trade unions in 1979 in response to the business sector's demands for labour stability and a more flexible urban labour force. The rights of insiders, i.e. African workers allowed to reside in urban areas, were extended while outsiders were deported to the Bantustans. This created a dilemma concerning how non-white insiders were to exercise their citizenship rights (Terreblanche, 2002, pp. 329-332). The government developed different responses to this dilemma in the early 1980s. In 1983, it launched a constitutional reform allowing Indians and Coloureds to be represented in a new tri-cameral parliament. The year before, black local authorities had become formally autonomous of the Bantu Affairs Administration Boards and were given formal powers equivalent to those of white municipalities. African insiders were thereby to be allowed to elect their own community councils. In practice, however, the black local authorities did not possess real authority since they were strictly controlled by higher-tier provincial authorities. They also lacked the capacity and the financial resources to make use of their new status (Bekker et al., 1997).

The institutional reforms backfired. The granting of formal union rights to African trade unions led, contrary to expectations, not to labour stability but to a full-blown politicisation of the African labour movement. Several unions began to act outside the statutory industrial relations system and the number of strikes increased considerably. The forced removals of squatters from urban areas to the Bantustans caught international attention and contributed to further undermining the legitimacy of the Apartheid regime in the eyes of the international community (Terreblanche, 2002, pp. 329-332). Neither did the institutional reforms strengthen the legitimacy of the Apartheid regime. The United Democratic Front (UDF) was formed in 1983 in reaction to the introduction of the Tricameral parliament and the complete exclusion of the black population from citizenship and parliamentary politics. The UDF became a broad-based protest movement that incorporated church and civic groups, women's organisations and student groups. In 1985 it basically functioned as ANC's domestic wing, although the UDF underlined that it was not merely a proxy for the ANC (Gumede, 2005, p. 40, Shubane, 2007c, p. 380).



Together the ANC and UDF established themselves as the dominant “black” political force and they began to cooperate closely with the black trade unions, which had united themselves under the banner of the Congress of South African Trade Unions (COSATU) in 1985. In the same year, the UDF backed ANC’s call to make South Africa ungovernable. Growing protests and lawlessness followed and many townships did indeed become ungovernable. Between 1984 and 1986, the number of strikes increased by more than 90 percent. 700 000 pupils boycotted their schools under the slogan “liberation first, education later” (Kiloh, 2000, p. 302, Marais, 2001, pp. 53-54, p. 58). Attacks were directed against all representatives of the formal order. Consumer boycotts against white owned businesses were organized in several towns. Rent-boycotts laying the basis for a widespread culture of non-payment for municipal services were also common. Civilians in the republic were killed. In black townships, government buildings, shops and the homes of black town councillors and policemen were set on fire. Suspected government informers were tortured and killed. At the same time the degree of government violence intensified, resulting in several massacres. In Uitenhage the police killed twenty people as they opened fire on a funeral procession. Eleven people were killed by security forces outside a Church in the Mlungisi Location in Queenstown. In 1986 the government declared a state of emergency and imposed restrictions on the UDF and 16 other organisations. During the successive states of emergency which lasted until 1990, dissidents were systematically detained, tortured or killed (Giliomee, 2007g, pp. 383-388, Gumede, 2005, p. 29).

At the same time the economic crisis worsened. Unlike most other countries, the South African economy had not recovered from the 1973 oil crisis by the 1980s. Instead the recession plunged into a yet deeper recession marked by continuous stagflation and a growing inequality between labour market insiders and outsiders, since the capital-intensive growth path continued to marginalize the growing reservoir of unskilled labour. The political unrest also contributed to the economic downturn (Terreblanche, 2002, pp. 375-376). Another problem for the NP regime was that international financial institutions had been eager to lend to South Africa in the 1970s in the belief that the price of gold would remain high and that the Republic was a good credit risk. Against the background of falling gold prices and the political unrest, international lenders started to withdraw their funds (Feinstein, 2005, p. 229). When Botha in his infamous Rubicon speech in 1985 made clear to the international community that no major reforms of South Africa’s political and economic system were to be expected, an outflow of foreign capital followed and the country faced a serious external debt crisis (Terreblanche, 2002, pp. 375-376).

Institutional reforms were inevitable by the mid-1980s. Under pressure from the corporate sector the government put an end to territorial apartheid and abolished the influx controls in 1986. At the same time, it tried to restore the order in the rebellious townships by launching social reforms and redistribution programmes in hundreds of townships, implemented by the National Security Management System (NSMS). Through a combination of repression and development interventions the NP regime was relatively successful in containing the insurgency. Yet, the "securocratic" interventions merely bought time (Marais, 2001, pp. 57-58).

### **The End of Apartheid and the Transition to Democracy**

While the "securocracy" maintained its grip on the South African society in the late 1980s, the economic crisis was aggravated by the increasing international isolation. The formal sector unemployment lingered around 30 percent, international sanctions held back foreign investments, the balance of payment problems grew, violent crimes were on the rise, the public service systems in most townships had crumbled, and the duplication of government institutions that carried out the same tasks for different racially defined sections of the population and the Bantustan administrations placed huge fiscal strains on the government (Marais, 2001, pp. 67-70). From the mid-1980s the view that the revival of the economy required major institutional reforms gained increasing influence in the white establishment. Changing geo-political and domestic circumstances contributed to convincing a white elite stratum that a negotiated settlement could work, both economically and politically. Reform supporters in the NP, the opposition, the corporate sector, academia, and the administration began to favour some kind of negotiated settlement. Informal negotiations between the corporate sector and the democratic movement were initiated in the late 1980s. In the meantime the core of the NP had shifted from the white working class and the petty bourgeoisie towards the middle classes. Thus, the collective interests and the resource dependencies of powerful constituent groups were less reliant on the government's discriminatory policies. Power had also become centralized both within the executive branches of government and in the National Party. Freed from its former social base, it became possible to promote change within the NP. Moreover, the rise of politicized ethnicity in a former Bantustan, through the emergence of the Inkatha Freedom Party (IFP), a political party primarily supported by Zulus, made some NP members believe that the ANC could be kept in check by other powers in the event of a democratic transition. While

the internal balance of power seemed more and more favourable to the reformists, the geo-political context also changed in a way conducive to institutional reform. The collapse of the Soviet bloc left the ANC without Soviet backing. This also meant that post-apartheid South Africa was to be integrated into an international economic system dominated by the West. Several Western leaders also guaranteed that they supported a peaceful settlement (Gumede, 2005, p. 30, Marais, 2001, pp. 67-70).

When F.W. de Klerk, who belonged to the reformist camp, replaced P.W. Botha as President in 1989, crucial steps were taken towards a negotiated settlement. De Klerk proclaimed that the NSMS was to be replaced by a civil-oriented system of governance. In 1990, the ANC, the PAC and the South African Communist Party were unbanned, Nelson Mandela was released from prison and formal negotiations between the ANC leadership and the NP government were initiated, although informal meetings between government representatives and Mandela had been going on for years. The negotiation processes were shadowed by escalating violence perpetrated by white right-wing groups, ANC followers and Inkatha supporters. The demilitarization of the massive security apparatus, referred to as the “third force”, also posed a difficult challenge since it incorporated right-wing factions that intensely opposed the abolition of apartheid and a negotiated settlement with the former enemy. At the same time the level of criminal violence rose due to the easy availability of fire arms (Kiloh, 2000, Miller, 2005, p. 63).

As a result, the country plunged into havoc bordering on civil war. After the 1992 Boipatong massacre in which 48 ANC supporters were killed by IFP supporters, the ANC withdrew from the negotiations after accusing “the third force” of being involved in the attacks. There was real danger that the democratic transition was about to be undermined. However, fearing that South Africa risked fragmenting along ethnic lines the ANC leadership resumed the negotiations in late 1992. The ANC made significant concessions, among them a sunset clause providing for a transitional period stretching until 1999. The clause stipulated that all political parties winning more than five percent of the votes would rule together in a Government of National Unity during the transitional period. The formal negotiations ended in 1993 and the central political-institutional aspects of the settlement were established in an interim constitution. The settlement included significant compromises. Consequently, ANC's vision of radically breaking with the past by establishing a unitary centralized state was diluted in favour of conciliation and concessions. Under pressure from the NP and IFP, some powers and functions were devolved to provincial and local governments.

The national government was also prevented from exercising powers in ways that encroached upon the institutional integrity of the provinces (Marais, 2001, pp. 91-95).

The 1993 interim constitution declared conformity to the worldwide model of liberal democracy. It determined that the unified, post-apartheid South Africa would be a liberal democratic system based on the separation of legislative, executive and judicial powers, a sophisticated and progressive bill of rights and multiparty elections held every five years (Marais, 2001, pp. 83-91). In accordance with the principles of a liberal democracy, the country's political geography was broken up and new provincial boundaries of nine regions for South Africa were demarcated (Ramutsindela and Simon, 1999). In the 1994 general elections, the ANC won 62.7 percent of the votes while the NP and the IFP got 20.4 percent and 10.5 percent, respectively. After the election, Mandela was installed as President and the ANC formed a Government of National Unity together with the NP and the IFP (Marais, 2001, pp. 91-95).

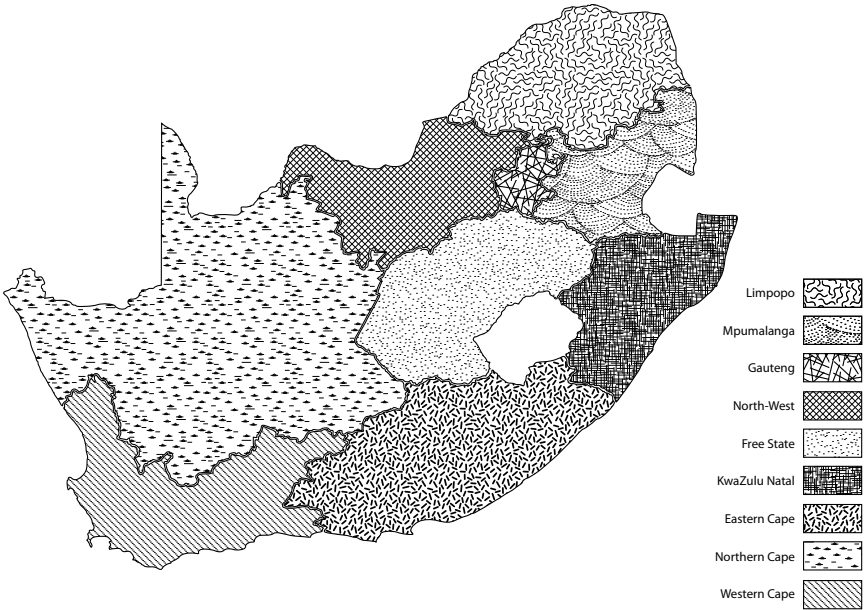


Figure 6.4 Provinces in post-apartheid South Africa

## An Enduring Historical Legacy

As South Africa finally turned into a unified, fully democratic state it was confronted with a historical legacy not entirely conducive to this outcome. The history of South Africa had left a path-dependent structure of institutions, social identities and resource-distribution patterns which, taken together, would have a significant impact on the development of the country after the end of apartheid. Structures deriving from historical sequences initiated in the days of the first European settlement had left considerable marks on the South African society by the time of the democratic transition.

When the early European settlers arrived, the indigenous communities were not organized in such a way as to promote economic growth and a complex division of labour on their own. As a result the indigenous population became marginalized while the Dutch East India Company established a slave economy. This laid the basis for the development of a hierarchical social structure and a corresponding ideology of white supremacy. In line with this ideology, the European settlers developed identities and interests according to which they regarded black people as useful possessions rather than as equals. At the same time the settlers developed a strong collective identity as Afrikaners, especially when they came into contact with the British colonizers. The Dutch East India Company (VOC) rule turned corrupt and inefficient, primarily reflecting the micro-interests of VOC officials and freeburgers rather than an overall governmentality tied to national collective interests. In the absence of major geo-political threats, the first European settler community lacked endogenous incentives for institutional reform. Major institutional reforms were instead imposed exogenously by the British, who established a limited version of a liberal democracy through a process of administrative and cultural standardization. A small black peasantry was successfully included in this formal order. The British were, however, unable to establish domain consensus with a large number of Afrikaners, who seceded and set up two republics in the interior where they excluded blacks and non-Afrikaner whites from the franchise.

With the emergence of the mining revolution the political and economic elite in Southern Africa gave up the idea of including the black majority into the liberal democratic order, and allowed the country's industrialization process to be influenced by the ideologies of segregation and white supremacy. The modern South Africa was therefore characterized by a racial division of labour. The Anglo-Boer war also created lasting anti-British fears and feelings among the Afrikaners. As a result, a unifying

national identity never emerged in South Africa even though the country became a unified, interdependent political and economic structure after 1910. The informal racial hierarchy derived from the slavery days became increasingly formalized and enforced by a central administration that perpetuated racial identification. The majority of South Africa's black population remained excluded from citizenship at about the same time as the Western European populations became gradually included in national governance regimes. Despite the fact that only white males were given full citizenship rights, most black South Africans leaders stuck to the voice option and remained loyal to the institutional order in the belief that they eventually would be fully included and enjoy the same rights and freedoms as the whites. During and after the Second World War the United Party government finally began to look into the possibility of including the black majority into the formal political order. However, at that time Afrikaner nationalist leaders had managed to instil increasingly isolationist and reactionary attitudes among the Afrikaners, who consequently supported apartheid. After 1948, all reform plans were scrapped, racist attitudes became even more formalized and all black protests were forcefully repressed. Against this background, along with the emergence of the cold war and the African decolonization processes, the domestic political situation became polarized.

The black resistance movement opted for exit instead of voice and demanded radical institutional transformation rather than inclusion into the existing order. Many whites began to believe that the development of a liberal democratic alternative to African socialism or nationalism was no longer possible. Loyalty to the governance regime, now based on the allegedly non-racist ideology of separate development, therefore grew among the franchised white minority.

In the 1970s the negative economic effects of the apartheid regime's neglect of black education and skills development during its first two decades of rule became blatantly apparent. The government therefore increased its spending on black education but the institutional order it represented, including the educational institutions, had lost legitimacy to such an extent that many blacks refused to take part in it. A growing part of the population became redundant in the formal sector economy. At the same time, the level of violent crime and organized violence increased and rose to even higher levels in the 1980s. When the entire adult population were given formal civil rights in the 1990s, many lived outside the formal institutional order, and a considerable part of the population lacked the skills required to participate in the formal economy. Including these groups into a formal, liberal democratic governance regime was one of

the main challenges that confronted the reformers in the 1990s.

Until the 1990s, South Africa's formal institutional order was largely a result of compromises between different white constituent groups, at least after 1924 when the majority of the Afrikaners accepted the ballot box as an avenue to pursue their interests. Thus, from the mid-1920s the institutional order basically mirrored a domain consensus among the white minority. The post-apartheid policy framework, by contrast, was heavily influenced by context-independent, international governance theories and discourses, as is shown in the following chapter. The formal governance system that replaced the old one was to a great extent a product of mimetic isomorphism, although power-struggles between the negotiating parties during the transition also played a significant role in shaping the formal post-apartheid order.

The next chapter sets the scene of the developments after the 1994 elections when reforms were pursued in practically all areas that affected political and economic activities in South Africa.





## 7. The Transition and Beyond

This chapter describes the main changes in policy and governance during and after the democratic transition. It first considers the restructuring of political power relations after the end of apartheid, and then examines how the ANC's development agenda changed in conjunction with the drafting of the new Constitution. Thereafter, it examines the shift from centralized planning towards networked governance following the completion of the Constitution and the introduction of a macro-economic strategy in line with the Washington Consensus. The chapter briefly describes how the basic pieces of legislation that frame the new local government system evolved during the 1990s, specifically the policies and legislation pertaining to Integrated Development Planning and Local Economic Development. After that, it looks at some central political developments in the wake of the governance reforms, followed by a brief overview of the reform outcomes in terms of social and economic development, and how different groups in the South African society have related to the formal institutional order after the transition. Finally, it considers some significant trends in local governance.

### **From State-led Development to Consensual Micro-corporatism**

#### **The Makeover of the Anti-apartheid Movement and the Drafting of the Constitution**

The formation of a post-apartheid governance regime entailed a major restructuring of South Africa's political and organisational landscape. After its unbanning the ANC had to transform itself from a resistance movement to a ruling political party, a transformation that proved challenging. As a liberation movement the ANC contained a whole spectrum of views, which in a Western European Democracy probably would have been represented by separate parties. Liberals, Christian Democrats, communists, socialists, social democrats, and African nationalists were all included in the ANC (Gumede, 2005, p. 124). Moreover, as noted, a wide range of civic organisations, community groups and churches had united under the banner of the UDF, which worked closely together with the ANC and COSATU during the liberation struggle in the 1980s. In the transformation phase following the breakdown of the apartheid regime, the ANC leadership centralized

power and incorporated the leaders of the separate struggle organisations under party and government command. The civic organisations of the struggle years were either usurped or marginalized by the ANC. Many civic leaders joined the new government while those who remained found themselves more or less powerless (Mogale, 2003, p. 225).

The main trade union organisation, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) entered into a ruling alliance with the ANC. The tripartite alliance was fragile from its inception. In the 1990s, the leadership core of the ANC had become politically centrist while much of the former liberation movement leaned heavily to the left. Before the ANC assumed power in 1994, most members of the tripartite alliance believed that the ANC would adopt economic policies similar to those of the former Soviet Union or Cuba (Gumede, 2005, p. 76). On the whole, however, as a liberation movement the ANC had paid little attention to economic policy until the 1990s. It therefore had to negotiate the settlement without a clear understanding of how the structural problems in the economy were to be tackled. Given its historical neglect of economic issues, the ANC became highly dependent on advice from business sector organisations, research groups and international organisations such as the World Bank and the IMF that put forward various scenarios and policy suggestions during the negotiation processes. It was also apparent to the ANC leadership in government that a full reintegration into the post-1989 global economy required the appeasement of the domestic and international capital (Gumede, 2005, p. 72, Marais, 2001, pp. 91-95). In 1993 an important elite compromise of the ANC, the NP and the corporate sector was reached just before the transitional executive accepted a loan from the IMF to alleviate the balance of payment problems. The transitional executive agreed with the IMF to commit itself to an export-oriented economic policy and a “redistribution through growth”-strategy in line with the Washington consensus (Terreblanche, 2002, pp. 96-98).

Against the background of the failure of state socialism, the ANC signalled that it would abandon economic nationalisation as the basis of its economic policy, and that the private sector would have to play a central role in the pursuit of social and economic development. Yet, the ANC did not entirely give up its statist orientation until after the National Constitution was completed in 1996. Prior to the 1994 elections, the ANC leadership accepted the COSATU-inspired Reconstruction and Development Programme (RDP) as the party’s election platform (Gumede, 2005, p. 257). The RDP drew on the East Asian developmental state model and on Keynesian economics. The programme included

socio-economic targets such as the creation of 2.5 million jobs in 10 years and placed a strong emphasis on the government as a key player in guiding the economy towards poverty alleviation, reconstruction and development (Harrison, 2006, p. 194, Terreblanche, 2002).

The years between 1994 and 1996 have been called “a golden age for the parliament”, a period when the ANC intelligentsia was concentrated in the parliament since it was where the constitution was drafted (Calland, 2006, p. 7). After the 1994 general election Parliament set up the National Economic and Labour Council (NEDLAC), which was modelled on Dutch and Irish institutions of social dialogue. The idea behind the establishment of NEDLAC was to promote consultative decision-making on issues regarding economic growth, social equity and labour relations. NEDLAC involves delegations from the government, organized business, organized labour and various civic organisations, and must consider all changes in social and economic policy before they are implemented. The policymakers attempted to build a commitment to communicative action into the council structures. Accordingly, the council representatives must strive to reach consensus to promote coordinated policy-making on social and economic matters (Edigheji, 2003, pp. 77-80, Parsons, 2007).

The development agenda of the new South Africa began to shift during the drafting of the new Constitution, and in the mid-1990 it was clear that South Africa could not replicate the East Asian developmental state model (Harrison, 2006, p. 194). The South African Reconstruction and Development Programme was formulated in vague terms and it was therefore difficult to turn it into implementable strategies. Neither had the government the administrative capacity required to realise it. It was also questionable whether the RDP was consistent with the macro-economic policy to which the transitional Government had committed itself in 1993 (Terreblanche, 2002, pp. 109-110). In these circumstances, policymakers within the ANC, academia and government departments drew inspiration from the Third Way doctrine. As a formerly radical movement, the ANC needed to adopt policies that could still be considered progressive, and the third way doctrine was ideal in this respect. It was consistent with the global market system and was widely accepted by global development agencies. At the same time, it could be sold to the left because of its emphasis on community building and poverty alleviation, as Harrison (2006, p. 194) points out. The emphasis on participation found was also consistent with the ANC's long-held vision of empowering people at the grassroots level (Nel and Binns (2001, p. 356).

## The Heightened Role of Local Governments

Centralized planning was abandoned and the role of local governments was reconsidered. The interim constitution had not established a local government framework and the tasks and function of local governments were not clarified. The local government negotiations took place parallel to the national negotiations in a body called the Local Government Negotiating Forum (LGNF). The LGNF negotiations only resulted in a legal framework for local government transition. Local elections were held in transitional local councils in 1995 and 1996, but the ultimate establishment of a new local government system was postponed (Bekker et al., 1997, Pycroft, 2002, p. 111). The local government section of the constitution was developed by the portfolio committee on constitutional development and provincial affairs, whose members envisaged a new, proactive role for municipalities in promoting development (Nel and John, 2006, p. 219). The final National Constitution, which was completed in 1996 and took effect in early 1997, underpinned the shift from a developmental state model to networked governance. As Schmidt (2008, p. 112) points out, the Constitution is imbued with the spirit of the networked governance paradigm, and stipulates a system of government based on horizontal rather than hierarchical relations between the three spheres, as they are called. The Constitution declares that the South African government is founded on three distinctive but interdependent and interrelated spheres. Thus, it lifts local government from a subordinate level to a significant sphere in its own right, with considerable autonomy and important responsibilities. In addition to providing water, sanitation, roads, stormwater drainage, electricity and municipal health services, the new municipalities must promote social and economic development (Cameron, 2003, p. 112-113).

The Constitution explicitly provides for consensual governance. The principles of 'co-operative governance' determine that all spheres of government "must respect the constitutional status, institutional powers and functions of government in these spheres, not assume any power or function except those conferred on them by the terms of the constitution, exercise their powers and perform their functions in a manner that doesn't encroach on the geographical functional or institutional integrity of government in another sphere, cooperate with one another in mutual trust and good faith, avoid legal proceeding against each other" (Cameron, 2003, pp. 112-113). In other words, the 1996 Constitution laid the groundwork for a networked model of governance relying on communicative actions rather than hierarchical commands.

The ultimate character of the new local government system was not settled in the Constitution. It merely determined that the transitional local government structures were to be replaced by a new municipal system in conjunction with the general municipal elections in December 2000 (Craythorne, 2003, p. 13).

## **Post-constitution Developments: Towards a Networked Governance Framework**

After the completion of the Constitution, major shifts in governance occurred. The power and capacity of the parliament waned as the ANC leadership shifted focus from constitution-making to implementation and intergovernmental relations. Skilled and experienced ANC politicians were redeployed to the executive branches of government and many of them ended up in the private sector (Calland, 2006, p. 94-96).

Moreover, the ANC in government introduced a new macro-economic strategy called Growth, Employment, and Redistribution (GEAR) in 1996, which emphasized free markets, fiscal discipline and the building of business confidence. It promised lower inflation and called for wage restraints by organized labour and flexibility in the labour market (Gumede, 2005, p. 190). GEAR rested on four basic pillars; budget deficit reductions, trade liberalisations, labour market reforms and privatisations (Seekings and Natrass, 2006, p. 349). Neither NEDLAC nor the Government's alliance partners were consulted in the drafting of GEAR. Allegedly, the strategy was outlined by a technical team consisting of six academics, two officials of the World Bank, three officials of the DBSA, two officials of the South African Reserve Bank and four government officials (Edigheji, 2003, p. 93). The ANC in government declared GEAR non-negotiable and attempted to launch it unilaterally, partly because some elements of the macro-economic policy were perceived to be non-negotiable in practice in any economy of the world, according to Parsons (2007, p. 13). The Government also believed that organized labour would oppose GEAR. Officially, the ANC leadership maintained that they had no choice but to play by the rules of the globalized economy (Gumede, 2005, p. 91).

There was a shift in policy from centralized planning towards multi-level governance similar to the European Union in that a simple model of national coordination was no longer possible after the completion of the Constitution. Consequently, centralized planning and coordination were abandoned and Mandela announced the closure of the RDP office in 1996. This shift naturally affected the development of the new local government

framework. Researchers and officials from the RDP office were transferred to the Department of Constitutional Development (DCD) to outline an interim local government framework. The policymakers saw the need for a new type of planning instrument that would help the municipalities to carry out their functions in a coordinated way. Therefore, they included an obligation that all transitional local councils had to prepare Integrated Development Plans (Harrison, 2006, pp. 195-195, p. 323).

Important steps were taken towards the final establishment of a local government framework through the passing of two significant pieces of legislation in 1998. Firstly, the 1998 Municipal Demarcation Act determined that the boundaries of the new municipalities of South Africa were to be drawn by an independent national authority, the Municipal Demarcation Board. This Board had to make sure that the newly established municipalities had the resources and the capacity needed to fulfil their mandates stated in the Constitution (Craythorne, 2003, pp. 44-45). One of the main challenges was to find a balance between the goals of achieving financial viability and ensuring favourable conditions for public participation in municipal decision-making processes. The municipalities had to be large enough to ensure a requisite tax base, and small enough to enable the development of a shared sense of community among the residents (Pycroft, 2002). Eventually, the Municipal Demarcation Board rationalised 843 municipalities into 284 jurisdictions (Figure 7.1). The boundaries of small towns were expanded to include adjoining rural hinterlands in order to achieve redistribution between affluent urban areas and poorer rural areas. Smaller and weaker local authorities were incorporated into the jurisdiction of larger and better-resourced authorities (Pycroft, 2002). The local government framework is divided into six metropolitan councils (Cape Town, Durban, Johannesburg, Port Elizabeth, Pretoria and East Rand), 47 district municipalities that are to support 231 local authorities under their respective jurisdiction, and 14 district management areas administered directly from the District Council because of their sparse population (Nel and Binns, 2001). The local sphere thus consists of two tiers, the district and the local level, thus further contributing to the multilevel character of the South African government system.

The second important piece of legislation, the 1998 White Paper on Local Government, provides the basis of the new local government framework (Mogale, 2003, p. 229). The Paper was partly drafted by academics who worked in the Department of Provincial and Local Government (DPLG). It is clearly influenced by the international third way trend, and bears striking similarities to the British New Labour's 1998 White Paper called *Modern Local government: In touch With the People* (Calland, 2006, p. 71,

Harrison, 2006, p. 197). The South African Local Government White Paper introduces the notion of “developmental local government”, defined as “local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives”. It states that municipalities are obliged to take on a leadership role by involving and empowering citizens and “stakeholder groups” so as to “build social capital” and “generate a sense of common purpose in finding local solutions for sustainability” (Nel and Rogerson, 2005, p. 6).

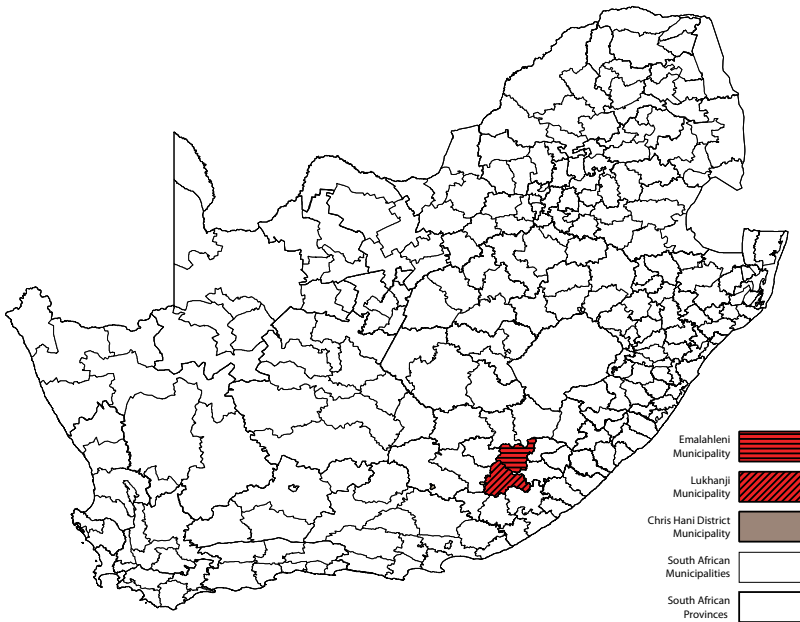


Figure 7.1 South African provinces and municipalities as of December 5th 2000

## Integrated Development Planning and Local Economic Development

With the introduction of the Municipal Systems Act in 2000 the basic pieces of legislation framing the new local government system were in place. The Act clarifies the legislative basis for Integrated Development Planning and states that all municipalities must produce Integrated Development Plans (IDPs) (Harrison, 2006, p. 198, Harrison, 2008, p. 324, Mogale, 2003, p. 230). The IDP is a strategic plan for the development of the municipality, and is supposed to serve to integrate and align local, provincial and national development strategies to avoid fragmented, project-based planning on the

local level. According to the Department of Provincial and Local Government (DPLG) IDP is “a tool to assist the municipalities in achieving their developmental mandates” and “a planning and implementation instrument designed to bring together the various function and development objectives of municipalities” (cited in Rogerson, 2006, p. 229). The Municipal Systems Act declares that the IDP must include an assessment of the municipality’s developmental needs and a vision for its long-term development. It must, moreover, contain the municipal council’s specific development objectives for its elected term based on a long-term vision. These objectives must then be linked to operational strategies, financial plans and to a spatial and land development framework of the municipality. The Municipal Systems Act stipulates that the local community as well as the organs of the state and traditional authorities “and other role players” are to participate in the drafting of the plan. The municipalities must moreover consult “the community” on its needs and priorities (Nel and Binns, 2002b, p. 926). The practice of Integrated Development Planning is defined by the DPLG as a “participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental, and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity, and the empowerment of the poor and the marginalized” (cited in Rogerson, 2006, p. 229).

The IDP system was originally developed by the national government under the influence of development agencies like the Deutsche Gesellschaft für Technische Zusammenarbeit /German Technical Cooperation (GTZ). It is very similar to the British joined-up government model in which the responsibility for planning is devolved to the local level, while the powers over overall policy design and financial control are concentrated at the national level. In this system, the national government establishes the broader policy framework while local and regional governments are expected to coordinate and integrate the government functions and anchor them in the local civil society. Integrated Development Planning is comparable with the British Community Strategies, which also encourage the joint engagement of public, private and voluntary sectors in local planning, while the local plans at the same time have to be consistent with national and regional priorities. Both the British and the South Africans system are based on what Harrison calls “top down direction for bottom-up implementation” (Harrison, 2006, p. 190, p. 201).

There are close links between Integrated Development Planning and the policy of Local Economic Development (LED). The World Bank defines LED as “the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of



life for all. ‘Community’ here is defined as a city, town, metropolitan area, or sub-national region” (World Bank, 2001, p. 1). Organised approaches to LED can assume different forms. Firstly, LED measures can be classified as pro-growth and pro-poor. Pro-poor strategies seek to uplift marginalized, low-income groups whereas pro-growth strategies aim to improve the competitiveness of the local economy in the global market. LED promotion measures can also be either direct or indirect. Measures such as zoning changes conducive to local businesses, place marketing, tourism promotion, and infrastructure and service provision improvements for businesses are examples of indirect LED support, while public procurement programmes targeted at local entrepreneurs, skills development programmes and direct support for entrepreneurs are examples of direct interventions to promote LED (Nel and Rogerson, 2005, Rogerson, 2006, p. 234).

LED was first put on the reform agenda by academics and organisations like the Urban Foundation, a think tank funded by the South African business community, the South African National Civic Organisation (SANCO) and the RDP ministry. In the latter half of the 1990s it was also promoted by development agencies like the GTZ, DFID, and USAID (Nel and John, 2006, pp. 209-211). The South African version of LED has been described as a home brew based on international trends and experiences adapted to local circumstances (Nel and John, 2006, p. 224, Xuza and Swilling, 2008, p. 265).

With the introduction of the 1998 Local Government White Paper, LED became a key objective of the developmental local governments. According to the White Paper, LED is basically about Local Governments performing their core functions in such a way as to support local economic activities. It encourages indirect measures such as the provision of business-friendly services, local procurement- and investment promotion strategies and direct support to small, medium and micro enterprise businesses (Nel and Binns, 2001, pp. 357-360). Yet, the White Paper is vague about how to operationalize LED promotion in practice. It remains unclear whether LED efforts should aim at poverty alleviation or growth, and whether they should be driven by the government or by the private sector. These issues were not completely settled by the time of this investigation. By 2006 there was still no explicit legislation or formally approved policy on LED beyond proactive support for development in general (Nel and John, 2006, p. 217).

The Department of Provincial and Local Government became the leading actor behind the formulation of the LED-strategy. The DPLG recommends both pro-growth and pro-poor approaches as well as direct and indirect measures. According to the DPLG, the aim of LED is to “create inclusive local economies that exploit local opportunities, address local needs and

contribute to national development objectives such as economic growth and poverty eradication“(Rogerson, 2006, pp. 228-229). The DPLG’s LED draft document declares that LED strategies should simultaneously aim at increasing the competitiveness of the local economy and at alleviating poverty. In similarly vague terms it states that LED promotion activities must encourage “open, transparent and mutually respectful state-society relations” and “forge new and reformed intergovernmental partnerships” In a series of manuals on LED the DPLG advocates measures like place-marketing, investment promotion through tax reductions and direct loans to private businesses, as well as donations of land to developers. Municipalities were also recommended to set up specific LED units or appoint LED officials and encouraged to establish partnership arrangements with private, public and non-governmental organisations to actively stimulate the local economy.

Between 1999 and 2003 the DPLG provided LED funding linked directly to a poverty relief programme. The LED fund channelled money to municipalities to support local job creation and poverty alleviation projects with up to R1.5 million per year and project (Nel and Binns, 2001, p. 357, Nel and John, 2006, p. 215). In this sense the LED policy bears a resemblance to the European Union’s regional policy, according to which a Regional Development Fund is used to co-finance projects in so called least favoured regions to promote investments and the creation of jobs (European Commission, 2008-02-25). However, in South Africa, the LED policy has a wider objective. On the one hand it aims to encourage public and private sector partners to jointly stimulate economic growth and job creation. On the other hand it can be seen as a targeted social policy based on active government intervention.

The new system of Developmental Local Government, in which Integrated Development Planning and Local Economic Development promotion are central components, took effect on 5 December 2000. The introduction of this governance framework entailed a redefinition of the relationship between the public, private and the civic sector. While it provides more operating space for private and civic organisations in policy-making, it rests on the assumption that civil society groups agree on the government’s development agenda and that it will help the government to achieve its objectives as Gumedde (2005, p. 284) points out. This implies that private and civic sector representatives are to be involved in development initiatives in partnership with the public sector. At the same time, the idea of civics acting as checks on the government is downplayed. The new policy framework is founded upon a vision of what can be called ‘consensual micro-corporatism’.

## After the Governance Shift

### The Public Sector Reform and the Centralization of the ANC

The introduction of the new governance framework and its ensuing development agenda went along with a massive transformation of the public sector and a process of centralization within the ANC. Prior to the 1990s the ANC had barely considered the future of the public service. Towards the mid-1990s the transformation of the public sector became a more and more central part of the reform agenda. In 1993 Mandela called for a credible public service whose task it was to implement new development oriented policies. The ANC did not trust that the then Afrikaner-dominated public service to be willing or suitable to implement its reform agenda. As Picard points out, black South Africans had for long seen the public administration as a repressive apparatus that enforced a draconian control system directed against them (Picard, 2005, p. 103, p. 109). From the mid-1990s the government therefore set out to transform the public sector in order to give it a developmental rather than repressive character. The constitution also determined that the public administration should be representative of the South African people. By achieving representativity the ANC leadership would at the same time gain a higher degree of control over the public sector. In the latter half of the 1990s a large number of civil servants were replaced through voluntary severance packages and early retirement. As a result, the composition of the civil service changed dramatically. In 1994, 44 percent of all posts were held by whites. Five years later whites held 18 percent of the posts in the civil service. During this period of time, the ANC leadership redeployed ANC leaders as well as members of COSATU and the SACP to key positions both in the public and the private sector, where they were expected to remain under party discipline. Thus, parallel to the public sector transformation, the ANC leadership in government strengthened its control of main centres of institutionalized power, both in the public and the private sector. Increasing efforts were also made to take control over regional power bases. People loyal to the ANC leadership were therefore appointed as provincial premiers and municipal mayors to secure co-operative governance (Myburgh, 2007, pp. 420-422, Southall, 2007, pp. 5-7).

The ANC strengthened its position in the 1999 general election by winning more than 66 percent of the votes. When Thabo Mbeki replaced Nelson Mandela as President the same year, the power within the ANC became increasingly concentrated to the president and the ANC leadership in government (Myburgh, 2007, pp. 420-422). According to Butler, power has been transferred from provincial to national level,

from legislature to the executive, and from Cabinet to presidency within the national executive (Butler, 2007, p .44). In the 2004 general election, the ANC leadership in government under President Mbeki further consolidated itself as a power monolith in South African politics. The ANC won almost 70 percent of the votes and thus 70 percent of the seats in the parliament, which became more and more marginalized as a policy-making arena (Calland, 2006, p. 115).

As the ANC in government gradually took control of key power-centres, it began to treat politics largely as a technical and managerial matter, as if it already had reached consensus on its development agenda. As Calland (2006) puts it, the major policy shift from RDP to GEAR “was treated by the ANC as if it was equivalent to changing a mortgage bond from one bank to another with the aim to capitalize on a 2 per cent interest cut” (Calland, 2006, p. 150). The shift from centralized planning to networked governance after the completion of the Constitution in 1996 went along with a seemingly paradoxical parallel development towards centralization and decentralization. This tendency can be explained partly by the fact that the development agenda, and the networked mode of governance upon which it rested, require a high degree of consensus.

Ironically, while the ANC in government sought to gain control over the public sector, it simultaneously weakened its capacity to implement its reform agenda. Critics maintain that the reforms were pursued without sufficient regard to the implications in terms of human resource losses. The transformation of the public sector and the political appointment of key officials impacted negatively on the competence of the public administration. Many new officials are said to lack skills, experience and a clear understanding of the workings of government. Allegedly, some public sector managers are not aware of the difference between the executive and the parliament. Moreover, a considerable number of newly appointed politicians, officials and councillors seem to have grabbed the opportunity to enrich themselves and/or the party. According to ANC’s national secretary-general Kgalema Motlanthe, corruption is a serious problem “across the board”, that is, from the national to the local level. After the reforms the borders between party, public and private sector have become blurred. This tendency has given rise to growing worries that procurement contracts are awarded on the basis of political connections or bribery and that public resources are used for private or party purposes. There have been signs that the parliament is subordinated to the ANC leadership to such an extent that it no longer functions as a check on executive power. The implications of the blurring of the borders between party, public and private sectors can be exemplified by the so-called “Oilgate scandal”. The

scandal became public when it came out that a large sum of money had been transferred from a government-owned oil company to a private business with close ties to the ANC, which then diverted the bulk of the funds to the party before the 2004 elections. (Calland, 2006, p. 67, Feinstein, 2007, Giliomee, 2007h, p. 436, Southall, 2007, p. 10-11).

At the local level, the replacement of the staff went along with comprehensive changes as to the municipalities' territorial, administrative and developmental mandates. The amalgamation of racially divided jurisdictions increased the population that the municipalities had to serve, while their tax bases were not enlarged to a corresponding extent. The new local governments were thus faced with huge financial challenges from the outset and many soon ran into debt. Developmental local government is therefore often described as an "unfunded mandate". The merging of old Bantustan and township administrations with administrative organisations of the former Republic of South Africa also entailed a range of practical and organisational problems. For instance, staff members from different organisations tended to have different salaries and benefits (Butler, 2007, p. 46, Hassen, 2003, p. 123). At the same time, the new local governments have to simultaneously implement developmental policies and programmes pertaining to a range of different sectors such as housing, public health, poverty alleviation, land reform, environmental management, local economic development, water and sanitation, infrastructure, sports and recreation, arts and culture and agriculture. It has been difficult for new and inexperienced officials and councillors to make sense of the of tasks, powers and functions that are delegated to the local government sphere (Atkinson, 2007, pp. 70-71). In addition, the re-demarcation of the political map has led to the creation of provinces and municipalities with very heterogeneous socio-economic structures. Under such circumstances, it may be very difficult to achieve inclusive and cooperative governance, as Bekker and Leildé (2003) point out.

The disorderly situation which arose after the transformation also invited to mismanagement, corruption and inefficient expenditure. Municipal salaries increased considerably and some municipal managers have even been said to earn more than President Thabo Mbeki. Many local governments have failed to establish transparent and accountable governance. Several municipalities are reported to have made appointments on the basis of political and family ties rather than merit, and the mechanisms for public participation rarely function in a meaningful way. Moreover, the practice of deploying nationally selected people as local mayors is said to have undermined their legitimacy in the eyes of local ANC cadres (Atkinson, 2007).

Despite its drive to establish hegemony, the ANC leadership failed to reach consensus on its development agenda. Neither COSATU nor the SACP accepted the ANC's choice of macro-economic policy. The introduction of GEAR therefore generated severe conflicts within the tripartite alliance (Edigheji, 2003, p. 105). According to Gumede (2005, p. 268) only COSATU's and SACP's traditional loyalty to the ANC prevented the tripartite alliance from breaking up. The vision of consensual corporatism was also tarnished by the fact that the parties in NEDLAC failed reach a social accord and agree on a consistent growth path (Parsons, 2007, p. 12). Contrary to what some commentators claim, the alliance partners were not entirely brushed aside by the ANC leadership. While COSATU and SACP were unable to effectively oppose the macro-economic strategy, they seem to have been more successful in opposing labour market reforms and the privatization process (Edigheji, 2003, p. 105). As a result, the GEAR package was only partially implemented. By 2004 only two of its four pillars had been implemented. The ANC in government was able to liberalise trade and reduce the budget deficit, but it could not pursue privatizations and reform the labour market in accordance with the GEAR package (Seekings and Nattrass, 2006, pp. 349-350).

The nature of the conflicts within the tripartite alliance following the policy shift in the late 1990s indicates that neither goal nor domain consensus was reached within the ruling alliance after more than a decade of joint government. The ANC leadership held that the trade union movement should merely consider 'shopfloor issues' on the grounds that trade unions are not political parties with wider agendas. However, as Calland (2006, p. 134) points out, COSATU views itself as far more than a trade union and it did not accept such a subordinate position within the alliance. It mobilized its members on the basis of the struggle tactics developed in the 1980s to protest against the ANC's choice of policies. This move, in turn, was strongly condemned by the ANC leadership (Gumede, 2005, p. 260). The ANC leadership also encountered increasingly fierce resistance from within its own ranks. By 2005, there was growing resentment among the ANC grassroots over Mbeki's leadership style. In the Provinces, ANC members rebelled against premiers who had been appointed due to their loyalty to Mbeki's reform agenda to the detriment of local constituencies. The left-wing of the party mobilized around the former Deputy President, left-winger Jacob Zuma (Gumede, 2007, p. 428). When Zuma was forced to resign after corruption allegations, serious conflicts flared up within the ANC, and Mbeki had to send out senior party leaders to the provinces to hold back a rebellion in support of Zuma. His contesters pointed to the blurring of the borders between party and government and held that the

ANC leadership in government had subordinated supposedly independent institutions such as the judiciary to its authority, and that it now used it to frame challengers like Zuma (Southall, 2007, pp. 16-17). COSATU's central committee wanted the crisis to be solved politically and called for a withdrawal of the corruption charges. This was seen as executive interference in the judicial process and as a violation of the principle of the separation of powers (Calland, 2006, p. 155).

These events suggest that the alliance partners did not agree on either policy or a clear division of roles after more than a decade of power-sharing. In other words, neither goal consensus nor domain consensus had been reached within the ruling elite stratum. Moreover, independent institutions such as the judiciary were barely accepted as such, while crucial checks on executive power, such as Parliament, were subordinated to the executive. Yet, despite the centralizing tendency, the ANC leadership in government was unable to gain hegemony over all major centres of power. South African politics therefore remained conflict-ridden and polarized after the transition. As a result, the ANC leadership around President Mbeki was not able to pursue its development agenda, which rested upon a vision of national consensus, in a consistent way.

## The Reform Outcomes

When South Africa entered into the new millennium, the government's national development agenda rested on the full "de-racialization" of all public policies including social welfare policies (although no provision is made for poor people who are not old enough to qualify for old-age pension or young enough to qualify for child support), increased expenditure on education, a market-led land reform based on a 'willing buyer, willing seller'-principle, and the introduction of Black Economic Empowerment (BEE) policies, that is, affirmative action measures aiming to create new economic opportunities for black South Africans. The government also made significant investments in public services and granted everyone that earns less than R1100 ( 140 EUR/141 USD<sup>1</sup>) per month the right to a minimum amount of free basic services, to be provided by the municipalities (Atkinson, 2007, p. 58, Gumede, 2005, p. 78, Seekings and Nattrass, 2006). After more than a decade of rule, the government had achieved remarkable progress in several areas. Mbeki can boast significant improvements in service delivery and infrastructure. For instance, in 2007 nearly 18 million people received free basic water and around two million housing subsidies

<sup>1</sup> Based on the exchange rates of September 3, 2005

had been allocated since 1994 (Atkinson, 2007, p. 59, Southall, 2007, p. 1). In the wake of the economic reforms, which included the removal of agricultural subsidies and trade tariffs at a rate higher than required by the WTO, South Africa attained a level of macro-economic stability not seen for decades and the competitiveness of the economy improved considerably. The GDP rose by 2.5 percent per year between 1993 and 2000. However, the gap between economic growth and employment growth widened significantly. Between 1995 and 2002, 1.6 million new jobs were created while at the same time the number of unemployed increased by 2.3 million (Gumede, 2005, pp. 99-101). The job losses were concentrated in the mining, agriculture and manufacturing sectors, particularly labour-intensive industries that competed with imports such as the clothing industry. Consequently, the South African economy became increasingly skills and capital-intensive as the demand for labour increased in sectors that were competitive in the global economy. At the same time, large sections of the unskilled labour force, i.e. people lacking the qualifications required to participate in the global economy, became redundant (Tomlinson, 2003). The skills shortages put an upward pressure on the wages of skilled labour, which constrained growth. This, in turn, held back the creation of new jobs. Another problem was that the trade liberalizations were not combined with increasing labour market flexibility. Since the labour market reforms never materialized, the unemployment level rose even further, and the gap between labour market insiders and outsiders grew (Seekings and Nattrass, 2006, pp. 348-350). As Feinstein argues, the labour market framework

“was more appropriate for a European-style, advanced social democratic economy. The job protection and conditions of service provision were simply too onerous for a small, relatively uncompetitive developing economy. This led to a scenario where companies in South Africa were loath to employ unskilled workers, the very people who most needed jobs” (Feinstein, 2007, p. 69).

A decade after the transition, the general level of inequality had not changed significantly but there was a clear shift in the income shares of the different racial groups. The white population's share of total income diminished from about 71 percent in 1970 to 52 percent in 1996 while the African populations' share grew from around 20 percent to 36 percent. This change was mainly due to the rise of a black elite. However, the opening up of opportunities at the elite level was not matched by a corresponding process of economic inclusion at the grass-roots level (Seekings and Nattrass, 2006, pp. 301-304). The kind of inequality that appeared in the late apartheid period became reproduced after the end of apartheid. As noted in the



previous chapter, the apartheid regime neglected skills development and the education of blacks, which had serious political and distributional consequences when South Africa was fully reintegrated into the global economy. The labour-market and the economic policies adopted in the post-apartheid period promoted a growth path that primarily benefited an increasingly multi-racial middle class, while it further marginalized a growing number of unemployed people that lacked the skills and the network connections required to secure a job in the formal sector (Seekings and Natrass, 2006, pp. 377-379).

In 1996, the government attempted to improve the standards of the schools formerly reserved for blacks. Surplus teachers were either transferred to disadvantaged schools or given retrenchment packages. Many skilled teachers chose retrenchment packages which led to significant human resource losses. As a result, the quality of the public education system did not increase significantly despite the significant growth in expenditure on education (Schlemmer and Bot, 2007, pp. 430-431). The continuously low quality of the public education system contributed to holding back the social mobility of disadvantaged children.

South Africa has one the most extensive welfare systems in the developing world. The government increased social security spending by an average annual rate of almost 26 percent between 2001 and 2005. In 2004, around a quarter of the population received direct cash transfers from the government (Giliomee, 2007h, p. 435). Yet, the public welfare system is based on full employment and it only provides benefits to groups who are unable to work, such as elderly and disabled people. While private medical insurance and pension schemes provide security for the employed, the structurally unemployed lack welfare rights. As a result, they have become increasingly dependent on informal forms of welfare such as remittances provided by relatives, in so far as such forms of welfare are at hand. Unemployment is therefore closely associated with poverty and the job losses in the post-apartheid period have contributed to widening the level of inequality in South Africa (Seekings and Natrass, 2006, pp. 377-379).

The post-apartheid order can be said to represent a mixture of regime types. On the one hand it is a formal regime in which the government provides a minimum of means-tested welfare benefits while most services are provided privately. On the other hand, it is, at best, an informal security regime for those who lack formal employment and do not qualify for government benefits. According to the UNDP's (2003) South Africa Human Development Report, South Africa's macroeconomic strategy represented a 'two-track' approach which disconnected social and economic development. The report concludes that the structure of employment

opportunities and the structure of skills possessed by the poor do not match. As a result, a significant portion of the poor are unable to participate in the formal economy and take advantage of the opportunities created by the impressive growth rate. The 'social development track', that is, social services, welfare programmes and various Small and Medium Enterprise Development programmes, has been given the main responsibility of addressing poverty and unemployment (UNDP, 2003).

The economic growth is unevenly distributed spatially. South Africa's major cities produce roughly 80 per cent of the country's GDP, and most of the resources for housing, infrastructure development, health care and education are concentrated in urban areas (Pycroft 2002). Urban and rural areas tend to be fragmented in different ways. Urban spaces are usually distinctly segregated along racial and socio-economic lines. The rural areas are sharply divided both institutionally and socio-economically. The sections formerly zoned for white ownership have a structure corresponding to that of rural USA or Australia, while the former Bantustans are dominated by communal tenure and government land, and overcrowded, poorly serviced and economically weak villages (Nel and Rogerson 2005).

While the major cities in South Africa have generally done well in terms of economic growth against the background of their integration into the global economy, smaller towns with less than 100 000 residents have been worse off. A significantly larger portion of the population in small towns and in the countryside lives below the poverty line. Smaller urban centres have also been affected differently by the integration of the world economy depending on economic trends, historical legacies and context-specific factors. Mining towns in KwaZulu Natal, the Free State and in the northern provinces of South Africa have been particularly hard-hit. Similarly, many formerly prosperous agricultural towns have declined economically in the last decades. The loss of many formal sector job opportunities and the emigration of skilled workers, have made numerous smaller and weaker urban centres become highly dependent on state welfare. The amalgamation of smaller centres under a single jurisdiction has weakened smaller towns that lost local government organisations. At the same time, some centres such as Queenstown, have strengthened their position since they have absorbed the various public and private functions of smaller towns in their surroundings. Some towns have prospered from their integration into the global economy. For example, smaller towns located in beautiful settings, such as Knysna, Howick, and Still Bay, have become centres for tourism and retirement living, and to a lesser extent, telecommunication services (Nel, 2005, p. 526).

The former homelands have been particularly hard-hit by the restructuring of South Africa's economic geography. The poverty and unemployment increased considerably in those areas when farm workers were evicted from commercial farms at the same time as the mines shed unskilled workers on a large scale basis. Many former farm and mineworkers has become trapped in poverty since they lack the network connections required to secure employment in other sectors of the economy, or access to a smallholding agricultural sector to fall back upon (Seekings and Natrass, 2006). Unsurprisingly, this tendency has given rise to massive migration flows from rural to urban areas that provide better services or job opportunities than the sending area. The rapid urbanisation process has put many cities under intense pressure, due to the ensuing increase in homelessness, social problems, unemployment, informal settlements and crime (Bekker 2003, Pycroft 2002).

### **Exit, Loyalty and Voice after the Democratic Transition**

After the democratic transition a considerable part of the population has exited from the formal order, either by emigrating or by engaging in informal and illegal activities. Many of those who were excluded from the formal order during apartheid have not become fully included. As to the voice option, the lack of significant electoral competition has prevented the ballot box from functioning as a formal channel for voice. At the same time a small but growing black elite have largely remained loyal to the regime since the government and the ANC control resources and employment opportunities upon which many of them are dependent. The ANC has been able to co-opt many black leaders from the major opposition parties since it commands important sources of patronage, such as places on the ANC electoral lists, positions in the administrations and the parastatals, and opportunities for various business activities. In order to obtain or secure various positions of power many potential political opponents have therefore remained loyal to the ANC, and few disappointed ANC supporters have been interested in joining the opposition (Seekings and Natrass, 2006, p. 372). It seems as if the burgeoning black middle class is relatively dependent on the political elite. There is widespread frustration about the fact that only this small well-connected black elite has been able to prosper, while the majority remain deprived. Some critics argue that the affirmative action policy, BEE, is a euphemism for the creation of a small black bourgeois, rather than a serious attempt to uplift the broader black population (Edigheji, 2003, p. 100, Gumede, 2005, p. 260). Moreover, as already noted, the

once powerful civic organisations that were built around the resistance to the apartheid regime have either been usurped as civic leaders got government jobs, or marginalized (Mogale, 2003, p. 225).

Most decision-making seems to occur within the tripartite alliance, rather than between the ANC and other political parties in the parliament. As noted, the South African parliament has become relatively insignificant as a decision-making arena and the opposition is marginalized. The ANC in government tends to pay more attention to certain NGOs than to opposition parties (Calland, 2006, pp. 182 -183). Only a small selection of organisations that represent various sectional interests has access to the policy-making arenas that matter. Not even the trade unions represent the wider strata of the people. The rapid decline in formal-sector employment and the growth of the informal sector have resulted in the South African trade union movement only representing a fraction of the labour force. As noted, the trade unions and organized business have not been able to articulate common interests and establish a mutually acceptable, nationwide social accord that mirrors the wider interests of the country (Edigheji, 2003, p. 103). Only a few, but important, interest groups are represented in South Africa's main national decision-making arenas, while the poor and the marginalized have no clear voice in government, as Gumede (2005, p. 272) points out.

From a strict economic perspective the post-apartheid order builds on the late apartheid regime. Only insiders, i.e. those with formal sector employment, have become fully included, economically and politically, in the formal governance regime, despite the fact that the entire adult population is entitled to vote. The problem of exclusion is aggravated by the fact that dissatisfied South African voters have tended to abstain from voting instead of airing their voices by supporting an opposition party. The growing disillusionment with the ANC government has therefore resulted in a lower voter turnout rather than in intensified electoral competition (Seekings and Natrass, 2006, p. 372). In 2005 there were street protests against local governments all over the country. According to Atkinson, the protests were fuelled by widespread discontent with the municipalities' performance. Many citizens were frustrated by the deficient service delivery, undemocratic decision-making, administrative misconduct and the rapid enrichment of municipal councillors and officials (Atkinson, 2007, p. 59). The protests occurred a year prior to the municipal elections in March 2006. Yet, the ANC remained in power or even strengthened its position in the municipalities where protests had taken place. This indicates that voting patterns appear to be unrelated to service delivery concerns, as Atkinson (2007, p. 74) argues. It also suggests that many South Africans are inclined to take unofficial action to express voice rather than using the ballot box or other available formal

channels. Moreover, the citizenry appear to have a limited trust and interest in formal democratic politics. According to one investigation, only a third of the respondents held that the procedural features of the political system were essential to its democratic character, while economic aspects were generally seen as more important (Butler, 2007, p. 43).

Despite the growing discontent with the incumbent government, the first decade of democracy witnessed decreasing electoral competition. Although some sections of the ruling tripartite alliance considered forming a new party to contest the ANC leadership in conjunction with the 2004 election, the main political struggles in South Africa continued to take place within the party and the tripartite alliance. The power-struggle between the President Thabo Mbeki, and his challenger Jacob Zuma, who became the president of the ANC in 2007, is indicative of this tendency. As this struggle intensified in 2008, the parliament was somewhat revitalized as a check on the executive. After Thabo Mbeki was forced to step down in September 2008, there were yet again signs of a possible split of the ANC (Economist, 07-08-2008, Economist, 11-10-2008 ). A review of the outcomes of this political feud is beyond the scope of this thesis.

The high crime rate suggests that the formal order is weakly established (or perhaps rather, contested). The overall crime rate increased from 1997 until 2003. Thereafter, the crime level has dropped to some extent (Louw, 2007). Still, crime is a very serious problem in South Africa. In the beginning of the 21st century the official murder rate was the second highest in the world after Colombia. Between 2001 and 2007, the annual murder rate oscillated between 18000 and 21000. Between April 2006 and March 2007, 19,202 murders were recorded (South African Police Service, 2008-07-13).

Emigration constitutes another major exit tendency in post-apartheid South Africa. It is estimated that about 8 per cent of South Africa's skilled graduates had emigrated by the late 1990s. The exact causes of the emigration trend are not known. Current research suggests that factors such as the high crime rate, feelings of political uncertainty and real wage differentials between South Africa and the receiving countries have driven many South Africans to leave the country (Myburgh, 2004).

In sum, the formal liberal democratic system in South Africa has not, in practice, provided formal channels for voice for significant sections of the population, partly due to the lack of electoral competition and popular interest in, and experience of, formal politics. Only a selected few organisations access South Africa's most important policy-making arenas. A main problem with regard to governance is that the most important of them, organized labour and organized business, have not been able to agree on an inclusive growth path and a common labour market

agenda. As a result, South Africa has basically continued along the growth path established by the late apartheid regime, which favours insiders in the labour market while it continues to marginalize a large section of outsiders. In other words, a significant part of the population has in practice remained excluded from the formal order since the democratic transition. While many potential critics of the current regime have been usurped by the government or the party, the marginalized groups have generally not been able to pursue their interests through the ballot box, and their sense of ownership in the formal order appears to remain weak. The high rates of crime and emigration also suggest that many South Africans have pursued some form of exit strategy in relation to the current order. Notwithstanding these tendencies, there are, as Gumede (2005, p. 237) points out, still several important checks on executive power in place, such as a vital free press and a range of vigorous civic pressure groups. After outlining these nationwide trends in governance, the next section considers some main tendencies in local governance.

## **Trends in Local Governance**

The outcomes of local governance processes differ considerably across South Africa. There are huge differences in performance between larger and well-funded municipalities located in larger urban areas with developed economies and smaller municipalities in more peripheral areas (Goldman and Reynolds, 2008, p. 148). Naturally, the economic decline in some areas and the growth in others mainly result from factors unrelated to local developmental governance efforts. However, some localities have actively contributed to stimulating economic development, for instance by attracting private sector investments through local collective actions. The general tendency is that pro-growth LED measures have been most successful in areas that already benefit from the integration of the country into the global economy because of their location, such as the large cities or towns located in beautiful settings. The major metropolitan areas in South Africa are pursuing LED strategies similar to those of many American and European cities. Johannesburg, Durban, Cape Town and Pretoria have set up specialised economic development units that analyse global market trends in order to find comparative advantages that yield high growth and employment outputs (Rogerson, 2000, Nel and Rogerson, 2005). The large cities have launched a range of measures such as place promotion and cost reductions for businesses. All the major South African cities are actively trying to attract or preserve knowledge-based economic activities.

For instance, Cape Town and Johannesburg are competing to become the leading national centre for technology manufacturing and information technology. Furthermore, the metropolitan municipalities are attempting to tap into the growth of global tourism through waterfront development programmes, and the building of new convention centres, as well as by hosting festivals and big events such as the Cricket and Rugby World Cups and the 2010 FIFA World Cup (Rogerson, 2006, pp. 231-232).

Many smaller centres with less than 100,000 people have found it more difficult to draw on global economic trends. Outside the metropolitan areas pro-poor LED interventions have been most common (Nel and Rogerson, 2005, Rogerson, 2006, p. 237). The pro-poor focus of LED interventions have become more and more emphasised as a result of the increase in poverty in peripheral areas following South Africa's integration into the global economy. More and more emphasis has been placed on different LED programmes that aim to create livelihoods for structurally unemployed people. For instance, the Expanded Public Works Programme seeks to upgrade rural infrastructure by using labour-intensive methods in order to provide jobs for the unemployed. Moreover, the Integrated Sustainable Rural Development Strategy addresses rural local economic development while the Urban Renewal Programme focuses on urban regeneration, with specific regard to township areas that were marginalized under apartheid. In 2004, the government launched the Integrated Small Business Development Strategy which aims to improve the capacity of local governments to support "emerging micro-enterprises" operating in the informal sector (Nel et al., 2005, pp. 27-28). Both larger cities and smaller centres tend to use public works programmes to promote pro-poor LED and create jobs for the structurally employed. Municipalities also tend to use targeted public sector procurement to support the development of black-owned, small enterprises. Other common pro-poor LED measures include active support for labour-intensive, informal economic activities and urban agriculture projects such as community gardens and skills development programmes targeting poorer communities (Nel et al., 2005, Rogerson, 2006, pp.233-234).

In some smaller towns that face economic decline, private and municipal actors enter into partnerships to access national LED funds in order to revive or redirect the local economy. For instance, in the small coastal town of Still Bay, which faced a crisis after a serious downturn in the fishing industry in the 1980s, public and private actors entered into a partnership to counter the economic decline. Following the growth in tourism in South Africa after the transition to democracy, a range of actors including municipal officials, church groups, the local school and businesspeople were mobilized in an attempt to uplift the local economy

through tourism promotion. A local tourism association, a craft centre, a tourism office, and a botanical garden in the township were established. Unemployed fishermen were retrained to clear vegetation in the locality to make the area more attractive to tourists. The town was marketed as peaceful holiday resort, attracting both South Africans and foreigners in search of a holiday resort or a place to retire. As a result, the town experienced a tremendous growth and it saw the establishment of nearly 200 new businesses in the late 1990s. This led to a situation of close to full employment (Nel, 2005, pp. 259-60). However, current evaluations suggest that most attempts at achieving developmental governance have not been this coordinated and successful. Nel and Rogerson (2005) conclude that many attempts at promoting local economic development projects have failed in the longer term. Thus, the outcomes with regard to developmental local governance are varying.

The following chapters provide a more detailed analysis of the implications of the introduction of the networked model of governance in a South African context. They take a closer look at the workings of Development Local Government with specific reference to Integrated Development Planning and Local Economic Development in two municipalities in the central Eastern Cape Province. Chapter 8 considers Integrated Development Planning and Governance, in particular the planning of Local Economic Development measures. Chapter 9 examines and analyses the outcomes of a selection of LED projects by means of comparative case studies.



## 8. South African Micro-Corporatism in Practice

This chapter focuses on the outcomes of the processes of Integrated Development Planning in the Lukhanji and Emalahleni local municipalities, and the Chris Hani District Municipality to which the two municipalities belong. It begins with an overview of the socio-economic situation in the area. This is followed by an outline of the “conventional”, liberal democratic political institutions, and a description of the political situation in the area at the time of the investigation. It then describes the administrative situation in the municipalities and the division of labour between the District and the local municipalities. Thereafter, it gives an account of the “micro-corporatist” arrangements, that is, the formal meeting points at which government and non-government actors engage directly in development planning. Finally the chapter examines and explains the outcomes of the planning processes.

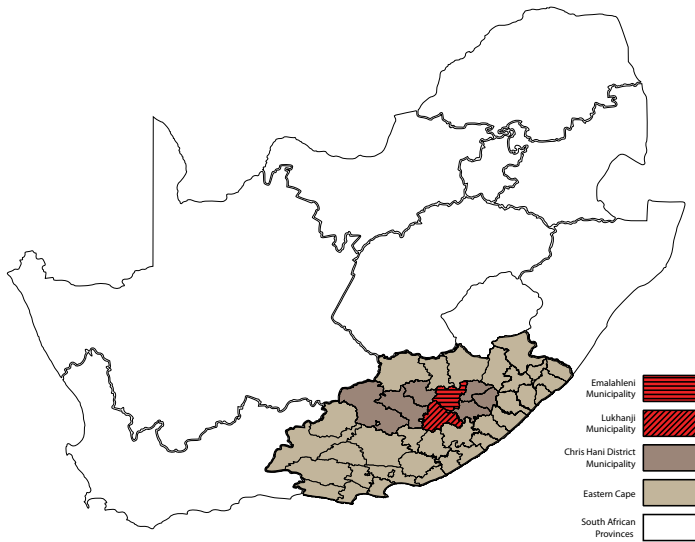


Figure 8.1 The case study localities

### The Case Study Localities: Contextual Considerations

As already noted, the South African local government system has two tiers; the district and the local level. It consists of 47 district municipalities that are to offer support to 231 local authorities under their jurisdiction. Lukhanji and Emalahleni Local Municipalities belong to the Chris Hani District Municipality (Figures 8.1, 8.2) located in central Eastern Cape

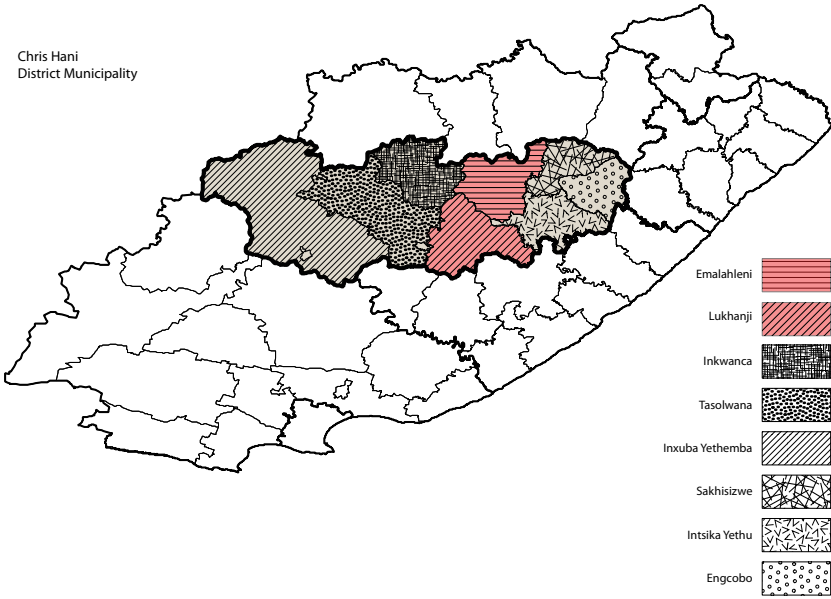


Figure 8.2 Chris Hani District Municipality

Province. Eastern Cape Province, in turn, is an amalgamation of the eastern part of the Cape Province with the former Republic of South Africa and the former homeland states of Transkei and Ciskei. The unification of these areas under the umbrella of the new Eastern Cape Province generated a new set of heterogeneous jurisdictions that faced enormous economic, administrative and political challenges.

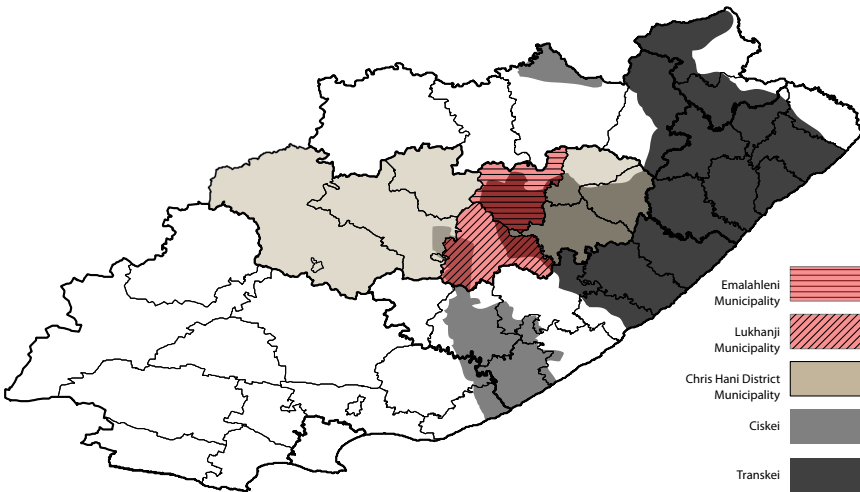


Figure 8.3 Municipalities as of 2005 in relation to the former homelands of Transkei and Ciskei

Approximately half of the Chris Hani District Municipality belonged to the former homeland of Transkei, while the other half was part of the Cape Province (Figure 8.3). The District therefore comprises areas with very different settlement and land use patterns. The former homelands of Transkei and Ciskei have largely remained economically deprived since the unification of the country. While most of the land in these areas is used for subsistence-farming, residents are largely reliant on other sources of income such as remittances or part-time employments in the larger urban centres (Nel, 2005).

The economy in the area now falling under the Chris Hani District was centred on manufacturing and farming during apartheid. The weakening of these sectors in the last few decades has strongly affected the economic performance of the region. In 2001 the District had one of the highest unemployment rates in South Africa, and there was a strong trend of outward migration to the economically dynamic metropolitan centres of South Africa (Chris Hani District Municipality, 2005).

Lukhanji Local Municipality (EC134)  
Chris Hani District

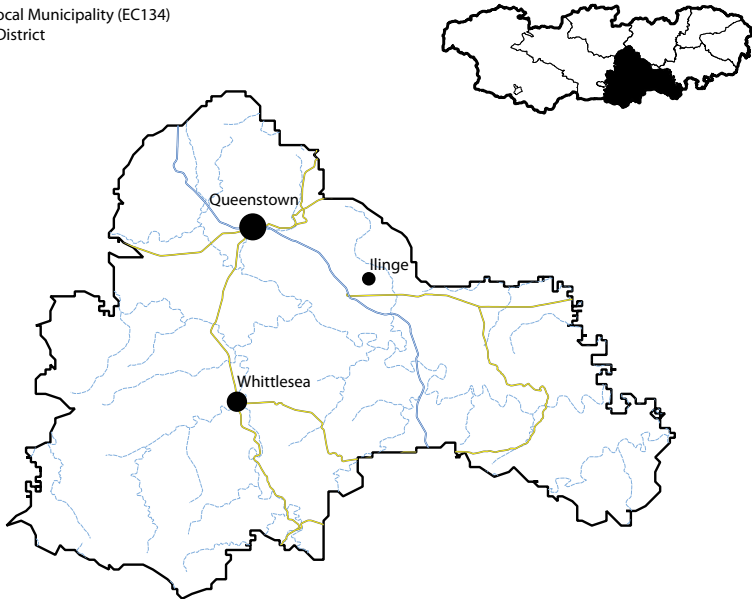


Figure 8.4 Lukhanji Municipality

## Lukhanji Municipality

Lukhanji Municipality is located in the centre of the Chris Hani District (Figure 8.2). At the time of its founding on 5 December 2000, the Queenstown Municipality, including the town of Queenstown and its

former locations, Mlungisi and Ezibeleni, incorporated five surrounding transitional councils that were parts of the former homelands of Transkei and Ciskei and the former Republic of South Africa. Lukhanji comprises two main urban areas, Queenstown and Whittlesea and 56 rural villages (Figure 8.4). It has a total population of 184 542 according to the 2001 census, concentrated around the urban centres and in smaller rural settlements in the former homelands (Lukhanji Municipality, 2005a).

Queenstown, the administrative centre of the Chris Hani District and the commercial hub in the area, has several government offices located in it. The manufacturing sector in the area has deteriorated after the removal of the incentives and subsidisation policies from the apartheid period (Lukhanji Municipality, 2005a). A few manufacturing industries with up to 250 employees are still located in Queenstown such as Seating, a furniture factory, and Crickley Dairy.

Since the unification of the Province, Queenstown has strengthened its position as a commercial centre for a customer-base living within a radius of roughly 300 km from the city centre. The majority of the formal businesses belong to the service sector, and many of them have successfully exploited the strategic location of the town as a regional centre. In 2006 most of the formal sector entrepreneurs in the town stated that they were satisfied with the performance of their businesses (Reichert, 2006).

As an administrative and commercial centre, Queenstown is a major destination for regional rural-urban migration flows, giving rise to housing deficits and the spread of squatter camps in the periphery of the city. Moreover, the formal labour market in the town has not been able to absorb all the new residents. Consequently, since 1996, the official unemployment rate has increased in Lukhanji, reaching a rate of nearly 56 % in 2001 (Lukhanji Municipality, 2005a).

The challenges facing Lukhanji Municipality during its first years of existence put it under huge financial pressure. At the beginning of 2006 the municipality had a cash deficit of R11 million. The municipal council budgeted for a surplus to reduce the cash deficit to zero over the following three years. As a result, the rates and tariffs for the services rendered by the municipality increased in several areas. At the same time the municipality struggled to maintain its ageing infrastructure. While new infrastructure investments were financed by capital grants from the national government, the maintenance costs of the existing infrastructure in the municipality were on the increase (Lukhanji Municipality, 2005b).

## Emalahleni Municipality

Emalahleni Municipality is located just north of Lukhanji (Figure 8.5). According to the 2001 census, which is the most recent one, the municipality has a total population of 115 936. It incorporates the small urban areas of Lady Frere, the administrative centre of the municipality, Indwe and Dordrecht and more than 200 rural villages. Most of the municipality, including Lady Frere and Indwe, belonged to the former homeland of Transkei. The former Transkei area consists mainly of communal settlement land dominated by subsistence farming, while the smaller north-western section of the municipality around the town of Dordrecht is dominated by commercial farmland since it was part of the former Republic of South Africa. In 2005, the infrastructure and the service delivery in the rural areas located in the former homeland of Transkei were still of considerably poorer quality in comparison with areas belonging to the former republic (Emalahleni Municipality, 2006).

At the time of this investigation, the government sector was by far the largest formal employer in the municipality, followed by a very small formal private sector centred on commerce, services, construction, small-scale manufacturing and farming. In 2006, the official unemployment rate reached 51 percent. The local tax base was largely insignificant, and the main portion of the revenue of the municipality consisted of grants from the national

Emalahleni Local Municipality (EC136)  
Chris Hani District

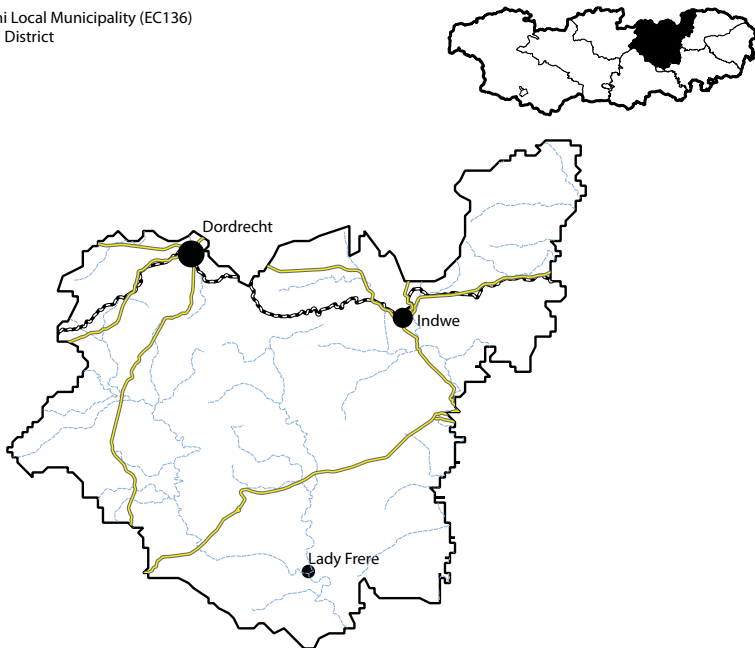


Figure 8.5 Emalahleni Municipality

government. Since the financial year of 2005/2006 the grant transfers to the municipality have been considerably reduced, and the municipality has been under growing pressure to strengthen its tax base to sustain its capacity to deliver a minimum level of public services and to maintain its existing infrastructure (Emalahleni Municipality, 2006).

## **The Political Background**

Each municipality within the Chris Hani District has a municipal council and a political executive made up of either an executive committee or an executive mayor. In addition, the District Municipality has a separate administration, an executive mayor and a district-wide council consisting of directly elected councillors and representatives from the local municipalities.

The local municipalities are divided into electoral wards in which the residents elect a ward councillor who represents them in the municipal council. Lukhanji Municipality is divided into 26 wards while Emalahleni Municipality consists of sixteen wards. A ward councillor may summon ward committee meetings of up to ten elected members who represent various interests in the ward. Besides the ward councillors, there are typically an equal number of councillors that represent a political party in the council.

In the local government elections held in March 2006, the ANC won 14 seats in the Chris Hani District Council and nearly 87 percent of the votes, while the United Democratic Movement (UDM) and the Democratic Alliance (DA) got one seat each. In Lukhanji, the ANC got more than 89 percent of the votes which gave them 47 seats in the council. The DA attained three seats, UDM got two and the Pan African Congress (PAC) received one seat. In Emalahleni the ANC obtained 90 percent of the votes. This gave them twenty-eight seats in the council while the UDM, PAC and an independent candidate captured one seat each.

Although the ANC dominated the entire Eastern Cape, the Province was fraught with power struggles between different factions of the ANC at the time this investigation was carried out. The unification entailed an amalgamation of three ANC sections. During the struggle years the Lusaka branch of the ANC had created three organisational sections within the current Eastern Cape Province; the Transkei, the Border region centred around East London and Queenstown and the Eastern Province based in Port Elizabeth. These sections were generally accepted since they corresponded with the ways in which people generally interacted at that time. However, their subsequent merging gave rise to power struggles and conflicts within the ANC in the entire Province, including the Chris Hani District Municipality. The centre of the District Municipality fell under the former Border region while the

western parts used to belong to the Eastern Province section, and the eastern part of the District was part of the Transkei. When these sections were joined together, tensions developed among candidates with power bases rooted in the different factions within the District branch of the ANC (interview Jeff Peires 2005, September 27<sup>th</sup> 2005).

## **The Public Administration**

The local municipalities in the District are made up of an amalgam of transitional local and rural interim municipalities, the merging of which entailed several problems for the new administrations. Staff members from different administrations had developed distinct organisational cultures and often had different salaries and benefits. The new local governments also inherited financial debts and several costly and poorly planned projects from the transitional period.

On top of the new local government structures, the Chris Hani District Municipality is to coordinate the activities of the eight local municipalities within its area of jurisdiction. The division of labour among these administrative entities was still in the making five years after the mergers. Officially, the District Municipality is responsible for the provision of infrastructure, water and sanitation, health services and environmental management within its realm. It is also responsible for the integrated development planning as well as the promotion of local tourism and local economic development in the entire district (Chris Hani District Municipality 2006). In practice, the division of tasks between the District Municipality and the local municipalities was still unclear at the time of this investigation. Municipalities with relatively extensive capabilities, like Lukhanji Municipality, tended to be more self-reliant whereas the District Municipality had to manage a broader range of functions in rural municipalities such as Emalahleni. For example, even though fire fighting was formally a responsibility of the District Municipality, the Lukhanji Municipality was doing it on behalf of the District Municipality since the fire brigade in Queenstown had been operative for a longer time. By contrast, the Lady Frere community in Emalahleni municipality had never had fire protection, and the District Municipality thus had to take on a more active role there. With regard to primary health care, the local municipalities, the District Municipality and the Province had separate workforces with different pension schemes but performed similar tasks.

In some cases the post-transition administrative disorder generated conflicts between the two tiers of the municipal administration. For instance, the responsibility for water supply was to be handed over completely from the local municipalities to the District Municipality, but

the transition had not been completed by 2005. At that time Lukhanji Municipality was still managing the water supply, but as the District Municipality was formally responsible it received the equitable share, a grant intended for free basic services to the poorest residents. When the District Municipality refused to hand over the grant to Lukhanji, the relations between the two bodies deteriorated.

Below, I describe the micro-corporatist arrangements established with the aim of enabling public-private governance in LED.

### **The “Stakeholders” and the Micro-Corporatist Arrangements**

The Integrated Development Planning (IDP) process is the most comprehensive governance arrangement used by all South African municipalities besides the councils. Every fifth year the local governments must compile a full ID plan, which is reviewed annually through participatory planning processes. As stated in the 2005 reviewed IDP of Lukhanji, the aim of Integrated Development Planning is to promote “effective development through cooperation, coordination and integration across a broad range of stakeholders” (Lukhanji Municipality, 2005, p. 6). A broad range of stakeholders were indeed located in Queenstown to support the local municipalities in the District in their pursuit of Local Economic Development. Three of them are of direct relevance to LED. First, the Provincial Department of Economic Affairs, Environment and Tourism, with the task of ensuring that the economic policy for the Province was properly implemented by the local municipalities; Second, the Eastern Cape Development Corporation (ECDC), a single-purpose agency commissioned to support the local municipalities in promoting economic development by facilitating, financing and coordinating private sector development; Third, the Citizen Entrepreneurial Development Agency (CEDA), a government funded programme to assist small enterprises in improving their management and manufacturing skills. The Rural Livelihoods programme (RuLiv), launched by the German foreign aid agency GTZ, also deserves to be mentioned. The aim of RuLiv is to encourage public and private actors to “respond more creatively to community demands that centre on wealth creation and poverty reduction” in the poor rural areas of the District (Rural Livelihoods Programme, 2007-02-21).

The stakeholders in the IDP processes are interlinked via various meeting points. The District Municipality and the eight local municipalities produce separate ID plans and have separate planning processes, although the district-wide plan is to be based partly on



information flowing in from the local municipalities. Throughout the IDP processes the municipalities arrange various meetings, or forums as they are called, of which the IDP representative forum is the most important. The District Municipality and each of the eight local municipalities arrange representative forums three to four times a year. Representatives from the local municipalities attend the District forums, and vice versa. The goal of the forums is to gather together representatives from all spheres of government, parastatal agencies, foreign donors, business organisations and civic associations, to enable joint planning for the development of the locality. In conjunction with the representative IDP forums, the municipalities also arrange separate meetings related to specific areas, such as LED. In this way, all public, private and donor-funded initiatives and programmes are to be aligned and synchronized so that the scarce resources available for development projects are utilized in an effective and coherent way.

The IDP processes begin with a general analysis in which the needs and issues of various stakeholder groups are identified. Both the district and the local municipalities invite any interested civic association, such as the local business chamber, farmer's organisations, unions, and church councils, to the meetings. The municipalities have to gather relevant background information on the level of development in the area. They must then compile the information and use it as a basis for the formulation of development strategies for the locality as a whole. All existing development projects, as well as future development projects, must be listed and assessed in the IDP. The listed projects should also be linked to an overall strategy, a coherent budget framework and a performance management system based on a various performance indicators. Within the District Municipality, this work is performed by the IDP steering committee, which consists of the municipal manager, the heads of the municipal departments and various officials in leading positions. The District Municipality has a specific IDP-coordinator and a Planning and Implementation Management Support System (PIMSS) official, who are to ensure that the IDP activities are continuously synchronized. Moreover, between 2004 and 2006, a German official from the German Development Service/Deutscher Entwicklungsdienst (DED) was embedded in the Chris Hani District Municipality "to facilitate collaboration between the different sectors of government, civil society organisations and the private sector in order to strengthen local economic development" (Deutscher Entwicklungsdienst, 2007-02-21).

The IDPs in Lukhanji are compiled by municipal officials and advisers under the supervision of the municipal manager and the Mayor. At

the time of this investigation, Lukhanji was assisted in drafting the IDP by a DFID-funded consultant who was deployed in the municipality between 2004 and 2007. In Emalahleni, a steering committee, consisting of municipal officials and planners from the District Municipality puts together the ID plan. When the municipalities have assembled a first draft of the plan on the basis of the information gathered in the first forum, they call for another meeting in which the draft is “workshopped and straightened out” as the District IDP coordinator put it. The IDPs are finally approved by the municipal councils.

Besides the IDP arrangements, the municipalities have separate entry points for direct public involvement in local government affairs. For instance, both Lukhanji and the District Municipality have NGO councils to bring together the NGOs in the area under one umbrella. Lukhanji Municipality also contains a transport forum, a health forum, a women’s forum, a youth desk, a pensioners’ forum and a disability forum where residents who identify with any of those categories could raise issues regarding local government affairs with relevant municipal representatives. Two additional LED arrangements had been established in Lukhanji Municipality in conjunction with the launching of a GTZ intervention aimed to strengthen the capacity of the municipalities to promote LED. The GTZ used a particular approach called “Participatory Appraisal of Competitive Advantage” (PACA). PACA is a specific governance approach, developed by Mesopartner, a German consultancy agency, which aims to stimulate public-private cooperation to improve the competitiveness of the local economy. It is described as a “fast-growing and innovative approach to local and regional economic development” used in more than 15 countries on four continents (PACA, 2007-02-21). According to Mesopartner, it is being increasingly adopted as a standard approach by international donor agencies. The method consists of a “sequence of build-up and mobilisation activities” in which a local facilitator is to forge cooperation between key stakeholders in the locality:

The PACA® Project is driven by a local champion -- a local agency which may be governmental, private or non-governmental. The local champion mobilises other local players for the PACA® Exercise. The PACA® Exercise starts with a kick-off workshop with the local stakeholders, followed by a series of interviews with local players (firms, business associations, supporting institutions, local government, and others), and Mini-workshops with groups of local actors. Depending on the size and diversity of the locality, this takes between one and two weeks. The diagnostics and the proposals are elaborated and presented immediately afterwards. The presentation includes a moderated discussion with the local stakeholders. The PACA® Exercise leads to implementation of practical projects to strengthen the competitiveness of

companies and create a unique locational advantage. The PACA® Champion is a likely candidate to co-ordinate this, but implementation will involve a variety of actors. During implementation, in particular in the early phase, when local actors are still unexperienced, it is desirable to have some degree of external support, in particular in terms of facilitation of meetings and coaching for PACA® practitioners (PACA, 2007-02-21).

As seen above, the aim of the PACA approach is to encourage interaction between local stakeholders, public and private, to stimulate them to identify collective interests and take collective actions to find ways to develop the local economy. In June 2003 a consultant working for GTZ Queenstown arranged a workshop in Queenstown to introduce the PACA approach. A Queenstown entrepreneur with a background as business college lecturer was appointed as “PACA-facilitator”. In this capacity he managed to revive the local business organisation, the Border Kei chamber of commerce. In the autumn of 2004 the business chamber and the municipality set up a “Mayoral Business Forum”, to enable bi-monthly discussions on issues concerning the improvement of the local economy. The “PACA facilitator” also attempted to set up a local tourism promotion organisation. At first, the municipal leadership was not interested in the idea, but when it received funding to draft a tourism sector plan in 2004, it decided to establish an “Interim Tourism Steering Committee”.

In summary, several meeting points have been established in the municipalities in order to enable governance to promote local economic development. Besides the IDP representative forums, the District Municipality and the Lukhanji Municipality have set up separate LED forums and LED committees. In Lukhanji two additional forums for LED issues have been established; the Mayoral Business Forum and the Interim Tourism Steering Committee.

After describing the formal governance arrangements established to promote LED, what remains is to examine the outcomes of the interactions that took place within them. What came out of these meeting arrangements? Below, I describe the outcomes of the planning processes in terms of strategies and planned and implemented projects stated in the Integrated Development Plans of the Municipalities.

## **Planning and Project Outcomes**

Five years after the introduction of developmental local governments neither the IDP processes nor the separate arrangement dedicated to LED had given rise to the formulation of joint economic development

strategies. In fact, the local municipalities barely considered LED promotion in their Integrated Development plans of 2005/2006. The plans contain lists of existing LED projects but they do not present any concrete strategies pertaining to LED. Under the heading “Economic Development and Planning”, the Lukhanji IDP merely gives a general and very brief description of its mandate, as seen in the quotation on the following page:

Integrated Development Planning (IDP) as well as Local Economic Development (LED) was added to Municipalities as National initiatives by which to transform Municipalities into Local Governments and to enhance participation in the economy and the service provision to all people in a fully democratic way. During the past four years these functions of Lukhanji Municipality became increasingly more important, for mere adherence to legal requirements as well as real implementation of these functions as a way to improve the lives of citizens through wise planning decisions as well as to improve their ability to develop ways to improve life for themselves through participation in the economy. Lukhanji Municipality is currently undergoing major improvements for both the function to improve the local economy as well as to improve the way that planning is done and measured (Lukhanji Municipality, 2005a, p. 37).

The Emalahleni IDP is just as meagre. It states that the municipality aims to “facilitate linkages with target initiatives” and “foster partnerships with organised business” in order to “facilitate access to all support programmes and markets for identified initiatives”. The plan also declares that the municipality seeks to “establish a coordination platform where all necessary resources can be pulled together and channelled towards targeted initiatives” (Emalahleni Municipality 2006, p. 43). Besides such evasive statements, no concrete strategies or plans regarding LED promotion are presented.

The IDP of the District Municipality of 2005/2006 is somewhat more elaborated. The plan declares that “more attention needs to be paid to the agricultural sector, in particular the emerging farmers”. It advocates increasing support to “emerging” farmers to improve their access to livestock markets. It also recommends the revival of “several large irrigation schemes” from the apartheid era (Chris Hani District Municipality, 2005, p. 17). The IDP document, moreover, recommends the promotion of synergies between “emerging” and commercial farmers (Chris Hani District Municipality, 2005, p. 18). In addition to agriculture, the plan identifies tourism and small-scale mining as the most promising sectors of the local economy. It stipulates that tourism sites in the District are to be promoted through an unspecified “integrated approach”, and moreover declares that the illegal mining of coal and clay in the area

is to be formalized and carried out in an organized manner by various cooperatives (Chris Hani District Municipality, 2005, pp. 18-19). Thus, unlike the local municipalities, the District IDP presents some vague propositions concerning LED promotion. However, the few proposals on LED presented in the IDP of the District Municipality were based on already existing projects, of which some dated back to the 1990s. For instance, two irrigation schemes in Lukhanji Municipality had already been provided with government support. The Shiloh Irrigation Scheme, located in Whittlesea in the southern part of Lukhanji Municipality, was established in the mid-1960s by the South African government. The project was funded by the government until it was closed down in 1997. A group of local residents then formed an organisation to re-establish the irrigation scheme as a community-based project, with the aim of producing and selling vegetables. In 1999 the Department of Agriculture (DoA) decided to support the project. According to the District Municipality's own impact assessment report, the project received grants amounting to R 11 900 000 (1 522 000 EUR/1 910 000 USD). By 2005 it had not turned into a viable business (Chris Hani District Municipality, 2005b, p. 79).

The irrigation scheme in the community of Tylden south of Queenstown was, unlike the one in Shiloh, built from scratch. A cooperative of eight residents from Tylden formed a cooperative in 1998 and applied for a grant of R 950 000 (121 500 EUR/ 152 500 USD) from the Department of Provincial and Local Government to construct the scheme. The scheme was completed in 2003. In 2004 the project received an additional grant of R 700 000 (89 500 EUR/112 000 USD) from the DPLG. The grant was used for infrastructure developments, repairs and the construction an office (Chris Hani District Municipality, 2005b, p. 82). The cooperative operated for about a year but it was not economically viable. In August 2006 the irrigation scheme was not in use and the group was dissolved.

“Emerging” farmers had already been supported in various ways in the two municipalities. A Livestock Marketing Project had been launched in Emalahleni Municipality in 2003 with the aim of preventing white commercial farmers from making profits from the local cattle trade after it had become known that black farmers had sold cows below the market price. The livestock marketing project aimed to assist local farmers in organizing cattle auctions to get the prices right. It received two substantial grants from the Department of Local Government and the Department of Economic Affairs, Environment and Tourism. The funding provided for the full-time employment of a manager and two assistants. By 2005 the project had not generated any value-added activities according to the

District Municipality's own impact assessment report (Chris Hanani District Municipality, 2005b, p. 147). The Cumakala Wool Growers and the Gxojeni Wool Production, were launched in Emalahleni Municipality in 2001 and 2003 respectively. The projects were parts of a larger wool production initiative that aimed to improve the capacity of local farmers to refine and sell wool on the market. The initiative was managed by the GTZ in cooperation with the National Woolgrowers Association (NWGA), the Department of Agriculture, Department of Land Affairs (DLA) and the District and the Emalahleni municipalities. According to the District's assessment, the two projects had not generated any permanent employment opportunities by 2005 (Chris Hanani District Municipality, 2005b, p. 21, p. 31).

In Lukhanji, the District Municipality gave financial support to an urban agriculture project. The Rags to Riches vegetable garden was set up in the former location of Queenstown in 2000 by a cooperative consisting of 15 women who sold vegetables to local supermarkets. In 2003 the District Municipality provided the project with a grant of R 45000 (5750 EUR/7200 USD) for irrigation equipment. The project leader then became involved in a conflict with a ward councillor and the cooperative was eventually dissolved. By 2005 all project activities had ceased.

Moreover, there existed at least one example of a joint venture between "emerging" and commercial farmers in the town of Dordrecht, in the north-western part of the Emalahleni Municipality. In 2001 eleven commercial farmers and a cooperative of 37 'emerging' farmers entered into a joint venture with the aim of establishing a dairy production facility in Dordrecht. The project received substantial financial support and assistance from various government and non-government sources. A factory building was erected in 2005 and cheese production began in March 2006. The dairy increased its turnover rapidly. By August 2006 the project had developed into a flourishing business that provided full-time employment for 20 people.

As regards the regulation of illegal mining activities in the area, the provincial government launched a programme with this aim in mind in 2001. Parts of the programme were implemented in the Lukhanji and Emalahleni municipalities. On the initiative of the parastatal agency ECMAC/CEDA the Khayelitsha Brick Makers Association consisting of 21 brick makers, who mined clay illegally on the outskirts of Queenstown, was formed in 2001. In an attempt to formalize their mining operations, ECMAC/CEDA assisted them in submitting an application for funding for skills development and financial management training. The project received a grant of R 67 000 (8500 EUR/10 700 USD) in the budget year of 2002/2003 and R 200 000 (25 500 EUR/32 100 USD) in 2003/2004. In 2006, the association provided employment for nine remaining members (Chris Hanani

District Municipality, 2005b, pp. 18-19). The Dordrecht Clay Brick Makers Association was established in Emalahleni Municipality in 1994 when 42 residents of Dordrecht, who mined clay and made bricks informally, were encouraged to create an organisation in conjunction with the launching of the Reconstruction and Development Programme. The project eventually received grants totalling R 280 000 (36 000 EUR/ 45 000 USD) from the Local and the District Municipalities in 2002/2003. According to the District Municipality's report, the association did not produce bricks in accordance with the required quality standards, and it was therefore not able to secure government tenders. Neither had the project received a formal mining permit. Thus, in 2005 the members of the association still operated informally (Chris Hani District Municipality, 2005b, p. 132).

LED projects in the municipalities were launched by different government and non-government actors that came into contact with each other when a government agency had discretionary funding at its disposal. The LED councillor of Lukhanji confirmed that existing LED projects had been initiated without the guidance of a coherent policy, as seen in the comment below:

If we do not have a policy to guide us when we implement something we have a problem. That is what we are faced with. We keep on doing this without any policy guidelines (interview October 27, 2005).

Similarly, an administrative director in Lukhanji Municipality maintained that the ID plans just record existing projects. He described the IDP processes in the following way:

In practice it works the other way around. We identify projects and access funding and then just amend the IDP to fall in line with that. It is just the wrong way around. The IDP should drive the projects, rather than the projects driving the IDP. In theory, in time I believe the IDP would be a more effective management tool but at this stage, to be honest, it is largely ineffective." (interview October 3, 2005).

The remark indicates that integrated development planning was not in place in the municipalities at the time of this investigation.

A German DED adviser deployed in the District Municipality claimed that in the absence of a coherent strategy for the overall development of the district, the resources bound for LED were diverted into a many smaller LED projects that were planned and launched separately:

A big lack here is strategic planning. Planning is not done properly. There are more than forty LED projects in the District and most of them need more or less intensive care. You will see that all resources and capacities are bound to those projects. At the end you lose your oversight (interview 23 September, 2005).

The statement suggests that there were no consistent plans in place regarding LED promotion in the municipalities. Consequently projects were launched on an ad hoc basis without concern for wider strategic implications such as the potential synergy with other projects.

In sum, while the local municipalities did not present any concrete strategies or plans on LED promotion at all in their IDPs, the District Municipality based its policies on already existing projects. These projects had been planned and implemented separately without consideration of wider strategic implications for the municipalities. Before examining the outcomes of the LED projects in more detail, the next section seeks to shed light on the underlying causes of the failure of the collaborative governance model in this context. Why was it that neither the IDP forums nor the separate arrangements dedicated to LED generated cooperative governance?

## **The Participant's Perceptions**

This section considers the problem descriptions that were given by the interviewed participants. The interviewees provided different explanations for the difficulties of achieving governance on LED. The problem definitions ranged from a lack of incentives to participate in the meetings, flaws in the formal institutional system, inconsistencies in the cognitive frameworks of the interrelated actors, a high prevalence of politically appointed officials and managers, a general lack of planning skills and an inability to articulate collective interests and attain goal consensus because of political factionalism. Below, each of these explanations is considered in turn.

As regards the lack of interest in the LED meetings, a councillor involved in the LED committee of Lukhanji lamented the fact that the private sector representatives did not take part. In his words:

I am sitting on the LED committee because it resorts under my portfolio. The frustration of it is that it is only politically driven. Other than Tinie (the PACA facilitator, my comment) there is no private sector input to it (...) (interview, October 25, 2005).



The complaint above indicates that the entrepreneurs in the area showed little interest in the LED committee. The PACA facilitator, who himself ran a business in Queenstown, asserted that this was because the meetings held by the municipalities were too time-consuming to attract the businesspeople:

The municipality works with this IDP and they always say that development should be driven by the business sector but you actually have to understand how businesses work, and a business person hasn't got forever damn time to sit in meetings and all these talk-shops" (interview, September 19, 2005).

This criticism suggests that the interviewee saw the LED meetings as forums for woolly discussions rather than decision-making arenas that generated tangible outcomes in terms of implementable strategies and policies. The IDP coordinator of the District Municipality held that the planning meetings were that they were too broad to be effective:

There is no forum that is working where you can sit down as key decision makers and decide what is best for the district or whatever. The representative forum is too big to do that. You got too many stakeholders". (interview October 4, 2005)

As implied in the comment above, the meetings were not perceived to be relevant enough for key actors with specific competences and tasks. Consequently, the participants could not concentrate on issues of their specific concern and responsibility. This seems to have deterred officials from the other spheres of government from attending local meetings. Municipal officials and politicians complained that the cooperation between the government spheres often broke down since key decision makers from the provincial spheres rarely attended the IDP forums. This is exemplified in the words of a municipal director:

Some of them just do not pitch, some don't have answers. You ask them specific questions and they say that they will take it up. Then they send people that do not have the authority to make decisions. They go away and on the next meeting they do not pitch, provincial officials (interview September 30, 2005).

Interviewees from the provincial administration confirmed that they often did not attend local planning meetings. According to a provincial director, the lack of cooperative governance between the local and

provincial spheres was in part due to flaws in the formal structure of the government system. Since provincial officials do not have decision-making authority in the local government sphere, it was difficult for them to deal with the municipalities. In the view of the Provincial Director, provincial officials therefore found it pointless to attend local meetings:

The problem is what you call the three spheres of government. In essence, each sphere of government is autonomous. We are sometimes surpassed by the national level and there is nothing we can do because they are an autonomous sphere. If the national level is deploying money to the municipalities and the municipalities are saying yes, there is nothing much we can do about it from the provincial side. You may be invited to a steering committee of a particular project and then you go, otherwise you do not go. The constitution is a loose piece of legislation. If you had a stronger policy which is monitored properly it would have a much better economic impact. Local government has to get stronger if they are the ones who are entrusted to develop their people (interview October 6, 2005).

The remark indicates that the Provincial Director felt overridden by the national and the local spheres in the implementation of policies and programs. Thus, the structure of the government system may have contributed to hindering intergovernmental cooperation. The citation also suggests that the provincial director mistrusted the capacity of the municipalities to take on the leading coordinating role required for development planning to function.

The interviewees accounted for the inconsistencies in the cognitive frameworks of the interrelated actors in different ways. A white administrative director in the Lukhanji Municipality maintained that the main problem was the prevalence of politically appointed black officials, including the Municipal Manager, who did not share the same understanding of their roles as experienced officials with a professional background. In the view of the Director, the Municipal Manager lacked leadership skills and initiative, as seen in the statements below:

Maybe you will call me a racist... I don't know... you can see where there are competent, qualified people appointed. The job flows so well. It goes very nicely and you get a lot of cooperation, but where they have put political appointees... See, there are so many political appointees and these guys are not qualified. They have not got a clue. They think they are there just to earn a salary and get a nice car and a nice house. That is what they are there for.

(...) I think most municipalities are failing because there is no leadership to drive them. Every individual is driving in their own direction. If that

direction has not got the same vision as government, if he has got another vision or agenda, that municipality will fail and that is what happens in most of these smaller municipalities, because of political appointees. (...) If we had a good manager who could control the whole team and keep them on the same vision... put that vision there and get them to buy in on that vision and keep them on that vision. Unfortunately it is not happening (interview September 30, 2005).

As seen above, the Director explained the difficulties of achieving governance as a result of incompetence on the part of allegedly politically appointed officials, including the Municipal Manager. According to the DFID-funded adviser of Lukhanji Municipality, none of the staff members, regardless of their background, were used to thinking in visionary and future-oriented terms. In his view, the municipalities were therefore not capable of shouldering the strategic roles required for development planning:

People do not know what they do. They have priorities, but they are only from the functional side, on the powers and functions that they have to do. In terms of law they have to provide water and sanitation, roads and transport and so on. (...) The biggest problem of Local Government is that people are used to work in their little office. That goes back to the communication and the lack of understanding of thinking broadly. They are used to give attention to the running of the mill. They never think out of the box and that is why LED is such a difficult thing (September 16, 2005).

The adviser claimed that the municipal administrators were trained to focus on narrow, functional tasks rather than on strategizing and planning for the future. Thus, in his view, the general lack of strategic planning abilities explained the difficulties of achieving governance. The PIMMS-official of the District Municipality implied that the deficiency in planning capacity was due to absence of a wider “mindset integration”, that is, cognitive discrepancies, as seen in the excerpt below:

There are a lot of forums but the information tends to stop there. It comes down to information flows which we have a big problem with within the municipality. Even in our own department we tend not to share that kind of information. It is a mindset integration... You don't have the mindset... It takes a while to get into it” (interview October 4, 2005).

The statement suggests that the proceedings of the forums were neither circulated nor used for development planning. According to the PIMMS-official the administrators were hindered from working together due to

the absence of a “mindset integration”. The IDP coordinator and PIMMS-official of the District Municipality also maintained that they had difficulties aligning the many national and provincial programmes:

The Department of Provincial and Local Government came up with the idea of IDP. They also have another programme, which is called the ‘Integrated Sustainable Rural Development Programme’. Their objectives are almost the same, it clashes. We sit here at the bottom and try to find out how they all fit together and see how they match up” (interview October 4, 2005).

The remark indicates that the programmes designed at the national level were often not aligned. As a result, the lion’s share of the coordination work had to be done by planners in the weakly capacitated local sphere.

The Director of the Provincial Department of Economic Affairs, Environment and Tourism held that a crucial problem with regard to development planning was that the municipalities were pressured to disburse project funding during a specific budget year. However, they were often not capable of finding viable projects to support within such short time periods. As a result, they were pressured to release project funding to deficiently planned projects, as seen in the statement below:

In essence, there is always the pressure to spend the money, and the funding is there, but not enough time is spent on making sure that you actually have good projects. Municipalities are so much under pressure to deliver in terms of economic development that they grab and accept any funding regardless of whether projects are good or not (...). Let’s say you get money for a tourist facility in Lady Frere, Emalahleni, and there are no tourists and you haven’t done proper research and marketing for tourists. Who benefits from that facility? Instead of just ploughing down money for the sake of just being able to say that you have projects going, you need coordination and proper planning. The sustainability of those projects remains a challenge. Who owns the project? Is it the municipality, the community or the funder? There is funding everywhere but it just disappear into these projects. It is alarming and the impact on the ground, maybe it is temporarily, but in terms of sustainability... and to say that the poverty level is dropping...this is not helping (interview October 6, 2005).

In the view of the Provincial Director, the projects launched in the District were badly planned, both strategically and in terms of their institutional design. The statements indicate on the one hand that there was a lack of consideration of the economic viability of the projects, and, on the other,

that the ownership structures of the projects tended to be diffuse. Finally, as the empirical material suggests the participants in the planning processes were unable to articulate collective interests and attain goal consensus due to the prevalence of exclusive collective identities and infighting. According to a councillor in Lukhanji Municipality, cooperative governance both within and between the different municipal bodies was hindered by political factionalism:

There is very little communication and interaction. It should be a partnership but it is more of a competitive relationship. The one doesn't trust the other. There is a lack of trust, understanding and a lot of jealousy. It is extremely bad. It is not a healthy situation (...) Political factions within the ANC... you get groupings that belong to different factions...they are cross-cutting between the two bodies. If you come in without an agenda you might cross-cut anybody. It cripples development. It just becomes destructive. It is a vicious circle that makes government inefficient. You can't go on because you have to look at the mine fields... they might be set by your own people" (interview, October 25, 2005).

This implies that the social and political relations in the District and the local municipalities were characterized by mistrust, cognitive discrepancies and power-struggles between groups that fought for influence and positions within the government apparatus. In other words, it appears as if the relations within the local government sphere were defined and structured in such a way as to hinder governance.

In summary, the interview material shows that cooperative planning was impeded by interrelated circumstances, ranging from a lack of motivation to participate in the meetings, the structure of the formal system, cognitive discrepancies and, as a result, a general lack of planning capacity, and finally, an inability to articulate collective interests and attain goal consensus. Below I consider these relational circumstances in more detail, beginning with an examination of the incentives of the participants to achieve networked governance.

## **Why Cooperate? The Incentives of the Participants**

Unlike hierarchical forms of governance, networked governance relies upon motivated participants all along the planning and implementation chain. As noted in the section above, the interview material shows that both government and non-government actors lacked incentives to achieve governance through the formal meeting points. I argue that this was

because the actors did not share mutual commitment derived from a joint collective interest in the overall development of the locality. Neither did they recognise mutual opportunities. Those who were initially committed to achieve governance became demoralized when they learned that their attempts at cooperation were not met with success.

Judging from the comment below, it appears as if the leadership of Lukhanji lacked confidence in the cause of promoting local economic development. According to the DFID-adviser, the political and the administrative leadership of Lukhanji Municipality did not engage in LED promotion, as seen on the following page:

The municipality, and then I mean the municipal manager, the other directors and the Mayor; nobody cares.....because they don't attend those LED committee meetings (Interview, August 7, 2006).

Some government and non-government participants claimed to have lost their initial enthusiasm for LED promotion. Despite her commitment to the developmental cause, a Provincial Director implied that she had become demotivated from engaging in the development work, after witnessing numerous project failures:

Currently, if we give out money to local government, we are still not partners in terms of ownership and sustainability. Now, when the deliverability of a particular project has been achieved you close your file, you inform your superiors that two millions were spent on a project but from that point you never report even though you should be monitoring that project for a longer period than the time frame that was set with that money. You should be going beyond that but that is not happening with most of these projects. That is why you find money going down the drain, and consultants also doing the projects and leaving because it is not their business anymore. They give you a handover report and leave your structure there... Your gardens or your pigs... It is up to the community now to look after those things and they do not know how to run it, who then knows what is going to happen (interview October 6, 2005).

Thus, the Provincial Director expressed bitterness over the fact that she was unable to affect the way in which LED funding was used at the local level. She also indicates that she had lost enthusiasm for her work due to being caught in a formal structure in which she was not authorized to hinder what she regarded as severe mismanagement of government funds. The Regional Director of the Eastern Cape Development Corporation also seemed to have lost motivation to achieve governance. She said that she had given up trying to cooperate with the municipalities after making several attempts:

We had an investment conference where we showed everybody what one can do to promote trade in the region. On the tourism side, we looked at what people can do to invest. We also had a following up meeting on incentives. The municipalities were supposed to follow it up and apply, but I think within their organisations, there is nobody to say, you are responsible for this. It is everybody's job. It is not like you walk here and a secretary says there is a person, she is specialising in that. If you are looking for enterprise loans I direct you to my colleague. I think with the municipalities LED is just a heading but that person does not have the skill of how to do the thing. That is the problem. I have tried to have meetings and then I said to my boss, you know what, 'I have had so many meetings. Out of each meeting I must have deliverables'. (...) Since 2001 I have tried...I have tried to have with meetings with them. I tried to present what we do at ECDC and then I said 'no man'. I will have meetings for the rest of my time here and the taxpayers do not pay me for that (interview October 19, 2005).

The above suggests that the ECDC director was committed to the 'developmentality' associated with official reform agenda. She stressed values like efficiency and the promotion of economic competitiveness. It seems as if the interviewee became de-motivated in part because she lacked the type of domain consensus upon which the good governance agenda relies, at the local level. Moreover, it is implied that she found it hard to work with the local municipalities because they lacked a clear division of responsibilities locally. As a result, she eventually refrained from interacting with the local governments.

On face value, the Tourism Steering Committee seemed like one of the most ambitious attempts to achieve governance to stimulate the local economy. When the Lukhanji Municipality established the Tourism Steering committee the municipal leadership wanted a wide range of stakeholders to be involved, to ensure that the arrangement was properly legitimated. The committee thus invited representatives from the local private sector, represented by a local entrepreneur who acted as PACA facilitator, the Chris Hani Regional Tourism Board and the Provincial Department of Economic Affairs, the local community (i.e. black residents from poor areas) as well as representatives from the women's forum, the disabled forum and the youth forum. For some time, the municipality considered turning the committee into a permanent tourism promotion authority. However, by the autumn of 2005 the committee work had reached a standstill. According to the PACA facilitator, the problem was that neither the local municipality nor the non-government actors involved showed real interest in the committee. In his view, the municipal leadership had

not clarified what they wanted to obtain and what they were prepared to invest in the committee, while at the same time the formal private sector lacked incentives to engage in the committee work, as seen below:

We have now done the groundwork but we are losing momentum at the moment because the municipality is sleeping. (...) This local tourism authority must be a municipal entity. They need to say who is to be involved in it and what they are prepared to put in. Then they should call an annual general meeting to launch the local tourism office. They must call that. I cannot do that because it is a municipal entity. Now nothing is happening (...). These issues are just hanging there and nobody is taking ownership. Quite frankly you lose interest. Tourism needs to be run as a partnership between project owners and the municipality. The project owners, driven by profit, are reluctant to get on board. The what-is-in-it-for-me aspect needs to be marketed much stronger. We as an interim steering committee cannot get going until things are settled with the municipality. We have not got a good working relationship between the private sector and the municipality. I do it voluntarily and I am getting sick of it (October 17, 2005).

The PACA facilitator was frustrated for several reasons. As seen above, he believed that the municipality had not shown sufficient interests in the Tourism committee. Neither were his colleagues in the private sector interested in participating. Since none of his attempts at cooperation were met with enthusiasm by either the municipality or his private sector colleagues, the PACA facilitator, who was engaged in the committee work on a voluntary basis, began to lose motivation. This suggests that the PACA facilitator, who seemed to be driven by a wider interest in developing the locality as a whole, was quite alone in this engagement. Thus, in the absence of personal interests, private sector actors seemed unwilling to take part in the committee. The Tourism Officer of the District Municipality lamented the fact that neither the municipal leadership nor the private sector, with the exception of the PACA facilitator, was engaged in the committee work in a continuous manner:

It has been an interim committee now for a long time, and we have now reached a point where they do not know how to move. We have had several work-shops and institutional arrangements but nothing is taking off. Tinie (the PACA facilitator, my comment) has tried but everything hinges on them now to move. It seems like no one is taking the lead, making sure that everything is implemented. (...) There is a lack of commitment. At the moment the private sector are only looking after their businesses. They do not give anything back to the community. (...) With the new ways of doing things, where everybody is to be involved...it seems as if it has not sunk into people's minds.... There is no commitment from any side at the moment. The public that come to participate



do not have a clue. Sometimes they do not know where to start. Tourism is a new thing to people here. They see it as somebody else's business. They don't see themselves as part of it. And there is no continuity. You see new faces every meeting and then you have to explain the same thing over and over again. I do not see direction at the moment (interview November 7, 2005).

Besides confirming that there was a lack of interest in the committee on the part of both the municipality and private sector, this indicates that the public participants had no clear conception of their role in the committee. It is likely that the function of the Tourism Steering Committee was not clear to any of the participants. Thus, it may have seemed as if participation had become an end in itself, since no one seemed to know exactly what they were to "participate in".

In summary, the forums for development planning gathered participants who were not equally motivated to cooperate. As one or several vital nodes defected, the attempts at achieving governance collapsed. Consequently, even the enthusiasts became demoralized. Some municipal officials and politicians seemed to be more or less indifferent to the developmental cause, while the private sector actors in the area lacked a personal interest in taking part in the planning meetings. It therefore appears as if both the public and the private sector actors did not have sufficient incentives to achieve governance on LED through the formal meeting points. They seemed unable to mobilize a shared public interest in the promotion of development in the area. Neither did they identify mutual opportunities which could have driven them to enter into interdependent relationships.

Below, I look at the absence of clear constitutive rules, and deontic powers, pertaining to the meeting points.

## **Who Governs What?**

In the following, I maintain that the absence of constitutive rules, defining rules of decision-making, and deontic powers determining the rights and responsibilities of the participants involved contributed to impeding governance on LED. Due to the lack of clarity on roles and rules, the participants did not establish the formal meeting points as transaction domains based on mutually acceptable logics of interaction and decision-making.

The empirical material suggests that the functions of the IDP forums and LED committees were vaguely defined, as was the division of functions, tasks and responsibilities regarding LED. The participants in the forums and the committees were able to raise issues and put forward suggestions, but the meetings did not function as decision-making arenas since there

were no rules for decision-making in place. It was therefore not clear if the meetings had any significance for policy, and, thus, whether it was meaningful to participate at all. It is reasonable to assume that this had a demotivating effect both on government and non-government participants.

The lack of rules and deontic powers with regard to development planning was particularly apparent in Lukhanji Municipality where the LED officer had died in 2004. A donor-funded adviser therefore did most of the work which related to development planning in the municipality. According to a local councillor, the responsibility for development planning was simply ignored by the municipal leadership:

The LED unit falls under finance. Within the department of finance there was not really space over for LED issues though. So, nobody could evaluate or monitor the work done on LED (interview October 27, 2005).

This indicates that no one in the municipal administration took responsibility for development planning. As we saw in the preceding section, other government agencies therefore found it difficult to deal with Lukhanji in various planning matters, since it was not clear to whom they could turn.

Besides the lack of clarity of the division of responsibilities, another problem was that the vagueness of the concept of LED caused the participants in the meetings to different understandings of what was to be discussed under this label. For instance, in the case of the Mayoral Business Forum, the main problem was not a lack of private sector interest. As noted above, the arrangement was initiated by the local chamber of commerce in Queenstown. Rather, the problem seemed to be that the parties involved had different ideas of the purpose of the forum. The business chamber used it for lobbying on a range of issues. For example, it contested the municipal council's proposal to change the name of Queenstown to Komani, the Xhosa name of the town. The chamber also protested against the plans to establish a casino in Queenstown since its members feared that this would entail various social and economic problems. Above all, the chamber wanted the municipality to attend to various service delivery problems that had a negative impact on the day-to-day management of their businesses. This irritated the municipal representatives, who held that such issues were to be addressed to the ward councillors. In the view of a municipal official, the forum was used for the wrong purposes:

Business people are coming in to those meetings to complain about services. These are issues that should be dealt with in the ward committee structures. So this is one thing that we struggle to get into the heads of the business forum people" (interview, September 29, 2005).

It shows that the parties had not established an agreed-upon situation definition that defined a mutually acceptable logic of interaction. It also appears as if the business chamber and the municipal leadership had differing conceptions of the purpose and function of the forum. While the business chamber used it for lobbying, the municipality was unwilling to grant it this function. The empirical material thus indicates that the Mayoral forum was not established as a transaction domain at the time of this investigation. None of the participants seemed interested in using the forum to develop long-term visions for the municipality or to jointly identify “unique locational advantages” and projects that served to “strengthen the competitiveness of companies”, in accordance with the PACA principles. Hence, the participants involved in LED planning sometimes had a different understanding of LED to the policy architects. In summary, the purpose and function of the meeting points were not been clarified at the time of this investigation. Neither was there clarity regarding the respective roles and responsibilities of the parties involved in the planning processes. Another problem was that it was not clear what was to be discussed under the label of LED, which was particularly apparent in the case of the Mayoral Business Forum, where the business chamber held that service delivery was a highly relevant LED matter, while the municipal representatives wanted such issues to be addressed to the councillors. Taken together, this suggests that the meeting points were not established as transaction domains. In other words, the actors had neither established a mutually agreed-upon situation definition according to which a particular logic of interaction and decision-making was considered socially acceptable, nor a structure of deontic powers that determined the respective rights and responsibilities of the actors involved.

## **Domain Dissension**

In this section I turn to a discussion of the absence of domain consensus with regard to the respective roles of the public and the private sector in promoting local economic development. I also consider the participant’s inability to articulate wider collective interests and attain goal consensus because of the prevailing patterns of group identification in the area.

The participants in the LED committees not only understood the LED policy differently, but also lacked a shared understanding of the respective roles that the public and the private sectors were to play in processes of LED promotion. The manager of the LED unit in Pretoria stated that the Department of Provincial and Local Government (DPLG) promoted a conception of LED in line with the third way philosophy of

governance. Accordingly, the municipalities were to take on the role of network broker and forge productive links between different groupings in the local community:

Instead of Lukhanji Municipality starting projects to help small farmers, piggeries and stuff like that, you start looking at how to link the big farmers who have the skills with the emerging farmers. Their role is rather doing that than to directly intervene and build piggeries and all that. That is what we at national level are trying to create (interview, November 23, 2005).

The interview data indicates that the ‘third way’-approach was not generally accepted in the municipalities. In the view of a District councillor, LED projects were to be owned and managed by the municipalities, while the private sector involvement was limited to consulting:

The LED projects are not run by the private sector. They are run by the Chris Hani District Municipality including the local municipalities. They are responsible, assisted by us. The private sector is only requested if we want feasibility studies all those things, we are given assistance by them. It is our projects (Interview November 15, 2005).

Not all councillors shared this view. A councillor involved in the Lukhanji LED subcommittee believed that the private sector was the main driver of economic development:

Government cannot drive economic development. It has to be done by private businesses with the government as a facilitator. It just gets log-jammed otherwise. (...) If there is something that the municipal council needs to drive it is not going to work. You need a driver in the private sector. That is the difficulty (interview, October 25, 2005).

As seen in the excerpts from the interviews above, officials and politicians in the municipalities sometimes held diametrically opposing views concerning the division of labour between the public and private sectors in processes of LED promotion. Moreover, some officials had somewhat naive expectations of the private sector representatives. In 2002, two officials from the Department of Community Services of Lukhanji Municipality began to investigate the potential for tourism in the locality. They applied for and received government funding to construct a lodge in a publicly owned game reserve, and to establish an overnight facility and a caravan park on the municipality’s property at the side of a reservoir lake outside Queenstown. The statement below indicates that one of the responsible officials seemed to believe that the private sector would assist the municipality in managing two facilities:

Although it is municipal property the private stakeholders are there from the beginning so that people can have an input to... for example...they can tell how the accommodation should be structured. They've got the knowledge of that" (October 27, 2005).

The comment above points to a profound lack of domain consensus between the actors involved in LED promotion activities, which appears to have hindered not only the development of complementary relations between the municipalities and the private sector but also governance within the government apparatus. The relationship between the Eastern Cape Development Corporation (ECDC) and the municipalities grew tense after the establishment of Developmental Local Governments in 2001. According to the ECDC director, the municipalities in the Chris Hani District did not want their involvement in LED planning. According to her, the relationships between the ECDC and the municipalities were competitive rather than cooperative:

I think most people, when it comes to economic development... it is not like 'let's put our ideas together and work together'. It is about competing with each other... and you will find that most of the projects do not work well. It is more like someone will be ending having the glory but I say everybody get the glory. If they play their role accordingly there is a great potential here. I say do not compete with ECDC. Complement ECDC, because they have a specific field they are good at and so do we" (interview October 19, 2005).

It seems as if the relationship between the ECDC and the local municipalities turned sour when it became clear that they had conflicting views with regard to LED promotion. The relationship between the ECDC and Lukhanji Municipality deteriorated after their representatives discussed the possibility of revitalizing the industrial zone in Ezibeleni outside Queenstown. The ECDC representatives advocated a pro-growth approach in line with the official reform vision, and they consequently viewed LED promotion as a matter of implementing national and provincial economic growth strategies. The leadership of Lukhanji had a different idea of the means and ends of LED promotion. According to the municipal speaker, who became Mayor of Lukhanji in 2006, the ECDC opposed their understanding of LED:

There are factories at Ezibeleni. Those were raised during the apartheid era. At least there were job opportunities... Although they were exploited these factories at least employed two-three thousand people at that time. What we are saying as a municipality...let us attract investors. How are we going to do that? They will not pay levies for services for a period of five or three years if they employ local people. Those are the incentives that we want to offer so

as to try and attract them. But we are not getting cooperation from the side of ECDC because we also said ‘why don’t they give the community all these factories.’ And we say to the community, please, you will be using this factory for a period of three years without paying a cent. After three years you must pay at least a lease agreement. Because how would you lease a factory to someone who is starting as emerging... if you charge him a thousand rand a month that doesn’t make sense. Then we say assist payment of the equation of water and electricity and we see to it. (interview October 10, 2005).

Apparently, the municipal leadership preferred a more collectivist, pro-poor approach to LED than did ECDC. Moreover, it indicates that the municipal leaders believed that the local community was unified by communal values. They also seemed to believe that this enabled the ‘communities’ to manage common resources collectively. According to Mogale (2003, p. 219) local communities in South Africa are often represented as undifferentiated wholes devoid of distinct interests, values or political affiliation. In this case, the term “community” did not refer to the all residents of Lukhanji. As seen above, the municipal speaker referred to “emerging” residents. The notion “emerging” denotes historically disadvantaged groups who are to “emerge” from their deprived state. As indicated, the municipal leadership appeared to believe that “emerging” groups differed from other groups, such as the white community, in terms of their values and the way in which they organize economic activities. While white business people were held to be primarily focused on the profitability of their businesses rather than on wellbeing of the community, “emerging” groups were assumed to be unified by communal values committed to the common good. For this reason, it seems, local ANC politicians held that LED projects targeting “emerging” groups were to be organized as cooperatives. At the same time, some local ANC politicians and officials expressed a dislike of the allegedly profit-maximizing behaviour of white businesspeople, who were seen as narrow-minded and egoistic. According to Picard, anti-business perceptions have existed for long within ANC ranks. Some ANC members have tended to see the enemy as being business, business methods and the business mentality (Picard, 2005, p. 108). Thus, the lack of domain consensus seems to have been related to prevailing anti-business attitudes and patterns of group identification in the locality. The LED councillor of Lukhanji held that the formation of partnerships between the formal business sector and the municipality was hindered due to the maximizing behaviour on the part of the former group:

We still live in two different worlds. Business has got its own way of interpreting economic development. It is about their expansion. That is business language of course. Now in terms of partnership, that is where you

cannot win them over. If you talk of South African history it is about one being an employer and the other an employee, still within most people's minds that is the biggest challenge (interview October 27, 2005).

The indication is that the fresh memories of apartheid seem to have impeded cooperation between the private sector and the municipality. Given the history of the area, this is not surprising. Bearing the history of apartheid in mind, some local politicians were concerned about making up for past injustices. They also wanted to ensure that LED interventions served the common good, or rather, the collective interests of blacks, rather than narrow private or 'white' interests. For this reason "emerging" groups had to be given "meaningful participation in the economy". The municipal leadership seemed to view the interests of the private sector, which was dominated by whites, and the interests of the community with which they identified, as somewhat inconsistent. This suggests that the articulation of collective interests tended to be restricted to particular in-groups, defined on the basis of race and class.

The tendency of defining collective interests in this restricted manner seems to have been related to the lack of domain consensus. The interview data shows that some officials and politicians in the municipalities viewed the formal business sector as a predominantly "white" domain located outside their political control, and therefore, not to the benefit of communities they had been set to serve. As noted above, the District's tourism officer complained that the businesspeople in the area were "only looking after their businesses" without caring about giving "anything back to the community". At the same time, the private sector representative involved in the Tourism Steering Committee complained about the lack of personal incentives to take part. This implies that the actors involved in the development planning activities had different ideas of the proper balance between private and collective interests. While the business sector representatives viewed self-interested market behaviour as fully legitimate, some politicians and officials, who did not share this notion of domain consensus, regarded market-oriented actions as immoral and myopic.

Taken together, the interview data indicates that some local politicians were unwilling to accept the kind of domain consensus according to which the public and the private sectors enter into complementary relationships. Consequently, instead of using LED funds to complement private sector activities by investing in various public goods from which the businesses in the area could benefit, local politicians preferred to divert LED funding into communally owned projects that involved "emerging" target groups. The lack of domain consensus seems to have

been related to prevailing patterns of group identification, and ensuing inconsistencies in the ways in which the interrelated actors defined legitimate individual and collective interests.

## Summary

In summary, several circumstances impeded governance with regard to LED promotion. Both government and non-government participants tended to lack the motivation to cooperate. Therefore, even initially motivated participants seemed to lose their enthusiasm when their attempts at achieving cooperation were unsuccessful. The empirical material also suggests that the constitutive rules and thus, the division of functions, tasks and responsibilities pertaining to the LED arrangements, were vaguely defined. The participants had different understandings of the purpose and functions of the meetings and it was not clear what was to be discussed under the heading of LED and. Moreover, the participants in the LED committees sometimes understood the LED policy in very different ways, and not establish domain consensus on the respective roles of the public and the private sectors in processes of LED promotion. The lack of domain consensus was related to the ways in which the participants identified themselves, and consequently, how they defined legitimate individual and collective interests. It appears as if the prevalence of exclusive ethnic and racial identities contributed to hindering the articulation of collective interests related to the local community as a whole. As a result, the participants involved in the LED committees were unable to enter into complementary, mutually empowering relationships. All in all, the empirical material implies that neither the IDP forums nor the separate LED committees became established as transaction domains. Collaborative governance was thus impeded by the absence of a mutually acceptable logic of interaction and decision-making and a well-defined structure of deontic powers that determined the rights, obligations, and authorities of the parties involved.

These results suggest that development planning calls for the existence of a specific domain consensus. To begin with, joint decision-making requires the participants to be involved in recognizing a set of shared constitutive rules. Moreover, they must have a similar understanding of the division of labour between the public and the private sectors. In addition, cooperative governance requires motivated participants. This means that the interests of the actors involved must coincide in ways that makes each of them motivated to enter into complementary relations with the others. Alternatively, the participants must be motivated by



wider collective interests. None of these features developed between the participants in the formal meeting points established to enable governance in the municipalities selected for this thesis. As noted above, in the absence of coherent planning, projects were launched on an ad hoc basis without consideration of wider strategic implications. The existing LED projects had been instead initiated by different government and non-government actors that only became involved with one another when project funding became available.

Other research on development planning shows that the problems found in this thesis seem to be widespread in South Africa. Goldman and Reynolds (2008, pp. 135-136) state that the division of roles and responsibilities among the different tiers and spheres is generally vaguely defined and the terms of reference for the intergovernmental forums tend to be unclear. According to Harrison (2008, p. 331) the lack of coordination across the spheres of government is a major problem in South Africa. Other studies also indicate that it has been very difficult to reach collaborative governance. Outright competition between government agencies seems widespread. Goldman and Reynolds (2008) claim that the relationship between district municipalities and local municipalities tends to be “highly problematic, often being one of competition rather than cooperation” (Goldman and Reynolds, 2008, p. 135).

Moreover, the lack of engagement in development planning and implementation on the part of both public and private sector actors appears to be a general problem. Xuza and Swilling (2008, p. 272) point out that most LED forums that were established during or right after the introduction of developmental local governments are now inactive, and they did not generate governance since they “failed to attract the key movers and shakers that drive local economies”. In many cases, local businesspeople either did not know of the forums or held that they were dominated by people who did not understand how the local economy functioned (Xuza and Swilling, 2008, p.272). The IDP forums tend to be characterized by similar problems. Goldman and Reynolds (2008, p. 145) describe the IDP forums as “large and unwieldy affairs” that have generated few meaningful contributions to development. There is generally little incentive for provincial departments to participate in municipal integrated development planning processes. Key officials tend not to attend planning meetings or they send junior officials who lack the necessary information or decision-making authority. As a result, there has been a widespread lack of alignment between planning processes at the different levels (Goldman and Reynolds, 2008, pp. 135-136, Nel and Rogerson, 2005, pp. 12-13). Schmid concludes that, contrary to the intentions:

“The IDP processes often reinforce bureaucratic rather than developmental thinking”. The fact that a council has complied with the law by preparing a plan is far more important than the content of the plan. This is inevitable, given the absence of any substantial benchmarking that allows municipal outputs and outcomes to be evaluated in some evidence-based way. There has been very little joining up of government, beyond platitudes. In short, integration as applied tends to represent the triumph of form over substance. Taken together, development and integration currently fail to inspire and cohere” (Schmidt, 2008, p. 123).

As seen above, current research suggests that integrated development planning is being driven primarily by rule compliance rather than by a genuine interest in achieving governance. Thus, it seems as if integrated development planning is becoming an empty formal procedure contributing to “institutional overload” rather than an effective instrument for governance (Harrison, 2008, p. 324). Other research indicates that the failure rate of LED projects is high, although the outcomes are varying (Nel and Rogerson, 2005, pp. 12-13).

The following chapter contains case studies of three projects with contrasting origins, outcomes and organisational forms.

## 9: Of Synergies, Stalemates and Social Dilemmas

There were many examples of failed LED projects in the municipalities selected for this investigation. Most of the existing projects were poorly planned and implemented and only a few of them generated lasting employment opportunities (Chris Hani District Municipality, 2005b). However, as the reports and the interview material have shown, all projects did not fail. A few of them did succeed in creating enduring employment opportunities in the area. This chapter sheds light on the patterns of interaction that engendered the differing project outcomes. The LED interventions had different origins, were set in different institutional contexts and involved different constellations of government and non-government actors driven by different motives. Case studies of three projects with different origins and outcomes are taken up here; the Rags to Riches Vegetable Garden, the Khayelitsha Brick Makers Association and the Dordrecht Cheese Factory. Comparing these contrasting cases sheds light on the different patterns of interaction that underlie the varying outcomes.

In the first case, the Rags to Riches vegetable garden, both government and non-government actors involved acted beyond formal constraints. As a result, they were all drawn into social dilemma-like situations in which they employed informal and even illegal methods to pursue conflicting objectives. Social dilemma, in this sense, refers to a situation in which interrelated individuals act independently in ways that leave them worse off than if they coordinate their actions. In the second case, the Khayelitsha Brick Makers Association, the participants in the project committee first lacked sufficient incentives to cooperate. The implementation process therefore stalemated repeatedly before the project finally took off. In the final case study, the Dordrecht cheese factory, the public and the private participants involved in planning and implementation on the commercial farming side of the project recognised a shared sense of interdependence. In addition, the nodes in the planning and implementation network were used to work in accordance with formal sector procedures and had established domain consensus in advance. Consequently, the public and the private sector representatives involved entered into synergetic relationships. By synergy, I refer to a situation in which public and private actors enter into complementary and mutually supportive relationships (Evans, 1996).

## The Rags to Riches Vegetable Garden

The Rags to Riches vegetable garden project was initiated in 2000 by a group of 15 residents led by a pensioner in Mlungisi, Queenstown. The local municipality allowed the project members to use a small piece of communal land to produce vegetables for local supermarkets. The project members also did cleaning for a school nearby. According to the project leader, the enterprise was profitable during its short time of operation and each of the members made approximately R30 per day. However, the vegetable production was held back since the project members were unable to provide the garden with sufficient amounts of water. An official from the District municipality therefore encouraged the leader to apply for funding for basic irrigation equipment at the beginning of 2003. Later that year the project received a grant of R45 000 (5750 EUR/7200 USD). The funding was administered by the local municipality. When it became known that the project had received the grant, a conflict arose between the project leader and a ward councillor who worked as a teacher in a nearby school. The cause of the conflict is unclear. The chairperson of the District NGO council, who eventually was called in by the local municipality to mediate in the conflict, claimed that the project members suspected their leader of withholding the grant and their salaries:

The members of the project were saying to the lady 'you are the leader of the project but you are not accountable to us. You have only told us to sell vegetables to those big businesses but where is the money coming in' So the lady was not accountable to the project itself, telling them straight were the money went which she was obliged to do according to the constitution of the project. People ended up going to the ward councillor to complain to her that their project leader was not accountable (Interview, October 28, 2005).

According to interviewed community development workers, power struggles within the LED projects were common, as were conflicts over the administration of project funds. Feelings of distrust were said to be aroused easily, especially between members with different levels of education. However, the project leader claimed that there never was a conflict within the project at that stage. She asserted that the ward councillor wanted to co-opt the project after it had received funding. According to a spokesperson of the project, the ward councillor did not approve of the enterprise since the leader was not affiliated with her:

Even if you apply for funding the application must be approved by the ward councillor and if the ward councillor is not in good terms with you then she will not give you assistance with funding or they want to get involved

in the project to get shares. (...) The councillor wanted the old lady (the project leader, my comment) out of the administration. She wanted to take over the project with her people (interview, September 25, 2005).

The statement suggests that the conflict derived from the project leader's refusal to become part of a clientelistic network in which the ward councillor was part. However, the origins of the conflict are shrouded in obscurity. For a reason not entirely clear, the ward councillor demanded a say in the project. She was denied this request since the project leader did not accept political involvement in what she considered as a private business. It then became apparent that the project leader and the ward councillor had different conceptions of the public and the private, and of the powers vested in the position of ward councillor. According to the project's spokesperson, the ward councillor viewed the vegetable garden as the council's property once it had received grant funding from the government:

They take this project as the property of the municipality, you see, even though they know nothing about the project. (...). She has got all the powers to do what she likes within the project. I told her that projects are businesses. They have their own people. No one from the outside can come and tell them what to do. You cannot go to Spar (the local supermarket, my comment) and tell them 'hey I am the manager now'. It is just a misinterpretation of the word project" (...) They cannot differentiate between politics and development. Politics and the economy are two different things. They mix the two...when they are supposed to develop the communities (interview, September 25, 2005).

While the project leader viewed the vegetable garden as a private business, the ward councillor saw it as an enterprise in which she had the right to get directly involved. The conflict thus revealed a fundamental lack of domain consensus. A main problem was that the garden was not formally registered either as a public works project or as a private firm. None of the parties were therefore able to invoke formal rules to prove themselves right and solve the conflict by legal means. Instead, the ward councillor took the matter into her own hands. In October 2004 she encouraged a group of Mlungisi residents to get hold of the vegetables in garden. Shortly after, the vegetable garden was vandalized. Although the precise reasons for the ward councillors' decision are not known, the incident revealed a lack of domain consensus both among those that occupied positions in the local municipal system and among the Mlungisi residents. The ward councillor considered herself not only a representative of the residents in the ward, but also a local leader with the right to act as judge and jury

in local conflicts. While some of the residents accepted her as such, the project leader did not. At the same time, the Chairperson of the District NGO council decided that both the project leader and the ward councillor were to blame for what happened. In his view the ward councillor “took a wrong decision of saying to the people of the project: ‘Go and harvest in the projects’ field and take it home” (Interview, October 28, 2005). However, he held that the project leader was primarily responsible since, in his view, she had not been accountable to the members. This indicates that there was a profound lack of domain consensus among all parties involved.

The chain of events that followed after the first conflict is also illustrative of the ways in which individual and collective interests were defined in the ward. The project spokesperson cited above described the project as serving the interests of the wider community. He underlined that it was a private project, and he saw it as serving a wider public purpose in that it provided a livelihood for several of the residents of the ward. This view may have been shared by the District official who provided funding for the garden, but it seems as if the ward councillor and the crowd that destroyed the garden viewed the project as benefiting neither themselves nor the community at large. It goes without saying that the adversaries of the project leader saw themselves as belonging to a group other than the one living off the vegetable garden. Thus, individual and collective identities in the ward seem to have been structured in such a way as to make the project appear illegitimate since it benefited a few selected people, at least in the eyes of the followers of the ward councillor. This suggests that the ward was far from a coherent community.

The case calls attention to the risks associated with the use of selective interventions to fight poverty. If only a few are provided with funding or given access to a governance network, those who do not get access to benefits may become indignant. If this is the case, selective interventions may decrease the legitimacy of projects and programmes among the wider public.

After the destruction of the vegetable garden, the project leader turned to the local municipality to report the event and request some of the grant to reconstruct the garden. She had meetings with several officials and councillors but no one in Lukhanji took responsibility for the matter. As time went by the District Municipality found out that the grant had not been spent within the intended financial year. The District Mayor was informed of the conflict between the project leader and ward councillor, and the local municipality was instructed to resolve it. At that stage no one at the local level took action and the project leader lost confidence in the municipality:

The mayor said it would be taken into account and then it was the district mayor but there was no follow up, maybe because of the councillor involved. (...) We have had several meetings with the municipality, but the councillors just kept on delegating the matter to someone else. That is why we are losing confidence in the municipality. It is just like that, they just pass the ball to one another so you do not know where to go but the money is in their hands. That is all (interview, October 14, 2005).

Lukhanji Municipality was slow to address the matter. According to the adviser of the municipality the mayor avoided touching the case since a ward councillor was involved (interview, August 7, 2006). The matter continued to lay dormant at the local level, and the project leader therefore turned to the District Municipality. Officials from the District once again requested Lukhanji to look into the matter. Eventually, in May 2005, the LED Standing Committee Councillor of Lukhanji called in the chairperson of the District NGO council to resolve the problem of the vegetable garden project. The latter suspended the project leader and decided that the project was to be managed by an interim committee consisting of former members. The municipality was also advised to remove the ward councillor from the project. The remaining members were requested to prepare a new business plan to reapply for funding. The project leader interpreted this as another step in the ward councillor's plan to co-opt her project:

The councillor wanted to destroy the project so that she could form her own. That's what she is doing now. (...) She encouraged the other members to form an alternative project which is now going to be Rags to Riches and she dissolved the project committee" (interview, October 14, 2005).

Besides rearranging the garden project, the chairperson disbanded the local NGO council of which the former project leader was a member, allegedly because "they were fighting one another" (Interview, October 28, 2005). However, there were no formal rules in place that gave the chairperson of the District NGO council the authority to dissolve the garden project and the local NGO council. The incident thus revealed that the NGO council structures were not de facto embedded in a formal institutional framework. It also became clear that local government representatives could act in arbitrary ways with impunity.

In the wake of these events the 'Rags to Riches'-project was not reconstructed. The local municipality tried to compensate the project leader by offering her office space in Mlungisi for free. However, she had already rented an office in the centre of Queenstown, expecting that the municipality would pay the rent. The municipality refused since the

funding was not intended for office rental. In October 2005 the project leader was evicted from the office. At that time the vegetable garden was overgrown since it had been inoperative for a whole year. Almost a year later, in August 2006, the grant had still not been released and the vegetable field was not in use.

The case trajectory indicates that none of the parties involved were accustomed to operating according to formal procedures. The first conflict seems to have emerged due to the lack of domain consensus deriving from the fact that the project leader saw the vegetable garden as a private business while the ward councillor viewed it as an enterprise in which she had the right to get directly involved. The conflict then triggered a series of events in which all people involved, including representatives of the local municipality, acted more or less arbitrarily. As a result, the affair damaged the credibility and the democratic character of the local government structures. The government actors were drawn into a pattern of interaction with non-government actors in which they used arbitrary, informal and even illegal methods. In other words, both government and non-government actors acted outside the formal institutional order. All actors involved were therefore pulled into a social dilemma-like situation in which they tried to pursue their objectives without drawing on shared norms or rules. As noted, social dilemma, in this sense, refers to a situation in which interrelated individuals act independently in ways that leave them worse off than if they coordinate their actions. While the members of the garden project lost their livelihood, the municipal representatives lost legitimacy and credibility. The case study demonstrates that discretionary government interventions aimed at alleviating poverty by promoting small and medium-sized enterprises, may entail various unintended consequences that may have a negative impact on the general trust in the government.

### **The Khayeltisha Brick Makers Association**

The Khayeltisha Brick Makers Association was formed in 2001 in conjunction with the implementation of a provincial government programme aimed to regulate illegal clay mining in the Chris Hani District Municipality. The programme was implemented by the Eastern Cape Manufacturing Advisory Centre (ECMAC), a semi-autonomous provincial agency. The idea behind the intervention was to gather the miners and the brick-makers into registered organisations, to receive training on product quality, environment protection, safety legislation and accounting. Initially 21 brick makers who up to then were mining



clay individually in the outskirts of Queenstown, joined together to form a cooperative after being encouraged to do so by ECMAC officials. After the association had been formed, the members were assisted in drafting and submitting a grant application to the Department of Local and Provincial Government (DPLG). The proposal stipulated that the grant was to be used for training, equipment and the preparation of a mining site located on municipal property at Finchams Nek, five kilometres south of Queenstown. In 2002 the association received a grant which was to be administered by the local municipality. It is not entirely clear how much funding the project received since the municipality was unable to give a detailed account of the expenditure of the funds, but they asserted that it amounted to R 67 000 (8500 EUR/10 700 USD) in the budget year of 2002/2003 and R 200 000 (25 500 EUR/32 100 USD) in 2003/2004 (Chris Hani District Municipality, 2005b, p. 181).

The local LED officer and ECMAC used some of the funding to pay for machinery and consultant fees for a business analysis and a geotechnical survey of the mining site. The latter was required in order to get a formal mining permit from Department of Minerals and Energy (DME). When the municipality applied for the mining permit in August 2003, it was informed that the DME required a deposit in the amount of almost R 3 000 000 (383 000 EUR /481 500 USD) to secure the future rehabilitation of the site. This unforeseen cost threatened the continuation of the project, and representatives from Lukhanji, the District Municipality, ECMAC, DME, the Province and the brick-makers association therefore met to discuss how to proceed with the implementation of the project. It became clear that none of the parties were prepared or able to pay for the permit. Neither could the association access funding from a commercial bank as it was to operate on land owned by the municipality. The committee were unable to act and the implementation work went into a stalemate.

The problem was that it was not clear who was ultimately responsible for the continuation of the project. There was also a general lack of interest in the project since no one in the steering committee was immediately dependent upon its success. The brick-makers had never been reliant on the association for their livelihood since they had continued their informal mining activities while the administrative formalities were being prepared. According to a municipal adviser, the municipal representatives lacked personal incentives to continue doing work for a freestanding business whose prospects were gloomy. Neither were they obliged to do it by law, nor ordered to by a superior. In other words, the actors involved in the project committee had no personal stakes in the project, and they did not seem to be united and driven by a shared, collective interest in the

development of the area as a whole, at least not in this manner. The officials and politicians involved thus dropped the project work temporarily, and the 'beneficiaries' kept on producing bricks on their own. What was left of the funding remained with the local municipality.

The stalemate continued until the local municipality was reminded by the DPLG that the funding had to be used within a certain period of time. The municipality thus summoned the project committee to discuss how to revive the brick-making project. To avoid the licensing problem it decided to spend the funding on two separate facilities that were to make cement blocks instead of clay bricks. The new solution was presented as a pilot case in the search for new ways of coming to terms with illegal clay mining.

In the summer of 2005 the municipality prepared two brick-making sites: one in an industrial area in the south of Queenstown, and one in the suburb of Ezibeleni. The main part of the funding was spent on preparations of the two sites and on machinery and raw material. ECMAC provided training on brick manufacturing and financial management to prepare the members of the association to work according to formal procedures. However, re-establishing the cooperatives proved challenging not least because the ECMAC officials discovered that the cooperative model was not institutionalized among the brick-makers:

First we realised that being in cooperatives, they are not working together. It is just a cooperative by name. So when you arrange meeting you will find that people do not attend and sometimes you will find that some of them are not part of the cooperative. Sometimes we train few people and sometimes there are lots of them (interview October 31, 2005).

Moreover, only the less successful brick-makers were inclined to see benefits in joining the cooperative according to an ECMAC official. It therefore proved challenging to teach the members how to run the cooperative as a sustainable business. The members had difficulties keeping track of their finances and they did not save enough of their profits to buy raw material for future operations. They were also said to lack connections to formal sector customers.

The Ezibeleni section stumbled from the start while the Queenstown brick-makers were helped by a retired municipal official to secure an order for 20 000 bricks. The Queenstown section successfully delivered their first order, but, when they obtained another order for 40 000 bricks, they lacked the financial means to buy more raw material since they had not pooled enough resources. Consequently, they asked the municipality to buy them cement and stone dust for the remainder of the grant, a sum of R 45 000 (5750 EUR/7200 USD). However, the municipality expected them to be

self-supporting once the new sites were in place and therefore, the main responsibility for the project's future was in the hands of the brick-makers, as explained by the LED councillor of Lukhanji:

When they have got funding, at a certain stage they should be on their own. To this date, they still want money from the government. They do not know how to run a business. We are giving them millions today. Tomorrow they come back and ask for more (interview November 2, 2005).

Another councillor involved in the LED subcommittee found it pointless to provide the LED projects with further support:

There are a couple of small projects but to me they are not sustainable. They will die naturally... just strangle themselves, like the irrigation schemes and the food garden projects. The brick-makers, we have been trying for three-four years to get them going (interview, October 25, 2005).

The brick-makers viewed the situation differently. From their perspective, the municipality was responsible for the survival of the project since the project had been initiated by the government. They also considered themselves entitled to the entire grant as they primarily identified themselves as recipients rather than as entrepreneurs. In the words of one of the brick-makers:

They applied for funds for us to make cement blocks. Now those funds are not enough. All that money went to the equipment. Now we are still waiting.... They did train us. We got the certificates and all that but we can't get the funds. We do not have cement and just a pile of stone dust and we have got an order for 40 000 bricks that we must make within two months time. We cannot continue (Interview, October 12, 2005).

The brick-makers were also upset that they had not received a report on the expenditure of the funds that they had been promised. They therefore suspected that the funding had been misused by the municipality:

They used about 260 000 and now we do not know where the 40 000 are. We are still waiting for that report. It is three months already. We have been going there several times saying they must have a meeting with us and give us a report back (Interview, October 12, 2005).

The interview data suggests that the expectations of the brick-makers and the municipality were not in line. As a consequence the parties appeared to have lost their trust in each other.

The municipality held on to the funding and the Queenstown section ran out of raw material. The members of the association resumed illegal clay mining while they waited for the municipality to act. Both brick-making sections were inoperative in October 2005, and the project had gone into a second stalemate. The stalemate was broken when a group of officials from the provincial government paid a visit to the mayor and the municipal manager to demand a progress report on the project. The municipal leadership was thereby triggered to act and it began to try and revive what was left of the project together with ECMAC, which had then changed its name to the Citizen Entrepreneurial Development Agency (CEDA).

CEDA appointed a private consultant to provide further financial management training for the brick-makers, and the municipality decided to spend the remains of the grant on raw material. However, the members of the Ezibeleni section did not appear for the training sessions and all the raw material was then delivered to the Queenstown site. It is unclear whether this was a mistake on the part of the municipality or whether it was done on purpose.

In January 2006 the municipality invited tenders for the supply of bricks for a public housing project. The two brick-making associations were identified as preferred bidders. While the Ezibeleni section remained inoperative, the Queenstown section responded to the tender and was awarded the contract. In February 2006 it resumed production. A senior member of the project had then taken responsibility for the bookkeeping work and with the new manager in place, the Queenstown section was able to continue operating in the formal sector. In August 2006 it provided employment for nine people.

The case trajectory indicates that the project was poorly planned from the beginning. The funding agent and the designers of the programme, of which the project was a part, had insufficient knowledge of mining regulations, and they had not co-ordinated their activities with the Department of Mineral and Energy in advance. Not until the project was underway did it become apparent that it was not feasible in its then existing form. Since the implementation process involved several autonomous government agencies it was not clear who bore the ultimate responsibility for the first stalemate. While the local municipality administered the funding, local officials and politicians had not been involved in the initial planning and implementation of the project. As a result they did not feel ownership of the project and they had little confidence in its prospects for success. At the same time the officials from the other spheres of government lacked the formal authority to intervene. From the viewpoint of project members, the idea of creating an association was imposed from above. In their view,

the responsibility for the project therefore fell on the municipality. They also felt entitled to get a maximum of support since they had to give up their livelihood in the informal sector. When the municipality did not live up to its part of the agreement as they saw it, they fell back upon their informal mining activities. In the view of the municipality, this indicated that the brick-makers were primarily in it for the funding. Consequently they were unwilling to provide them further support. It is also likely that the municipality and the brick-makers were not sufficiently committed to the project's success since they lacked a shared sense of interdependence. The stalemates were therefore first broken when the municipality was pressured by other government agencies, indicating that the municipality was primarily accountable to other government officials, and not to the project members. When the project finally received the remains of the funding, it was held together by a devoted senior member, trained in bookkeeping, who could guarantee its survival, at least in the short term.

The case suggests that the implementation process was hindered by the fact that the government actors involved were neither hierarchically related, nor equally committed to the success of the project. As a result, as soon as one node in the implementation network did not proceed, the project went into a stalemate. The local officials lacked incentives to support the project since they were not dependent on its success. They also lacked confidence in the member's ability to manage the project. Neither were the 'beneficiaries' particularly dependent on the success of the venture since they had one foot left in the formal sector. Cooperative governance was thus impeded by the lack of a shared sense of interdependence and commitment, and by the mutual distrust that developed between the parties at the local level. Predictably, the lack of mutual interest in the project initially hindered governance. The funding was finally released under pressure from provincial officials who were less distrustful of the project members. What was left of the project after the two stalemates could, somewhat unexpectedly, be saved since a handful of officials and a senior project member remained bent on proceeding.

As we will see in the final case study, the character of the planning and implementation network was remarkably different, as were the outcomes.

## **The Dordrecht Cheese Factory**

The seed of the cheese factory project was planted in 2001 in conjunction with an LED forum meeting to which residents in the town of Dordrecht in Emalahleni Municipality were invited by the local government to discuss how to create jobs in the locality. After the meeting fifteen commercial

dairy farmers decided to create the Dordrecht Dairy Farmers Association (DDFA) in order to look into the possibility of re-establishing a dairy in the area. Dairies were common all over the Eastern Cape until the 1980s when most of them closed down in the face of increasing competition from larger dairy corporations. The dairy in Dordrecht was shut down in 1984 when it was taken over by a bigger dairy company. After its closure, the farmers in the area began to sell milk to various smaller private processors in the area. In 2001 only Crickley Dairy in Queenstown remained and had long since established a local monopoly position. Crickley Dairy was therefore able to control the purchase price of milk in the area. Several dairy farmers had therefore gradually shifted from dairy farming to sheep farming. The fifteen farmers in the DDFA wanted to break the local monopoly and increase their control of the local milk market by establishing a jointly owned dairy facility in Dordrecht. However they were pessimistic about the prospects of the venture. Few members really believed that a bank would provide them with a loan, and they were unwilling to invest personal funds or mortgage their farms to raise money. The idea of getting government grants also seemed far-fetched since none of them could possibly be classified as an “emerging” farmer. Consequently, most of the members did not devote much time to the association and for some time it looked as if the DDFA would remain nothing but an empty name. This deadlock was broken when an official of the Provincial Department of Agriculture, who originally came from the area, became engaged in the association and was appointed as its leader. Although he had recently returned from Kwazulu-Natal where he had worked on various development projects, he knew the farmers in the DDFA through his father who ran a farm outside Dordrecht. The new project leader proved invaluable to the DDFA. In the capacity of provincial official he was familiar with the way in which the government apparatus worked and he was well-connected in the development sector. His multiple identities as development worker, official and local ‘farmers’ boy’ made him an ideal broker between the private sector, the government and the international development community. In these overlapping positions, he attempted to find ways of raising funds for the dairy factory both from the Government and from foreign donors.

Initially, he came across a report on a dairy in SOWETO, funded by Danish donors, in a monthly dairy publication. He contacted the manager of the SOWETO dairy to learn how it had been established, and thereby got in touch with a Danish consultant, an experienced business economist with long experience of developing dairies in Africa and in the Middle East, who had outlined the business plan of the SOWETO dairy. Together with a dedicated representative from the German RuLiv programme,

they invited the consultant to discussions on the possibility of launching a similar business in Dordrecht. In December 2001, a meeting was held between the consultant and representatives from the DDFA, RuLiv and the local municipality. RuLiv agreed to apply for funding from the GTZ to finance a full feasibility study, a business plan and a complete financial analysis. In May 2002, after RuLiv had received funding from the GTZ, the consultant was called in to perform the feasibility study. The analyses were completed in 2004 and the consultant concluded that the project was feasible. The business plan stipulated that the project would require a minimum of R 1 300 000 (166 000 EUR/ 209 000 USD). It was estimated that the farmers had to contribute a total of R 300 000 (38 000 EUR/48 000 USD) of their own money to the project.

When the feasibility study was complete the dairy project suddenly seemed realistic. The project leader formed what he called an ‘informal task team’ with a newly arrived farmer, who had previously worked as a dairyman for a large dairy corporation, and a former farmer from the area who was particularly attracted by the project idea. The former dairyman had just bought property in the area and was therefore unable to invest personal funds in the project. He was, however, willing to work without pay in the factory as a manager for a year in order to get shares. The task team began to try and raise government grants and donor funding, using the business plan and the feasibility study. They knew that to get government funding they had to include an element of “black economic empowerment” into the project. Concretely, this meant that they needed to incorporate “emerging” farmers into the project. It so happened that the Department of Land Affairs had just purchased a farm in Koffiefontein, located on the outer edge of Dordrecht, on behalf of the Communal Property Association (CPA), a cooperative consisting of 37 “emerging” farmers. The CPA had been formed in 1991 by a group of former farm-workers from the former Dordrecht location. They registered themselves as a cooperative at the Department of Land Affairs (DLA) after they had been informed about the forthcoming land reform programme. In 2000 the CPA received a land grant from the DLA that bought them the Koffiefontein farm.

The project team invited the CPA to join them as shareholders in the dairy facility. The CPA agreed since they would then be guaranteed a nearby outlet for their raw milk once their farm became operative. The establishment of the partnership was followed by lengthy negotiations about the constitution of the business. The commercial farmers were particularly anxious to make careful legal preparations for possible contingencies since they would invest private money in the project. A lawyer was engaged to outline the legal framework of the business constitution. Eventually the

parties agreed on a model in which the DDFA and CPA would own equal shares in the factory. They also decided that the factory was a separate legal entity. Its board would consist of five members of the DDFA and five members of the CPA. The chairmanship was to rotate among members of the two organisations every year. Despite initial difficulties and confusion, the CPA farmers were finally content since the rules of the game were clearly stipulated in the constitution of the project:

We had disadvantages when we started. We did not know exactly what was going on when we got in, but now after we drew up the articles we know our role in the factory. We had difficulties with how to be involved but we now we see that the articles says that one of us has to be appointed as chairperson every second year (interview, August 10, 2006).

The constitutive and the procedural rules were thus laid down in advance and the project was established as a transaction domain, at least formally. Furthermore, as noted, the project was firmly embedded in the formal institutional order.

According to the project leader, local politicians were sceptical of the project since they mistrusted the intentions of the DDFA. However, as the project made headway, Emalaheni Municipality appointed the RuLiv representative, who had been involved in the planning of the dairy, as its new LED officer. He was favourably disposed to the project from the beginning and made available municipal funding of R 150 000 (19 000 EUR/24 000 USD) for the deposit on behalf of the CPA farmers. However, the commercial farmers in the DDFA were still reluctant to buy shares since they were not convinced of the viability of the project. In order to set an example and to show his dedication to the project, the project leader sold his car to get money to invest in the dairy. Eventually eleven out of the original fifteen DDFA members bought shares.

When the deposit of R 300 000 was secured, several funding agents agreed to support the project. Eskom, the national electricity supplier, provided R 800 000 (102 000 EUR/128 000 USD). The Department of Agriculture made available more than R 1 000 000 (127 000 EUR/160 500 USD) for the construction of irrigation systems, fencing, a poultry-house and a new milking parlour at the Koffiefontein farm. Eskom agreed to install electricity in the new buildings on the farm. The farm was also provided with 20 cows by the Department of Land Affairs.

For a while it looked as if the task team had raised most of the funds necessary to build the dairy. It then turned out that the Eskom grant was only meant for technical equipment. It was only disbursed on condition that the project got financial support for the erection of the building. The



project activities ceased for nearly a year since the task team was unable to acquire more funding. The project leader was then informed that the District Municipality was unable to distribute all of its LED funds intended for the budget year. The District's officials were therefore pressured to hand out the funding to viable projects before the budget year came to a close. The project leader consequently drew on his connections within the District to make them release funds for the dairy:

In most South African municipalities they do not spend the project money they should spend at the right time. Because I work in the system I know when that time comes, so I waited for that time and then I ambushed them. We have a successful project and you could channel money here very quickly and they wanted to make themselves look good. We used a bit of psychology but with genuine intentions, which they knew we had (interview August 16, 2006).

The District Municipality eventually sourced R 2 600 000 (332 000 EUR/417 000 USD) for the erection of the dairy building, on condition that District officials would be represented on the board, where they would be able to monitor the project activities. At about the same time, the local municipality decided to provide land for the dairy for free. The project committee had initially offered to purchase the land, but, during the standstill the original title deeds disappeared and the land was therefore given to them for free. When the land and the necessary funding were secured, the project committee re-engaged the Danish consultant to get advice on marketing. Instead of a salary, he was offered 1.5 percent of the shares.

The dairy building was completed in November 2005 and production was planned to start in December. The production start was, however, delayed for several months since Eskom had not installed the electricity on time. At the beginning of March 2006, the dairy finally started producing. In addition to the manager, 20 people from the locality were employed. All local dairy farmers in the area were invited to sell milk to the dairy even though the shareholders were prioritized. The local farmers were content since they received R 2 (0.25 EUR/ 0. 32 USD) per litre of milk from the Dordrecht Cheese Factory, in comparison with R 1. 63 (0.2 EUR/ 0. 26 USD) per litre offered by Crickley Dairy in Queenstown.

After the production had started the project received an additional grant from the Eastern Cape Development Corporation (ECDC) intended for advertising. The products could thus be marketed in local newspapers and in agricultural shows in the central Eastern Cape Province. The turnover increased rapidly. The sales figures increased from R 56 881 (7200 EUR/ 9100 USD) in March to R 469 560 (60 000 EUR/ 75 000 USD) in July. In

August 2006 demand for the products of the dairy exceeded its production capacity. In order to expand the volume, the factory board planned to take over a goat cheese factory in Somerset East, north of Dordrecht.

The CPA farmers were, however, left behind from the start. Firstly, it gradually became clear that the executive board was not fully established as a transaction domain. The CPA farmers believed that most management decisions were made without their awareness or consent since they were often unfamiliar with the issues that were raised in board meetings. Language difficulties also prevented them from fully understanding the planning discussions between the factory management and the DDFA. Consequently, the CPA Chairperson felt that they had become marginalized in the executive board:

We have problems with their attitudes because to me, before, they were the employers but now we are at the same level but there is still a gap. Some of the things we do not understand, and they come up with things that they just tell us. They do not come with it for discussion. For instance today, the Somerset East goat factory, it has been discussed by them before and now they just tell us what they want to do. Sometimes we have a language problem. We do not always understand what it means. We need clarity on our mother language (interview, August 10, 2006).

The CPA also had problems in the dealings with the implementing agencies. The subcontractor employed by Eskom had not provided electricity to the new milk parlour when the dairy production started. The CPA did not know who to turn to get help since the division of tasks and responsibilities between the Department of Agriculture (DoA), Eskom, and the subcontractor regarding the installation of electricity was obscure. In August 2006, the milking parlour was still not electrified. Since the CPA farmers had to milk by hand and could not use the cooling tank, they were unable to extract and store the milk according to the required sanitation standards. Consequently, they could not supply milk to the dairy and were only able to sell milk to the residents in the neighbouring location on a small-scale, informal basis.

A further problem was that none of the CPA members had experience of dairy farming. Yet, the DoA expected them to be able to run the farm on their own practically from the beginning. When it gradually became clear the CPA needed continuous support in managing the farm, the DoA became more and more reluctant to deal with them. The CPA in turn, expected the DoA to continue providing them with assistance. This lack of domain consensus between the CPA and the DoA became particularly apparent when the cows at the Koffiefontein farm got sick:

When we had problems with the cows we turned to the Department of Agriculture to help us with medicine and how to look after the cows. Sometimes they gave us advice on medicine but we did not know how to inject the medicine and monitor the cow. Once we had an agricultural officer here but they are not always available when we needed them. (...) It is difficult to meet with them. They will say 'it is not my area of responsibility. I should not look after a sick cow' (interview, August 10, 2006).

The CPA farmers eventually lost five cows due to the disease. After this event they shifted from dairy farming to small-scale vegetable production and poultry farming in the living room of the farm house, where there was electricity. The CPA farmers thus ended up as informal farmers although they remained shareholders in a formal enterprise that they were unable to take part in.

By contrast, for the DDFA the project was hugely successful. The success can be explained by several circumstances. Unlike the brick-making project, it was initiated and managed by the "beneficiaries" themselves. The DDFA was made up of skilled commercial farmers and one member had long experience of dairy production. They had a clear personal interest in the project and they were represented by a highly motivated task team. The project leader was well-informed, well-connected and had advanced knowledge of the peculiar workings of the government and the development apparatus. Moreover, the beneficiaries were interdependent and there were mutual opportunities for all involved. The DDFA members were also used to working according to formal procedures, and they were careful to establish the dairy as a legal entity in advance. Both the DDFA and CPA were eventually content with the legal arrangement. The project was thereby settled as a transaction domain in advance, at least formally.

The appointment of the RuLiv affiliate as LED officer in Emalahleni was important since he became a crucial node in the implementation network. By coincidence, the project got a local government contact who was accustomed to the 'developmentality' of the development apparatus and who was devoted to the project from the start. The LED officer had a clear conception of the government's role in LED promotion, which he saw as a matter of implementing policy rather than as a matter of local politics. From this viewpoint the dairy project served not only the personal interests of the farmers, but a wider public interest. Domain consensus thus existed between the LED officer and the project leader before the former took office. The LED officer and DDFA project leader were able to identify themselves as developmental agents with a common cause in promoting job creation, rather than representatives of different racial communities. Thus, they were able to invoke a shared professional identity enabling both

domain and goal consensus. Consequently the DDFA and the LED officer were able to establish a synergetic relationship that proved important for the continuation of the project. As already noted, by synergy I refer to a situation in which public and private actors enter into complementary and mutually supportive relationships (Evans, 1996).

Once the business constitution and the financial foundation were in place, several government agencies were willing to provide funding for the project. In fact, there was a demand for well planned projects. The cheese factory project was carefully designed, seemingly feasible, and, perhaps most importantly, it promoted synergies between “emerging” and commercial farmers. Thus, an interdependent relationship emerged between the officials and the project members since the former were increasingly desperate to find sustainable projects, after a number of fiascos. When the funding was secured, the DDFA had achieved cooperation in all nodes in the planning and implementation network.

By contrast, the CPA section encountered similar problems to the previous cases. The developments at the Koffiefontein farm were not aligned with the development of the dairy. Unlike DDFA, the CPA farmers lacked farming skills. As a result, they became highly dependent on government support even in the daily management of the livestock. The officials expected, unrealistically, that the CPA farmers would be self-supporting once the capital investments on the farm were made. In this respect, there was a lack of domain consensus between the CPA and the officials. The CPA consequently found it difficult to deal with the government, and they were not able to put sufficient pressure on the implementers to ensure that the electricity was installed. The officials in turn were not properly accountable to the CPA. As in the previous case study, the governance process deadlocked since none of the implementing agents assumed the ultimate responsibility for the project.

## Summary

The case studies suggest that networked governance involving multiple autonomous public and private actors require the existence of mutual commitment or mutual opportunities, domain consensus and a shared sense of interdependence and common purpose of the nodes in the planning and implementation network. If these relational features are not in place, networked forms of governance seem likely to fail. In the network links established between the DDFA and the authorities all these relational features were in place. The other, more general problem associated with the usage of networked modes of governance regards their

legitimacy in the eyes of the wider public. Not only must the interests of the actors involved in planning and implementation coincide. Networked modes of governance must be accepted as legitimate by the wider public. Depending on how individual and collective identities are structured, there is a risk, as we saw in the case study of the Rags to Riches vegetable garden, that the inclusion of a selected few into a governance network will antagonize those who are excluded. Thus, if only members of a few in-groups are involved in the planning and implementation of a project or a programme, the governance networks may be seen as serving narrow private interests rather than broader public interests. The spread of such perceptions is likely to have a negative impact on the legitimacy of the government. Given South Africa's distributional regime and its current "identityscape", it may be difficult to forge widely inclusive governance networks in which public and private interests are seen to coincide in the eyes of the wider public. For this reason, it is questionable whether networked modes of policymaking and implementation are suitable when it comes to alleviating poverty in a country like South Africa. This line of reasoning will be developed in the concluding chapter.



## 10. Conclusion

This concluding chapter summarises and discusses the results. It recapitulates the theoretical argument and the historical development leading to the present situation in South Africa, and presents the case studies, followed by an analysis and discussion on the wider implications of the results.

### **A Summary of the Argument**

This thesis explores the implications of the introduction of a networked mode of governance, that is, a mode of governance based on the direct participation of private and civic actors in policymaking and implementation, in a South African context. It also considers the consequences of the implantation of “context-independent” models and policies, with specific behavioural assumptions, into different institutional settings. Western policies, reform experiences and public management models were exported to South Africa during the democratic transition and a decentralized, networked model of governance was launched practically overnight through the introduction of the Developmental Local Government system. Integral to this system are the model of Integrated Development Planning and the obligation of municipalities to promote Local Economic Development (LED). Two municipalities in the Central Eastern Cape province serve as case studies of the introduction of this planning model and policy.

The aim is also to contribute to theory. The South African governance reforms have been influenced by a global tendency in governance according to which the borders between the public and the private have become blurred, and horizontally organized network modes of governance have increasingly replaced hierarchical models of policymaking and implementation. Against this background ‘networked’ governance’ is said to have become more and more common. This thesis sets out to resolve the several challenges to social science theory posed by the shifts in governance. In social science theory, society is often represented in terms of distinctive institutional spheres such as state, market and civil society, each characterized by different norms, modes of decision-making and logics of action, such as legal rationality, hierarchical decision-making, profit-maximizing behaviour and voluntariness. Chapter three contains the argument that this way of representing society risks preventing “our seeing political practice as it is”. The conclusion is that concepts like state,

market and civil society cannot be seen as signifying distinct and well-defined spheres characterized by specific norms, modes of decision-making and logics of action. The boundaries between the public and the private sectors are unclear and different logics of action, such as legal rationality and profit-maximizing, may be found in public and private organisations as well as civic associations. The seeming separateness of spheres like state, market and civil society is dependent on particular institutional practices that serve to maintain the formal political order and the public-private divide. These practices may look very different from country to country. The distinction between state, market and civil society is therefore not applicable even in formally liberal democratic countries. By using such concepts analysts therefore risk overlooking different context-specific ways of organizing human relations.

Since it is difficult to maintain a clear-cut analytical division between state and society or state and economy, public, private and civic associations are best understood as components of the same formal institutional order rather than as distinct institutional spheres. Government agencies, parties, civic associations and private enterprises are seen here as legal entities constituted by the same formal institutional order, within which they are allowed to operate in different ways according to a set of constitutive and regulative rules. Rather than focusing on the interplay of state, market and civil society, the focus here is on governance, defined as the coordination and conciliation of interdependent activities via institutions. Institutions are in turn defined as socially devised structures with a high degree of resilience, which enable, constrain and provide meaning to social interaction. In accordance with this definition, studying governance means investigating how economic, social, cultural and political dynamics operate in concert. Governance research therefore calls for interdisciplinary approaches. However, this thesis recognises that it is problematic to cross the disciplinary divide merely by compiling different social science theories into a single analytical framework. The main problem in this respect is that economic, political and sociological theories tend to be based on different behavioural assumptions that are not easily conciliated. In chapter five it is argued that the new institutionalism in the social sciences is probably the best candidate for interdisciplinary integration, although this set of theories is riven by various methodological, epistemological and theoretical divides. Insights are drawn from both rational choice and historical-sociological institutionalism, but, although rational choice theories provide highly sophisticated explanations of various social phenomena, they alone cannot explain a variety of existing forms of governance. Thus, the theory developed here mainly falls back on historical-sociological institutionalism. While



rational choice institutionalism tends to take self-interested, maximizing behaviour as a given, historical-sociological institutionalism sees identities and interests as changing and variable according to context. Historical-sociological institutionalism emphasises that human actions are not only guided by incentives, constraints or counteractions, but also by cultural-cognitive frames, narratives, common situation definitions and feelings of solidarity. Moreover, according to historical-sociological institutionalism, the reproduction of institutions cannot merely be explained in terms of cost-benefit rationality, functionality, or elite power since institutions may be reproduced only because people see them as meaningful or legitimate. Historical-sociological institutionalism also recognises that institutions may be diffused through processes of mimetic isomorphism, that is, processes of imitation, even to contexts where they are not suitable.

On the basis of Searle's theory on the ontology of institutional reality, chapter five argues that institutions cannot be understood as coherent ontological entities or external sets of incentives and constraints since they are intrinsically social and cognitive. This implies that institutions are only meaningful in human relations and that they only exist as long as they enjoy a requisite degree of collective acceptance. Yet, although institutions have a subjective ontology, they are real in their consequences.

I assume that people's interests are related to their social identities, which refer to sets of meanings that people attribute to themselves while taking into account the perspective of others. The ways in which people identify themselves determines how they define their interests. For instance, if a person identifies a particular group or community as "we", he or she may develop collective interests based on feelings of solidarity with this particular community. People have multiple identities and roles that they invoke in different situations. Thus, identities and interests change according to the institutional context. I therefore recognise a range of different motives for human action. Depending on the context, people may see it as their duty to carry out an action; they may act on the basis of norms of appropriateness and perform certain actions because they are expected to by others; they may act in the interest of a collectivity with which they identify and sympathise, or they may perform actions merely because they consider them meaningful. Given the multitude of motives for action, social interaction processes cannot merely be seen as aggregates of actions based on self-seeking, maximizing behaviour.

Social life consists of various situations in which people invoke different roles and identities. Institutionalized roles and identities function as scripts that inform people what to do and what others are likely to do, in different situations. Roles and identities thus constitute cognitive schemes

of shared understandings and expectations that provide different norms of appropriateness and repertoires of socially acceptable practices that apply to different social situations. In order to understand how governance functions in complex societies, it is necessary to explain why actors draw on different logics of action in different institutional contexts. Institutions establish different agreed-upon situation definitions according to which actors invoke particular roles and logics of action in different institutional contexts. Such mutually agreed-upon situation definitions are referred to here as transaction domains. The concept refers to a mutually agreed-upon definition of a situation according to which a particular logic of interaction, exchange or decision-making is considered socially acceptable. Transaction domains lay down particular routines according to which certain logics of action, such as profit-maximization, legal rationality, reciprocity, commitment, duty, and so on are considered appropriate or lawful. Each transaction domain is moreover associated with different deontic powers, i.e. rights, obligations, permissions, authorizations and empowerments, pegged to a particular role or identity. I contend that the distribution of resources and authority in different institutional settings is determined by the character of the overall structure of transaction domains, that is, the macro-distribution of different repertoires of socially acceptable practices and principles of decision-making and exchange. In this view large aggregations of people may appear to be a coherent entity, such as Canada, if a sufficient number of people have established domain consensus. Domain consensus is defined as a general acceptance of a set of transaction domains, and is established when interacting actors share similar cognitive dispositions regarding behavioural expectations, rights and obligations that apply to a set of transaction domains. A governance regime is thus constituted by a myriad of transaction domains around which domain consensus has emerged. From this viewpoint, governance may be understood as processes of concerted collective actions which rely upon an institutional order where certain actions associated with different transaction domains can be expected. My argument is that the concepts of transaction domain and domain consensus allow analysts to examine governance in contemporary societies in more context-sensitive ways than by using concepts like state, market and civil society or dichotomies such as *gemeinschaft* and *gesellschaft*.

Regimes may differ considerably across the world with regard to their character and the scope of their formal and informal sectors. In order to achieve governance in contemporary complex societies, most actors and organisations have to accept and rely upon some formal institutions in their daily operations and pursue and conciliate their interests within formal

institutional constraints. For instance, in a liberal democratic regime, people have to remain loyal to the basic rules of the game to make the system work. If informal institutions, roles and identities consistently overshadow formal roles in contexts where they are not supposed to, formal governance regimes will collapse. From the viewpoint of this theory, the most important distinction with regard to governance is therefore not between state, market and civil society but between the formal and the informal.

The ways in which actors relate to the formal institutional order are conceptualized here in terms of exit, voice and loyalty. People may engage in activities that rely upon the formal institutional order and from this position express loyalty or voice, that is, support for or resistance to the activities of public and private organisations operating in the formal sector, or they may exit the formal order. The latter alternative means that they quit acting according to formal institutions and engage in various illegal or informal activities or choose to actively resist formal order activities. Thus, the contention is that the preconditions for formal governance largely depend on the historical processes through which formal institutions have evolved and diffused over the world through long-term interaction processes among people acting in accordance with institutions of different origins. The focus here is on four analytical dimensions considered to be of relevance for governance; resource dependencies (for instance on land, labour, capital, goods, legitimacy, knowledge etc), institutions, social identities (determining group boundaries and the articulation of collective interests) and the geo-political context. The interplay of these dimensions throughout history has generated highly fractious social relations in some areas of the world and more conciliatory relations in others. In this view, the institutionalization of the rule of law, civil rights and universal suffrage has resulted from a long and winding trail of interacting historical processes and is only in part a result of conscious policy design.

In order to exemplify this line of reasoning, I briefly examine the long-term development from non-territorial forms of political organisation to sovereign “states” in Europe. The thesis contends that a specific domain consensus based on the separation between the private and the public domain was established in England and Holland, paving the way for extraordinarily dynamic political and economic developments. These institutional developments in England and Holland triggered processes of institutional isomorphism in Europe and in other parts of the world. In the wake of the economic transformation processes that followed, politics became increasingly formalized. Collective action in Western Europe shifted from exit towards voice as new interest groups were mobilized to demand improved wages, formal protection and extended citizenship

rights. Different types of formal governance regimes were established in Europe depending on the social identities upon which new interests were mobilized, and the ways in which the new status groups formed alliances. In the 19<sup>th</sup> and 20<sup>th</sup> centuries, the popular majorities of a range of Western countries were gradually included in different formal governance regimes through extension of the franchise and the introduction of various citizenship rights. This led to a growing popular loyalty to, and stake in, formal national institutional orders. The growing structural interdependence was accompanied by the emergence of national identities. As a result, inclusive formal governance regimes with institutionalized channels for political interaction and checks and balances on executive power were established in Western Europe.

In conjunction with the decolonization processes, formal state institutions spread rapidly through processes of mimetic isomorphism. As the former colonies gained independence in the 20th century they became incorporated into the international state system and declared conformity to a worldwide model of formal state structure. In the former colonies, there is often higher degree of decoupling between formal models and observable practices than in the West. The prevailing patterns of domestic and international resource-dependencies, social identities and informal institutions have often been inconsistent with the formal structures adopted. In other words, the specific kind of domain consensus, required for the formal model of state structure to function as intended, have not been fully institutionalised in many former colonies.

### **The South African Context**

Chapter six concerns the history of South Africa. Unlike other colonies in Africa, South Africa was a settler colony. Yet it differed from other settler colonies such as the USA, Canada, Australia and New Zealand because of the presence of a large indigenous population. The first European settlers in South Africa established a slave economy, which laid the basis for a hierarchical social structure and a corresponding ideology of white supremacy. During the second wave of colonization, the British established a limited version of a liberal-democracy. However, with the advent of the mining revolution, the colonial elite no longer sought to include the black majority in the liberal democratic order. Consequently, they allowed the country's industrialization process to be influenced by the ideologies of segregation and white supremacy, and a racial division of labour was established in South Africa. The growing national economic interdependence, therefore, did not lead to the emergence of a unifying South African national identity. Instead, the informal racial hierarchy derived from the slavery days

became increasingly formalized and enforced by a central administration. At the same time, the white minority was divided into two main factions, British and Afrikaner. The majority of South Africa's black population was continuously excluded from citizenship in the 20<sup>th</sup> century. Still, prior to the Second World War most black South Africans leaders remained loyal to the institutional order and expressed voice in formal ways, since they were confident that they eventually would come to enjoy the same rights and freedoms as the whites. In the post-Second World War era, the domestic political situation became increasingly polarized as a result of the introduction of apartheid, the cold war and the African decolonization processes. The black resistance movement opted for exit instead of voice, and demanded radical institutional transformation rather than inclusion in the existing order, while a large portion of the white minority ceased to believe that a liberal democratic alternative to African socialism or nationalism was feasible. Not surprisingly, the loyalty to the governance regime grew among the franchised white minority, even among those of British descent.

The negative economic effects of the apartheid regime's neglect of black education became increasingly apparent in the 1970s, and a growing part of the population therefore became redundant in the formal sector of the economy. Simultaneously, the resistance to apartheid grew along with the level of violent crimes. When the entire adult population was finally fully included in the formal order and given civil rights in the 1990s, many lived outside formal institutional constraints and lacked the skills required to participate in the formal economy. Thus, the history of South Africa has left a path-dependent structure of fractured and inconsistent institutions and social identities, as well as a highly unequal pattern of resource-distribution.

Chapter seven describes the development of a new policy framework after the democratic transition. A liberal democratic framework with a strong element of networked governance was introduced in South Africa in the 1990s, a governance system that is largely a product of mimetic isomorphism. Policymakers drew inspiration from the third way doctrine and from other international governance trends. Local governments have been given a key role with regard to the promotion of socio-economic development, and as part of this strategy, an Integrated Planning Model similar to the British joined-up government model has been introduced. In accordance with the IDP model, the responsibility for development planning and implementation is devolved to the local level while the powers over overall policymaking and financial control are concentrated at the national level. The networked governance framework, of which the IDP model and the LED policy are central components, is based on a vision

of what may be called ‘consensual micro-corporatism’. Accordingly, private and civic sector representatives are to work in partnership with the public sector to promote local socio-economic development.

### **Synergies, Stalemates and Social Dilemmas**

Chapters eight and nine concern the outcomes of the introduction of a networked framework of governance in a South African context. Three types of outcomes were triggered in the wake of the introduction of a networked mode of governance in the case study localities; synergies, stalemates and social dilemmas. In first type of outcome, synergy, the nodes in the planning and implementation network established a shared sense of interdependence and/or, they identified a sense of common purpose by invoking inclusive social identities through which they were able to articulate a common interest in achieving governance. All actors involved were used to operating according to similar formal procedures, and they shared similar situation definitions which allowed domain consensus to be reached. This enabled the formation of complementary relationships in the planning and implementation chain.

The first type of outcome is exemplified by the Dordrecht Cheese Factory. In this case, a synergy of public and private interests emerged on the commercial farming side of the project. The DDFA leader’s multiple identities as official, farmer and former development worker enabled him to forge a planning and implementation network in which cooperation of all the nodes was achieved. The nodes were either interdependent in some way, or committed to the project for different reasons. Moreover, most of the actors involved shared a similar “developmentality” which enabled domain consensus. The project was also firmly established as a legal entity, and in this way the nodes became united around a formal institutional structure. Ultimately, the DDFA, the government and the twenty people from the locality who were employed by the dairy, gained in different ways from the project.

In the second type of outcome, stalemate, the nodes did not identify a common cause or a shared sense of interdependence. Neither did they have similar expectations that allowed domain consensus to be reached. While they were linked together through formal meeting points, they lacked incentives to cooperate. As a result, the planning and implementation process deadlocked.

This type of outcome may be illustrated by the IDP meetings at the local and district levels. The IDP processes produced stalemates since the meetings were too wide-ranging to be effective, and there was a lack of domain consensus as to the respective roles of the public and the private sectors in LED promotion. The lack of domain consensus was related to

the prevalence of exclusive collective identities. For instance, some black politicians viewed white businesspeople as immoral and narrow-minded, since they were considered to be entirely focused on the profitability of their businesses rather than the common good. Moreover, few participants were interested in, or capable of, developing long-term visions for the municipality. The separate LED arrangements also produced stalemates. The members of the Tourism Steering Committee did not identify themselves as interdependent. It therefore seemed as if participation in the committee had become an end in itself, and the participants consequently lost interest. By contrast, the business chamber representatives in the Mayoral Business Forum had an interest in achieving governance since they were dependent on the services provided by the municipality. However, the municipal leadership did not want to discuss service delivery matters in an LED forum. The arrangement was thus not established as a transaction domain. There was also a lack of collective identification between the parties, which hindered the articulation of collective interests.

Neither the IDP processes nor the separate governance arrangements enabled collaborative governance in LED. As a result, five years after the introduction of developmental local governments, the IDP processes had become formal obligations rather than functioning decision-making arenas. LED projects were therefore planned and implemented on an ad hoc basis without guidance by an integrated development plan.

In the third type of outcome, social dilemma, the establishment of a public-private link, through which development funds were channeled, triggered discontent in the local community on the part of those citizens who did not get access to funding. Due to the lack of domain consensus and well-established formal procedures, the public and private actors involved in the resulting conflicts were drawn into a pattern of interaction in which they all employed informal and illegal methods to pursue their conflicting objectives. Consequently, they were all left worse off.

This type of outcome is exemplified by the Rags to Riches Vegetable Garden case in which the District Municipality's involvement in the project gave rise to a social dilemma-like situation. The channelling of government funding to the vegetable garden triggered a conflict between the leader of the project and the ward councillor, revealing a profound lack of domain consensus. The ward councillor wanted to exert influence in a venture regarded by the project leader as a private business. All involved in the affair acted beyond formal legal constraints and procedures. The municipality then appointed a person to dismiss the project leader and summon a new project committee, but it had no formal authority to do so, and it thereby became clear that representatives of the government could

act in arbitrary ways with impunity. At the same time, the project stalled and the garden was abandoned. Consequently, the project members lost their livelihood while the government lost legitimacy and credibility. All actors involved in the debacle thus lost out.

On the basis of these results, it is possible to draw some preliminary conclusions regarding the preconditions and implications of the usage of networked modes of governance. These conclusions will only be valid in a more general sense to the extent that they are validated through further research. That networked governance seems to require domain consensus has been established not only among the nodes in the governance network but also in the wider society. A governance network may otherwise be seen as benefiting only narrow special interests. Networked forms of governance also require either mutual commitment derived from a shared sense of common purpose, or mutual opportunities that generate interdependence of the actors involved. Ideally, the opening up for direct participation of private actors in local policy-making and project planning entails the forging of networks in which private interests and wider public interests coincide. However, there are considerable risks involved in the usage of networked modes of governance, especially in a developing country context. Unless the above mentioned conditions are at hand, networked forms of governance may at best result in stalemates. At worst, they may unleash social dilemmas and other 'counterintended' consequences.

## **The Quest for Developmental Democracy**

As revealed in the case studies and furthermore supported by other studies, the introduction of a networked model of governance in South Africa laid bare several contradictions that gradually developed. Firstly, although the policy framework was designed to optimize flexibility and promote cooperation, it did not follow that people were able to make use of these opportunities. The actors involved in planning and implementation, whether public or private, did not always know how to work together. There was a lack of clarity on the roles and responsibilities of the actors involved, indicating that the formal governance arrangements were not established as transaction domains. Other research suggests that this problem is widespread in South Africa. Similarly, the policies on LED are vaguely defined in the policy documents. As this thesis shows, it was not clear what was to be discussed under the label of Local Economic Development. The actors involved in LED-promoting activities had very different ideas of the meaning of the word "development". While some policy-makers regarded



LED as a way of promoting synergies and win-win opportunities between different community groups and the formal business sector, others viewed the pro-poor and the pro-growth objectives as mutually exclusive. The latter group was inclined to channel funding to informal cooperatives that were assumed to be held together by shared communal values, while it was more reluctant to forge links with formal sector entrepreneurs. Thus, it proved difficult to reconcile the pro-poor and the pro-growth objectives that were part of the LED policy. This difficulty reflected a contradiction inherent in the policy framework. On the one hand, the system allows a great deal of local political control over the precise design of developmental measures. On the other, the local governments are expected to launch LED interventions in line with national economic goals. However, neither officials nor local politicians necessarily agreed with the pro-market approach of the policy-makers in Pretoria. Some saw LED as a local political concern rather than as a matter of realizing national goals. In other words, there was a lack of both goal and domain consensus among the actors involved in development promotion activities. Reconciling the logic of democratic decentralization and the logic of the developmental state, operating in accordance with the Washington Consensus, seems to have been easier said than done.

Another challenge is that networked modes of governance, of which the IDP model and the LED policy are examples, rely upon the summoning together of public, private and civic actors on the basis of some kind of mutual interest in achieving governance around a particular project or issue. Like any open organisational system, networked governance systems are reliant on consent and on the participants' motivations (Scott, 1987). While liberal democratic governance relies upon the recognition of interdependence on a higher and more abstract level of aggregation, networked governance presupposes direct, micro-level forms of interdependence. The increasing prevalence of networks that cross the public-private divide in the OECD countries have emerged from an increasing interdependence between the public and the private sectors in local policymaking and planning. In such circumstances, public-private networks have evolved because there is a mutual interest in achieving governance. In South Africa, networked governance is a formal obligation. Thus, public-private networks are not merely allowed to be forged spontaneously whenever a non-government actor shows an interest in achieving governance. According to policy, officials are obliged to establish links with non-government actors to promote development. The problem is that this obligation was not necessarily matched by genuine interest in developing the locality. It appears as if both public and private sector actors often did not have sufficient incentives to achieve developmental governance. According to

other research on integrated development planning, the lack of engagement in development planning and implementation on the part of both public and private sector actors is a common problem in South Africa.

I found that several projects had been created by government representatives on behalf of 'beneficiaries' who were not sufficiently motivated to take ownership of them. Moreover, the division of tasks and responsibilities and the lines of accountability were vaguely defined with regard to project planning and implementation. When a project failed it was not clear who bore the ultimate responsibility for the failure. Local officials and politicians blamed failures on the 'beneficiaries' or on officials in the other spheres of government, and vice versa. A further problem was that officials and politicians who were unaccustomed to formal procedures risked being drawn into informal patterns of interaction with target groups that operated in the informal sector. 'Pro-poor' LED interventions therefore risked unleashing stalemates and, at worst, social dilemmas if the nodes in the implementation networks lacked shared rules and domain consensus.

On the basis of these results, it seems as if the introduction of a loosely coupled, networked organisational structure of governance in South Africa has made local governments not only more flexible but also more unpredictable. The new system of governance provides plenty of room for manoeuvre for officials and politicians with very different backgrounds and ideas of development. As a result, they are inclined to support inconsistent and often incompatible development measures.

Furthermore, the use of targeted development interventions to alleviate poverty may be highly problematic in South Africa. The main problem is that only a selected few are provided with grants or given access to the public-private networks in conjunction with a development intervention. Using targeted grants to reduce poverty is likely to be inappropriate in a context where many lack access to universal welfare benefits, since this risks creating resentment on the part of all those who do not get access to the targeted benefits. Thus, in settings where a considerable section of the population is not integrated into a formal welfare regime based on individual social rights, targeted interventions may generate various kinds of group conflicts. If the aim is to simultaneously reduce poverty and increase the legitimacy of the government and the respect for formal sector procedures, it may be unwise to use targeted interventions. It is reasonable to assume that the legitimacy of governments relies on the perception that its representatives act justly. Distributing relatively generous grants in a seemingly arbitrary manner may not only seriously damage the legitimacy of government. It may also bring about severe unintended consequences and social dilemmas, as this thesis has shown.

This brings us back to the question of implanting “context-independent” policies and standard models to different settings with different histories and social structures. South Africa has an advanced ‘state of the art’ political system partly based on European reform experiences and policies. Although the European Union and South Africa have adopted similar policies in the area of regional development, the contexts within which they are implemented are strikingly different. The problem is that the networked model of governance which has been implanted in South Africa is not properly adapted to the situation on the ground. Networked models of governance are dependent on the existence of a specific structure of transaction domains in order to function as intended. In Western Europe, networked models of governance have evolved within the framework of century-old political systems where officials, politicians and citizens usually have relatively similar cultural backgrounds, and where a basic level of domain consensus may therefore be taken for granted. In such circumstances even local governments may undertake complex tasks such as promoting economic development. In South Africa a networked framework was implanted practically overnight. Many officials in the new regime had little or no practical experience before they were appointed. Even experienced officials found themselves working in a framework based on a *modus operandi* with which they were unfamiliar. Many local politicians lacked experience of formal politics since they, like the majority of the people, were banned from the formal political system during apartheid. Consequently, it was unlikely that politicians and officials in South Africa would share the ‘developmentality’ required for cooperative governance. Moreover, the South African governance framework has entrusted local governments with a too broad scope of tasks. While the local governments struggle to provide basic public services, they have been given additional tasks that are even more complicated, such as IDP and LED. As Meyer et al (1997, p. 154) note, core countries often have the resources and the capacity needed to both adopt and implement advanced organisational forms, while peripheral countries faced with the same imperatives tend to find it easier to adopt the latest institutional solutions than to make them work effectively.

Another crucial difference between a core country like Britain and a more peripheral country like South Africa is that the majority of the population in the latter is integrated into a formal welfare regime that redistributes some of the wealth created in the private sector. The majority of the people in the OECD countries therefore have an interest in the creation or maintenance of local jobs, since they are directly or indirectly reliant on the vitality of the formal economy. The degree of economic inequality is also lower

than in a country like South Africa. Moreover, social and local economic development policies are strictly separated in the European Union. 'LED' grants are only used to stimulate the local economy in the longer term, not to reduce poverty in the short-term. Although the interventions may provoke debates in the local newspapers, it is easier to justify why they serve wider public interests. By contrast, in South Africa, where a large portion of the population is marginalized from the formal order, it may be more difficult to grasp why an LED intervention serves the common good rather than narrow private interests. Even if an LED intervention succeeds in creating permanent job opportunities, those who do not get a job have to rely on the trickle-down effect. Trickle down effects may be too abstract and too long-term to appeal to the general public. Furthermore, the residents of most South African municipalities are fragmented into different subgroups, and if the government gets involved in a project or an enterprise dominated by one group, it may stir up resentment in other groups. Hence, although synergies of public and private interests may be achieved, there is a risk that this is being seen as a form of 'embedded favouritism' of one group or another, or as mere practices of clientelism and patronage. If the aim of South Africa's current policy framework is to restore the legitimacy and the general trust in the government, it is likely to be counterproductive. Developmental policies must be designed with the wider distributional regime in mind. Introducing targeted social policies in a predominantly informal welfare regime is associated with high degrees of risk. As noted, in the absence individual social rights, targeted interventions may generate various kinds of group conflicts.

The South African local government framework requires a specific domain consensus in order to function as intended. Given its emphasis on cooperative governance, the framework may be appropriate in a harmonious, consensus-oriented society with a long history of peace and stability. However, since this is not the case, it almost appears as if the policy makers have attempted to do away with a range of conflicts inherent in the South African society. The problem is of course that anyone can get a policymaker to eradicate conflicts and contradictions on paper. The real challenge is to build consensus to get policies implemented. South Africa may have 'state of the art' policies, but in the absence of the specific domain consensus required, these policies will not generate the intended results. The South African governance framework requires high degrees of both domain and goal consensus since planning and implementation need to involve a high number of public and private actors located at different levels of society. Goal and domain consensus may be reached here and there, mainly in the metropolitan areas where officials, politicians and private

sector actors are most likely to share a similar 'developmentality'. However, in peripheral areas that are most in need of local economic development, the specific 'developmentality' conducive to cooperative interventions is less likely to be found. Consequently, the uneven spatial development of the country is likely to be underpinned rather than counteracted by the current policy framework.

This suggests that the widespread use of context-independent policy prescriptions and standard models in policy circles and the development sector must be questioned. Policy architects have to know their limitations. Unlike buildings, institutions cannot merely be designed. They have to be collectively accepted by a critical mass of people. In addition, what appears to be context-independent models of governance may in fact be path-dependent outcomes of specific historical sequences. It is therefore a mistake to assume that it is possible for a country to leapfrog to the 'newest' Western governance regimes in the same way as countries may leapfrog to the newest technologies available. Policy experts have to take context-specific factors into account and must carefully consider possible unintended consequences of a policy.

Even more general concepts like state, market and civil society must be handled with caution both in policy circles and in the social sciences in general. The concepts of state, market and civil society tend to be associated with different logics of action, such as legal rationality, profit maximization and voluntariness. What these notions in fact refer to is a set institutionalized practices according to which people invoke different logics of action in different situations according to a certain pattern. This pattern, or rather, this set of interrelated transaction domains, does not exist a priori. It has to be institutionalized. A formal legal order that serves to uphold government agencies, parties, civic associations and private enterprises as legal entities only exists insofar as it is reproduced through recurrent practices. As noted in the case studies above, it became clear that such practices could not be taken for granted in the municipalities selected for this investigation. Government and non-government actors alike sometimes disregarded formal patterns of interaction. In such cases 'state', 'market' and 'civil society' were not established as institutionalized practices. What did exist was a set of interrelated actors with different identities and interests and differential access to various power resources. Assuming that politicians, officials and citizens act in similar ways across a wide variety of contexts can therefore be misleading. The conceptual triad of state, market and civil society may lead scholars and policymakers to ascribe similarity to different social phenomena by drawing conclusions from one specific

setting and applying them to others. The problem is that the concepts may then serve as masks preventing “our seeing political practice as it is” in different contexts, to repeat Philip Abrams (1988, p. 82) words.

If policymakers and scholars uncritically employ theories developed in different social science disciplines that focus on political (state), economic (market) and social (civil society) aspects separately, they will risk making flawed analyses. Experts from fields such as political science and economics may come up with policy solutions that seem perfectly rational from their specific viewpoint. However, when they are assembled into a single framework, people have to act in accordance with the behavioural expectancies inherent in each of the different theories upon which the framework are based, if the system as a whole is to work in line with the visions of the reform architects. If they do not, that is, if the domain consensus implicitly required does not exist, various kinds of governance failures will most likely follow. To avoid such fatal mistakes, policy-makers should rely less on context-independent theories and concepts and more on context-sensitive analyses. Moreover, economic, political and cultural dynamics should not be analysed separately but in concert. Policies and institutions must be designed to fit different contexts, which implies that context-specific patterns of resource-dependencies and social identities as well as both formal and informal institutional structures, ought to be taken into account to a greater extent by policymakers in the development sector.

According to the analytical framework presented in this thesis, the character of a governance regime is affected by the distribution of needed resources. The more widely dispersed sought-after resources are, the greater the need to include a wider group of people in the governance regime. This means that the nature of governance will be different in an area where natural resources, skills, knowledge and capital are widely spread than in areas where they are concentrated in the hands of a few. If an area is characterized by a low division of labour and a low degree of exchange between the units of production, there will be no structural interdependence among them, and, consequently, no need for governance, as Hydén (1983, p. 6) points out. Extensive forms of governance tend to require people to be structurally interdependent and incorporated into a formal legal order. People’s actions can then be steered and coordinated by means of laws and macro-economic management. When people are not structurally interdependent or large portions of the population are marginalized from the formal sector, governance is difficult to attain. Finally, the characters of the social identities through which collective interests are defined and articulated affect the nature of governance. Different societal interests may

be mobilized on the basis of class, status groups, ethnicity, gender, kinship etc. The kind of social identities that people invoke in political contexts is of crucial significance to governance.

A standardized policy or governance framework can be expected to trigger very different outcomes depending on the character of the social landscape in which it is implemented. Similar policies and frameworks are likely to produce different outcomes in contexts where valued resources are widely dispersed, where the majority of the people are incorporated into, and dependent on, a formal legal order, and where the main societal interests are mobilized into parties and civic organisations on the basis of inclusive, 'horizontal' collective identities, than in settings where valued resources are concentrated in the hands of a small elite, where large parts of the population are marginalized from the formal sector and where the principal societal interests are mobilized into patron-client networks on the basis of narrow, exclusive identities. In such different contexts, outcomes may be poles apart.

## **Democratic Governance**

Markets, states and civil societies form part of institutional orders consisting of interrelated transaction domains that affect how collective concerns are addressed and how resources are produced and distributed. Democracy can therefore not be understood merely in substantial terms. In this view, democracy exists in a country when there are free and fair elections, a free press and a constitution providing for civil rights in place. This perspective may neglect the significance of democratic governance, that is, democracy as a matter of coordination and conciliation of interdependent activities via institutions. From a governance viewpoint, democratic processes are not analysed in isolation from patterns of resource dependencies and prevailing socio-political identities. Democratic governance can be seen as an interplay of individuals and groups held together by structural interdependence and a set of common institutions and identities. Formal democracy is not the same as democratic governance. Democratic governance requires different societal interests to be conciliated in such a way as to generate cooperation and win-win solutions, at least in relative terms. Formal democracy in itself does not necessarily entail governance. A formal democratic structure, however inclusive it may be, merely enables political exchanges. It does not guarantee that they will result in optimal or 'rational' outcomes. The output of democratic decision-making tends to be determined by the degree of diversity in normative and political interests and the relative bargaining strength of

the parties involved. Depending on how people and groups are organized and interrelated (in terms of social identities and resource dependencies), this thesis suggests that interaction within formal democratic structures may produce synergies, stalemates and social dilemmas.

To illustrate this point, the triad of synergy, stalemate and social dilemma can be said to represent three typical outcomes that correspond with the concepts of loyalty, voice and exit. People may remain loyal to the rule of law and use the formal channels of political interaction to express loyalty or voice, that is, support for or resistance to various public and private activities, or they may exit the formal order and engage in informal or illegal activities. Alternatively they may raise their voices and demand new forms of representation or additional civil rights. However, in case the views that are voiced are too divergent, or if the parties involved are too focused on narrow special interests and, thus, unwilling to act rationally on a higher level of aggregation in accordance with wider collective interests, democratic decision-making processes are likely to generate stalemates and inaction. Synergetic, democratic governance requires not only institutionalized channels for political exchanges and a broad acceptance of the formal rules of the game. The parties involved in political exchanges have to identify themselves as interdependent and develop conciliatory attitudes to reach mutually acceptable decisions from which they all may benefit or at least not lose out too much. Governance, in this sense, is a relational process in which different actors and organisations pursue their own goals and retain their autonomy, while they simultaneously orient their actions toward common outcomes. It relies upon social circumstances where cooperative behaviours can be expected and met (Scott, 1987).

A main problem in South Africa is that the introduction of formal democracy has not been accompanied by the emergence of democratic governance. As noted, the ANC leadership in government tried to pursue its macro-economic policies unilaterally and attempted to achieve cooperative governance by appointing officials and politicians that were loyal to their development agenda to key posts at all levels of government. Yet, it failed to reach consensus on its development agenda. The main powers of South African national politics have been uncompromising. After more than a decade of co-rule, neither goal consensus nor domain consensus was reached within the ruling elite stratum. The partners in the tripartite alliance resisted ANC's macro-economic policy and they did not accept the subordinate role that the ANC leadership gave them. As a result, the main political forces of South Africa entered into a conflicting rather than synergetic relationship. South African politics has remained



polarized after the transition. Due to the lack of agreement within the elite stratum, the ANC could not pursue its development agenda, which relied on a vision of national consensus, in a coherent way. Policies and laws were therefore introduced in an ad hoc manner without concern for their wider implications. While trade was liberalized the government was unable to make the labour market more flexible. Instead, a labour law regime worthy of a European social-democratic welfare state has been introduced. The problem is that even though the economy has grown considerably in the post-apartheid period, the employers have become reluctant to employ unskilled workers. Consequently, the unemployment level has increased. The post-apartheid growth path has therefore mainly benefited labour market insiders and an increasingly multi-racial middle class, while it has continued to marginalize a huge number of people that lack the skills needed to get formal sector employment.

Economically the post-apartheid order is a continuation of the late apartheid regime. A large section of the population that were marginalized from the formal sector of the economy during apartheid has not become fully included in the formal order after the democratic transition. Many therefore live beyond the formal order and have engaged in the informal economy and/or various illegal activities. At the same time, the ballot box has not functioned as a channel for voice due to the lack of electoral competition. Dissatisfied South Africans have tended to abstain from voting. Others have taken unofficial actions to express voice. As a result the voter turnout and electoral competition have decreased despite the fact that many were discontent with the incumbent government. This indicates that the formal channels for political expression are not fully institutionalized as checks on executive power. While the main political forces of South Africa have entered into a stalemate and pursued inconsistent agendas, the high rates of crime and emigration indicate that many South Africans have chosen some kind of exit strategy in relation to the formal institutional order.

At the local level, the performance in terms of governance is a mixed bag of results, as we have seen. The transformation of the public sector and the accompanying political appointment of politicians and officials have impacted negatively on the competence of the public administration. In the wake of the post-transition turmoil, mismanagement and corruption have followed. Moreover, as already noted, the new system of governance has provided officials and politicians with very different backgrounds and ideas of development with a high degree of freedom of choice with regard to development support measures. The character and outcomes of local governance processes therefore differ considerably across South Africa.

While the larger South African cities are promoting LED strategies similar to those of European and American cities, many smaller municipalities have had difficulties achieving governance in LED. This thesis indicates that the lack of goal and domain consensus may be an important reason for such failures. As noted, it seems as if it has been easier to reach goal and domain consensus in the metropolitan areas where officials, politicians and private sector actors are most likely to share a similar 'developmentality'. Thus, the introduction of a networked framework of governance seems to have contributed to the uneven development of South Africa.

Democratic governance requires a certain degree of cognitive homogeneity. Moreover, in order to forge a political culture of cooperation and pragmatism, it is reasonable to assume that people must not lose out too much. The establishment of widely cooperative relationships is therefore likely to go hand in hand with the development of inclusive distributional regimes. Democratic governance (in a 'mass society') requires people to develop stakes in the formal order in the form of ownership interests and/or claims to civil and social rights. Consequently, if a formal democratization process runs parallel with a transformation of the economy that marginalizes large sections of the labour force from the formal order, as in South Africa, it does not bode well for the consolidation of democratic governance. The marginalized, who were not fully included in the formal order before democratization, risk remaining in the margins and engaging in various informal and illegal activities over which the democratic order has very limited influence. While the formal institutional order weakens, the ensuing lack of consent as to norms, rules and patterns of exchange makes the social landscape vulnerable to social dilemmas. Alternatively, the marginalized may voice their grievances by electing political leaders who take radical actions that compromise economic growth and stability. In other words, there is no straightforward causal link between economic growth and democracy as implied by the good governance agenda. The interplay between the two is complex and by no means certain, as Ferguson points out:

(...) the idea that there is a simple causal link from one to the other – in particular, from capitalism to democracy – is mistaken. One version of the relationship does indeed produce the happy outcome of the capitalist democracy: the double helix of Western Development. But like DNA, the cash nexus is capable of mutation. Sometimes democracy can stifle economic growth. Sometimes an economic crisis can undermine a dictatorship. Sometimes democracy can prosper even as the economy flounders. Sometimes growth can strengthen an authoritarian ruler” (Ferguson, 2001, 20).

If the objective of a policy package is to simultaneously consolidate the 'milieu juste' for the market economy, democracy and the rule of law, social and economic policies and institutional designs must be aligned and adapted to context-specific circumstances. Policymakers cannot rely on standard solutions as if they are cure-all solutions for different societal 'pathologies'. Increased public participation in local policymaking, for instance, cannot be expected to boost the legitimacy of governments regardless of context-specific patterns of resource dependencies and social identities. It may be a suitable form of policymaking in areas of the world where the economy is relatively undifferentiated and organized into smaller 'village republics' held together by shared norms. However, in differentiated industrial economies, such as South Africa, where most people have been uprooted from the "moral economy of the peasant" and where the "identityscape" is fragmented, public participation in local policy-making may be perceived of as a form of favouritism by those who do not get access to local policy networks. The lesson to be learned is that channels for political exchanges must be modelled in ways that correspond with the context-specific ways in which people and groups are organized and interrelated. Moreover, policies and institutions must be designed and aligned in ways that promote democratization and formalization simultaneously. In order to sustain democratic governance regimes, economic transformation processes must be met by corresponding processes of economic inclusion of those who risk losing out, either through labour market reforms, the introduction of welfare benefits, or the introduction of tariff protections, in order to sustain the rule of law. The latter alternative would of course entail that the pursuit of optimal economic growth is sacrificed on the altar of formalization.

Although there are many good reasons to celebrate the spread of formal democracy across the world in the last few decades, we may have to restrain our enthusiasm and look at the character of the new democracies. If, as some scholars have argued, there is a widespread disjuncture between democracy and inclusive growth, new democracies like South Africa will function differently from the Western democracies (Mhone, 2003, p. 38). The spread of networked forms of governance has also contributed to changing the character of politics. As this thesis has shown, networked forms of governance may trigger very different effects in different institutional contexts. If democracy is to generate positive effects, the popular majority has to be included in a formal order in which civil and social rights are upheld in practice and not only on paper. The problem is that if democratization processes are not accompanied by inclusive growth paths and ensuing processes of formalization, large sections of the people risk remaining trapped in informal orders characterized by a lack

of governance and social dilemma-like relationships. In environments where people lack legal protection, using the ballot box to try to alter laws that nobody obeys anyway may seem futile. If the decisions made through democratic decision-making processes are not collectively binding, the democratic order is endangered and risks losing its legitimacy.

The South African transition from apartheid to liberal democracy has been accompanied by a rapid increase in crime and a decreasing voter turnout. While the skilled and the well-connected may enjoy being part of an increasingly efficient, multi-racial governance regime, the 'surplus people', i.e. those who lack requisite skills or social capital, remain in the margins of society. Although the causes of the increase in crime and the decreasing voter turnout after the democratic transition are many and complex, these tendencies indicate that many South Africans have left the formal order, instead of raising their voices through the formal channels of political expression or remaining loyal to the rule of law. South Africa's quest for developmental democracy is therefore fragile. The outcome may well depend on which one of the mechanisms of synergy, stalemate and social dilemma gains the upper hand.

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