

# Unlocking township markets

## Overview

# Key issues for discussion

- Expanding the concept of markets to consider how to make markets work for the poor
- Land Markets
- Improving the property market
- Township markets and township economic development
- Goal of township economic development
- Area based interventions in relation to other, non-spatial interventions targeting economic growth
- Outcomes of township economic development
- What is needed to achieve township economic development and what role can government play?

# Introduction

- Practitioners need to be aware of the different markets operating in townships and how they work, to recognise that their activities impact on these markets and thus on the economic development of townships, sometimes in unintended ways.
- Township renewal involves using a range of measures to turn around development in townships, resulting in an increase in residents' incomes and asset base.

# Structure of the day & workbook

- Section 1: Overview
  - Nature of markets, how they operate, how public and private sector actions can improve how well they function.
  - Goals of township economic development, area-based interventions in relation to other non-spatial interventions, desired outcomes of township economic development.
- Section 2: Township labour market competitiveness
- Section 3: Township residential property markets
- Section 4: Township commercial property markets

# Market definitions (1)

- **Market** - a set of arrangements by which buyers and sellers exchange goods, services or information; involves the interaction of demand and supply.
- Markets consist of:
  - **institutional foundation** (laws, rules, regulations, enforcement)
  - **organisations which provide services** (banks, financial institutions, loan sharks)
  - **support organisations** such as audits, legal, IT, and market research.
- **Market system** - “the multi-player, multi-function arrangement comprising 3 main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, representative organisations, civil society) through which exchange takes place, develops, adapts and grows”.

# Market definitions(2)

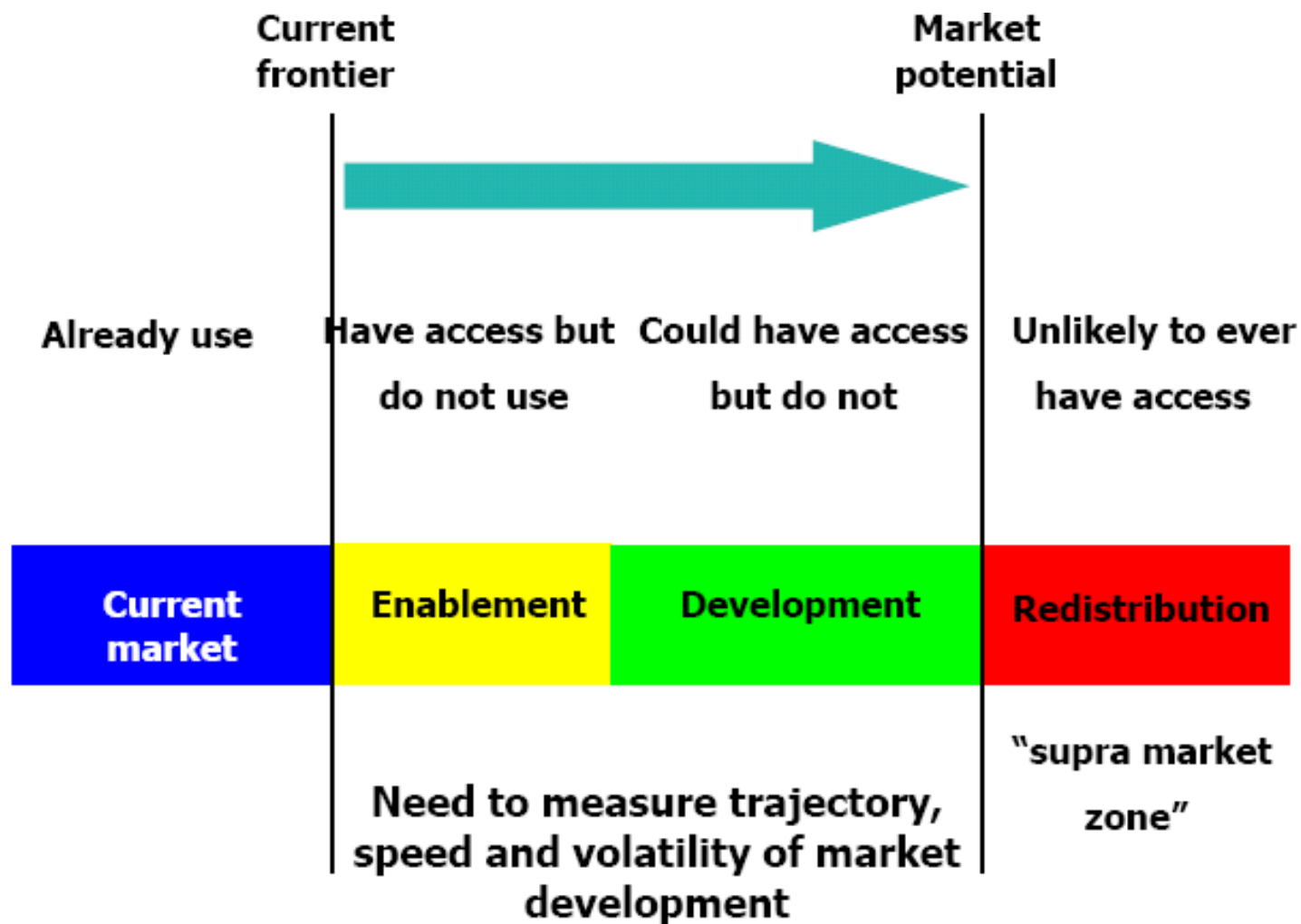
- ***Transaction costs*** – costs of doing business, overcoming challenges of accessing information, getting to market (finding buyers), complying with regulations. They indicate the efficiency of a market and are a function of institutional development.
- **Institutions** – organisations which help defraying risk, making information available, maintaining and enforcing standards, and protecting consumers

# Failure and distortion

- Market failure occurs when the market fails to distribute resources efficiently, such as cartels
- State regulations and other interventions are often said to be “distorting” the market.
- This generates debate between the private and public sectors about what is market failure and when the state should intervene to improve distribution and competitiveness.
- This is also the case with the distribution of land and housing, and with the regulation of businesses.
- Both the private sector and the public sector have positive roles to play, which should lead to economic growth and less poverty.

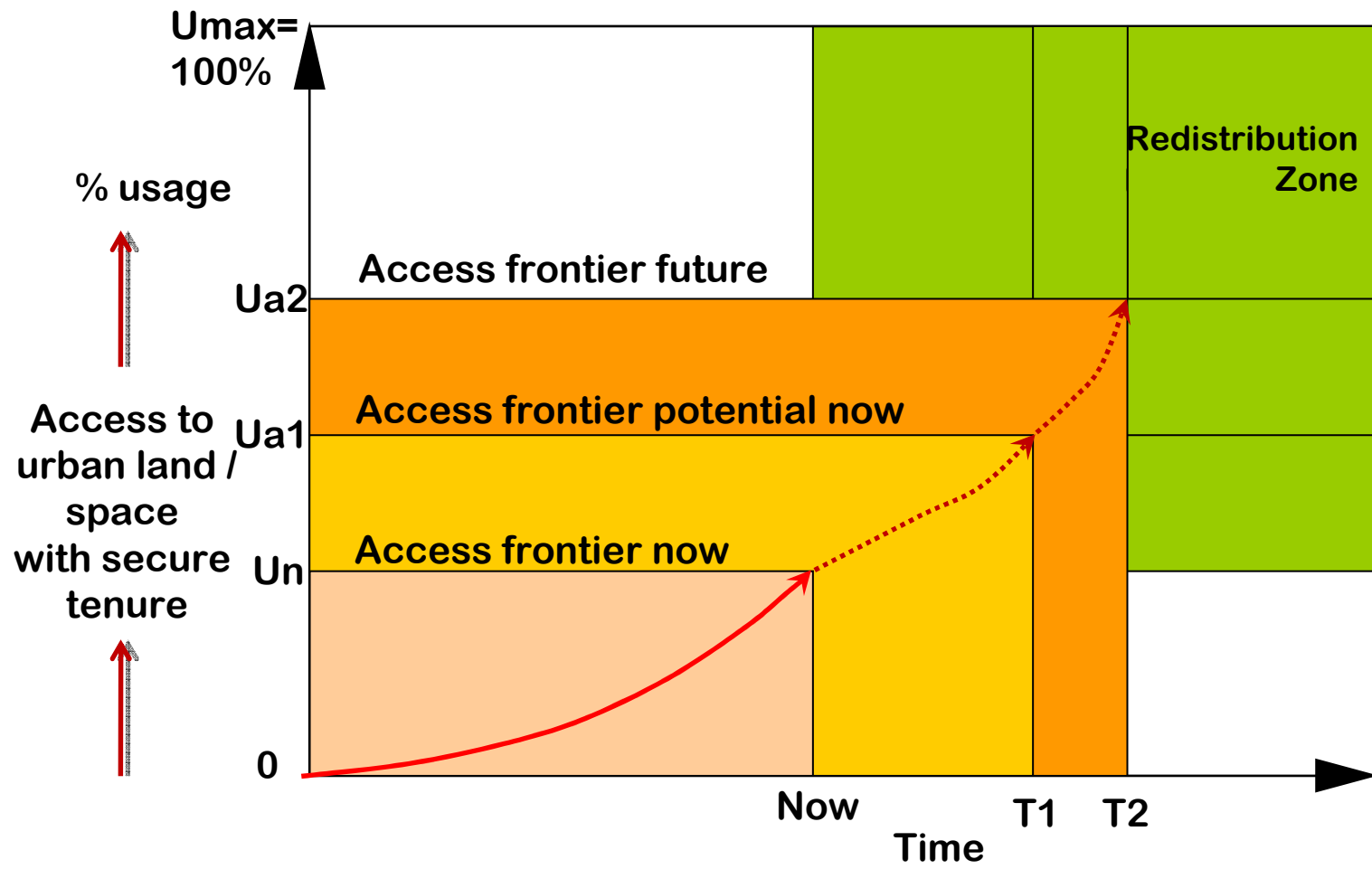
# Access frontier (1)

- Defined as the current maximum proportion of people in a society who could access a product or service, given the current configuration of costs and market structure
- Segments the market for a product into four groups:
  - those who use it now,
  - those who could have it but don't want it,
  - those who are within the reach of the market now and in the foreseeable future if changes were made in the environment,
  - those outside of the reach of the market due to poverty



# Access frontier (2)

- Focuses on how to increase the proportion of the eligible population who can access a product or service, such as land or urban services. This requires understanding why people are not using a product or service, and defining effective access carefully.
- Distinguishes three zones in a market, based on the positions of current usage and current and future access frontiers:
  - market enablement zone,
  - market development zone
  - market redistribution zone



# Access frontier (3)

- There is a need to move the current access frontier to include more users.
- In a healthy market, the frontier will move outwards over time, bringing new consumers into the market
- Policies need to be developed to ensure that the frontier is able to move outwards to increase the number of people served
- Attention to how people make transition from redistribution zone to interaction with formal markets and state administration

# Redistribution zone

- Those consumers who are beyond the reach of the direct market due to poverty
- The state needs to concentrate in this zone. Interventions include investing directly in urban infrastructure, good planning, skills development etc, and regulating the market and incentivising market players where it is not functioning well. Allocation of resources in the control of the state.
- State intervention can have different impacts. “If the action of the state effectively crowds out private provision for all time, then the access frontier becomes a ceiling; and that market cannot work further for the poor. The state has effectively locked itself into the long-term fiscal burden of provision. But, if the state intervention can meet the needs of the very poor, while maintaining the incentive for private firms to push the access frontier, and remove barriers to market development, then the state is designing its own exit strategy and limiting its fiscal liability”, which is desirable.
- The state does **not** need to intervene directly in markets, but to ensure that its investments are based on an understanding of the markets, and facilitate more people engaging in the markets.

# Making Markets Work for the Poor (M4P)

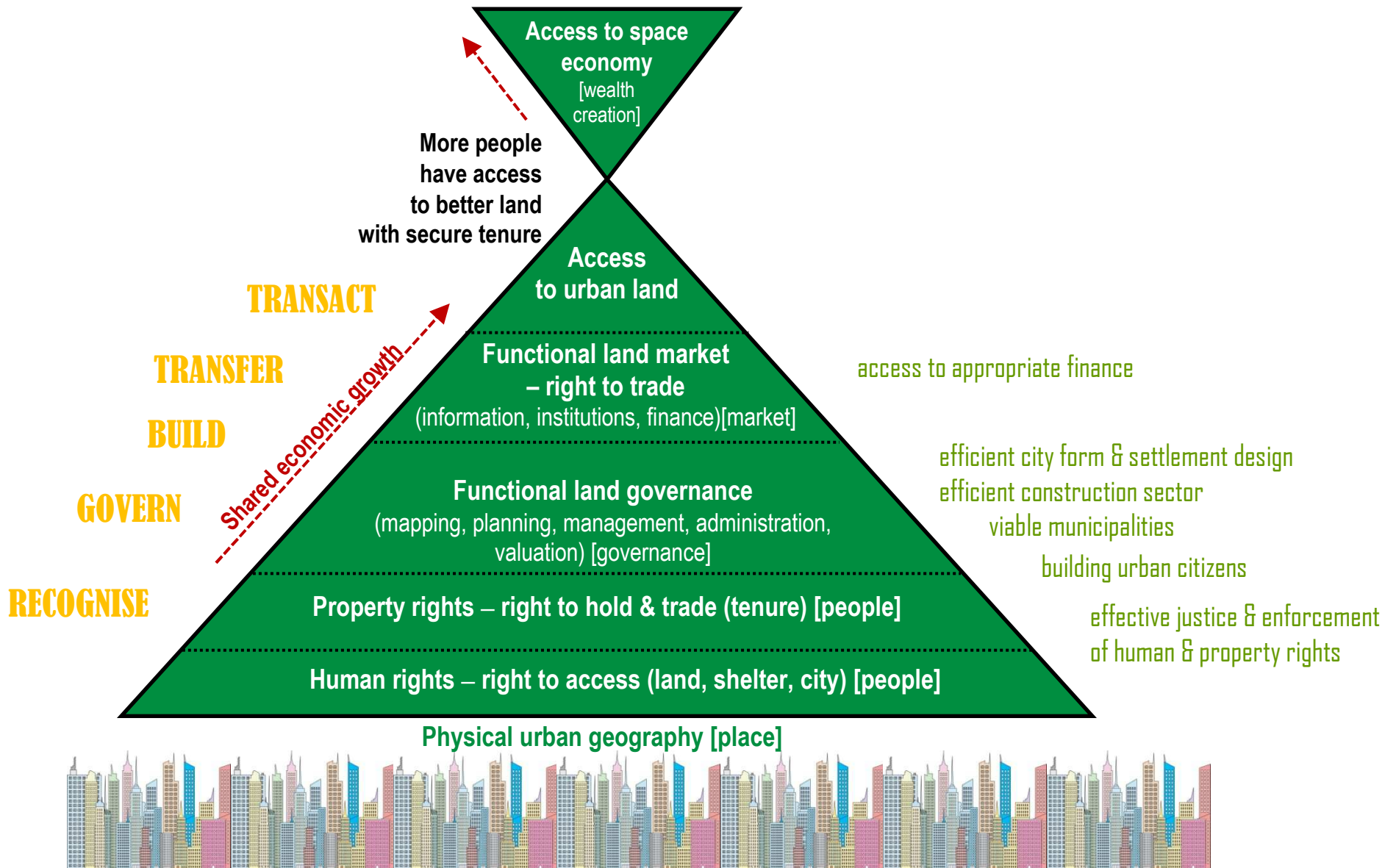
- M4P aims to expand poor people's choices, it establishes where the poor are in markets, tries to understand the complexity of markets, builds realistic plans for how markets can work more effectively in the future, and sets out to address key impediments to a better functioning market.
- M4P goes beyond the efforts to promote market efficiency “to harness the power of markets to provide goods and services to poor people on a sustainable basis”.
- Indicators of success are that usage by the poor is increasing, that the poor have alternatives, and that the market in the service is acceptable.
- Markets need to be harnessed to work for the poor. Involvement of the private sector in opening up markets is important in poverty reduction.

# M4P (2)

- M4P highlights **both monetary and non-monetary** forms of exchange, i.e. market systems.
- As State action can **consciously or inadvertently** affect the market system, the rules, both formal and informal, and information within the markets need to be understood. Thus, aside from direct provision of services and information, state action such as regulation, research and information, can be used to intervene and promote access.
- By addressing the underlying causes of weak performance, this approach hopes to promote large-scale change. Interventions may be small, but should aim to leverage the actions of key market players to bring about extensive and deep-seated systemic change.
- The role of government is a facilitating one that is ideally temporary, catalyzing others in the market system without becoming part of the system directly.

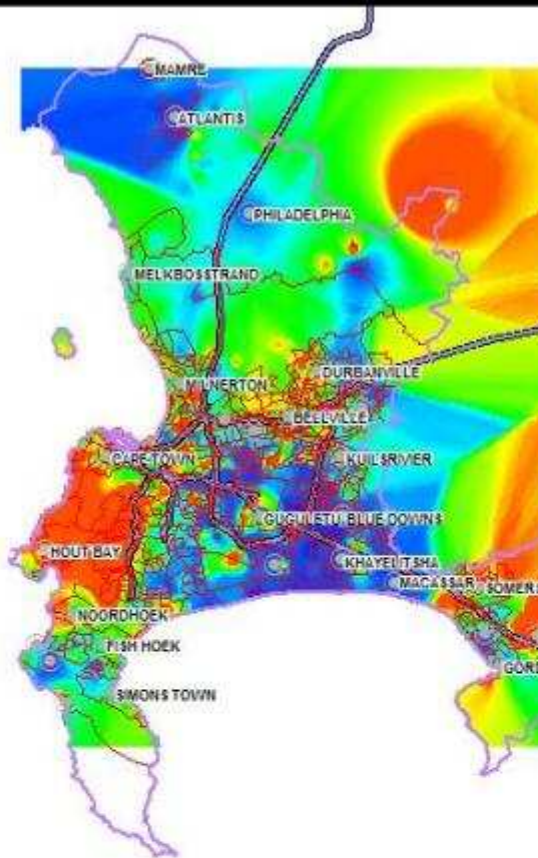
# Improving the property market

- The property market operates within a legislative and policy context that stems from Constitutional mandates around land and housing.
- The Bill of Rights guarantees existing property rights, whilst requiring the state to take reasonable steps to enable citizens to gain equitable access to land.
- It further promotes security of tenure.
- It also guarantees that everyone has the right to adequate housing and that the state must take measures to achieve this.
- Government is responsible for land administration. Ensuring that land is properly administered is key to an effective functioning land market.
- Beyond intervening to change the shape of the market, the public sector should also intervene through instruments that enhance knowledge, skills, relationships and market information of potential entrants to the market. This is critical for establishing a functional land market.
- The state's role is to harness the power of the market and broaden its access to new players. The ultimate goal would then be that more poor people have access to better land, leading to access to the other markets (labour and capital).

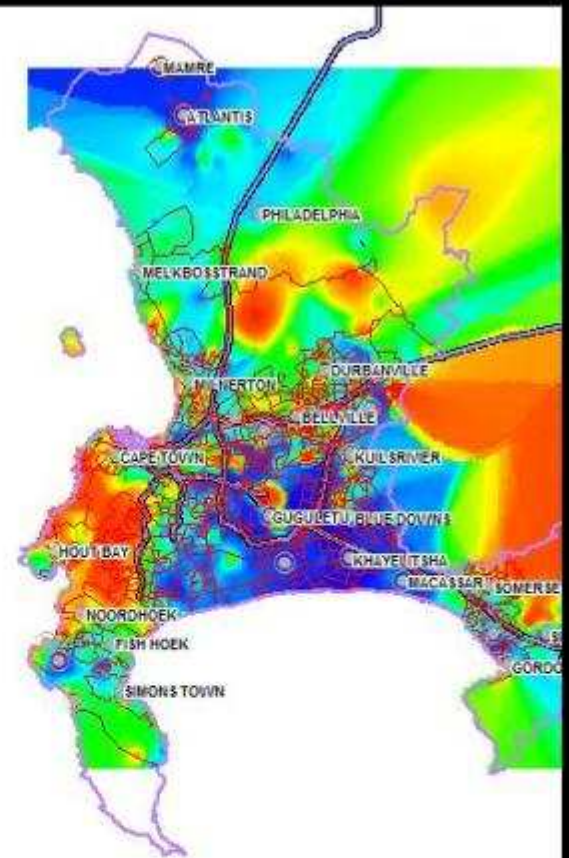




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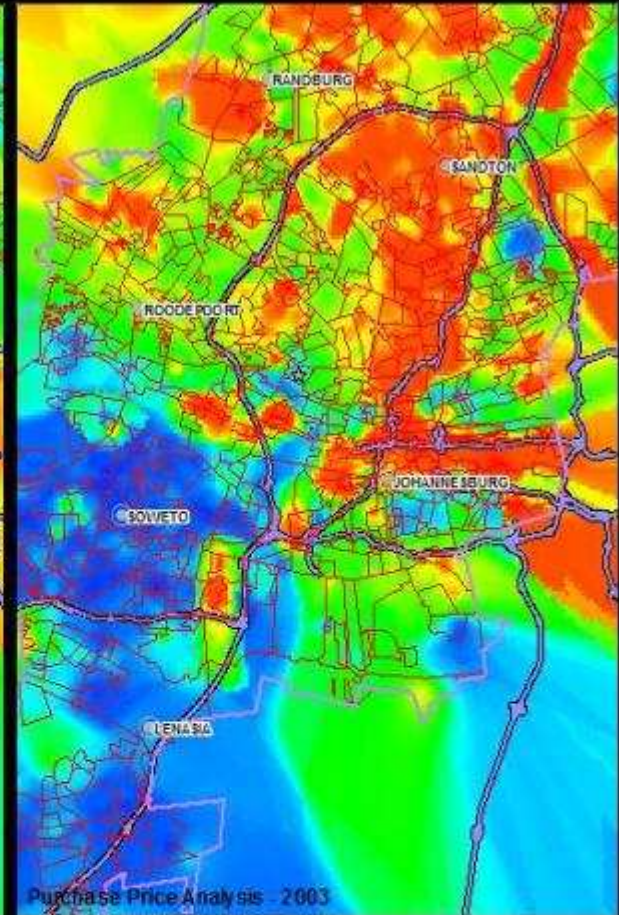
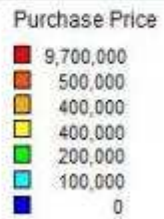
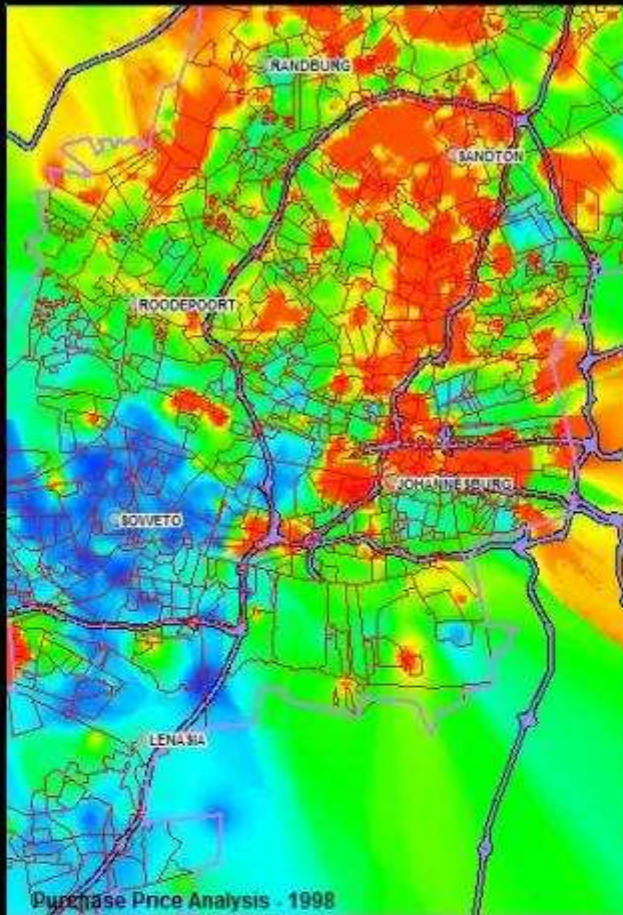


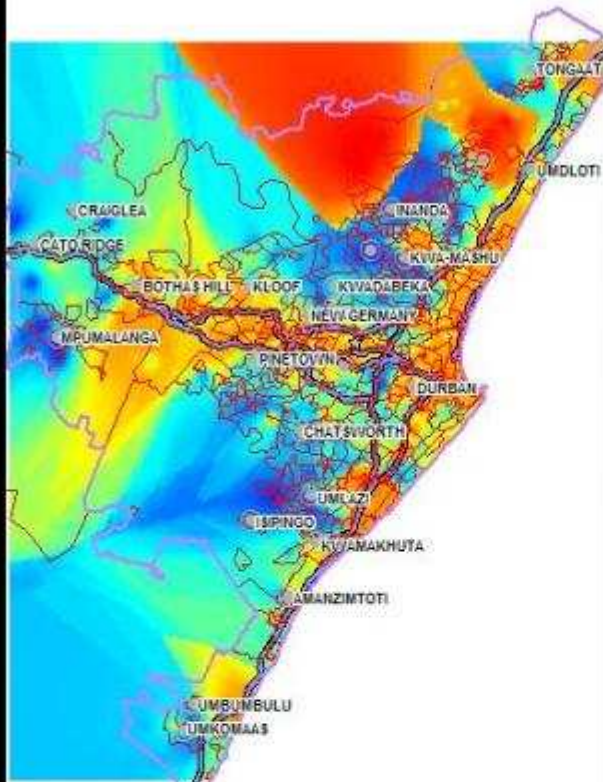
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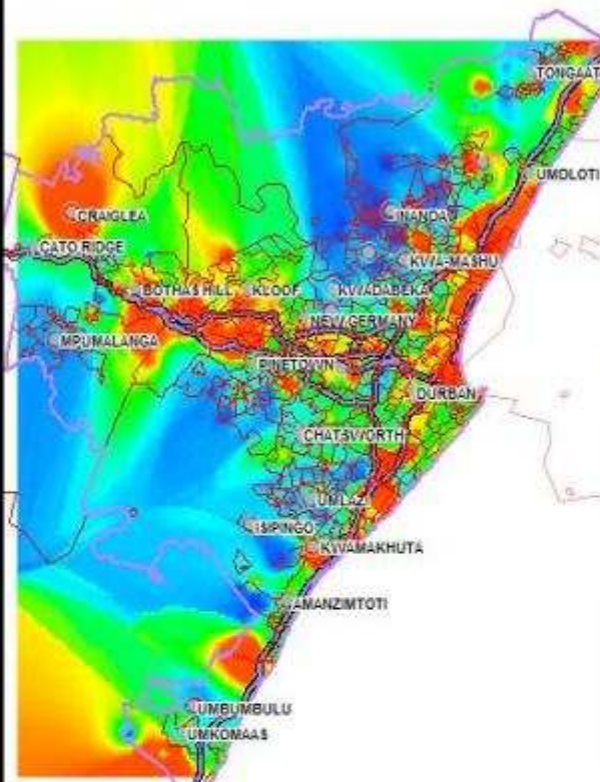
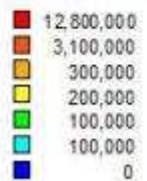






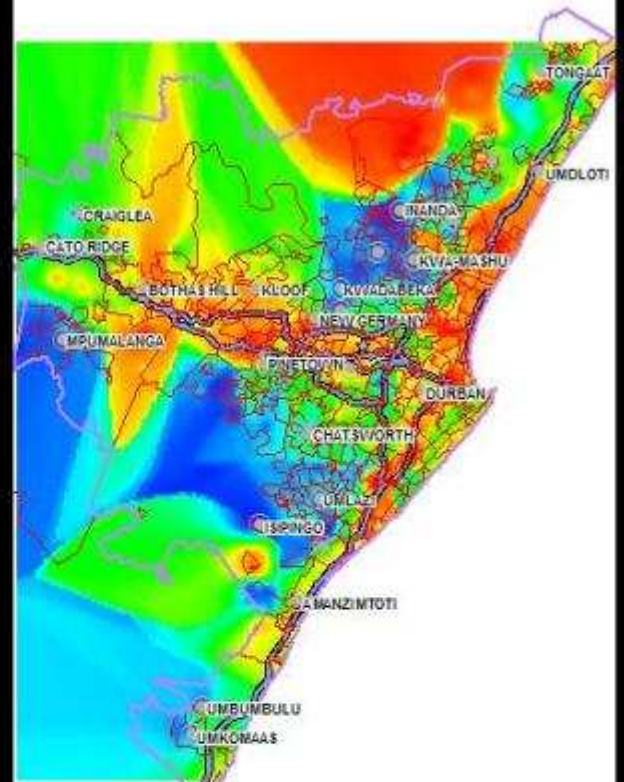
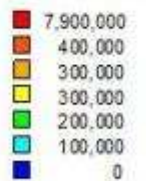
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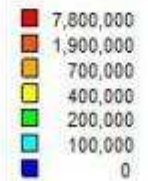
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Purchase Price Analysis - 2003

Purchase Price



# Role of municipalities & the state

- **Planning and land use management**
- **Taxing land values and rating policies**
- **Land acquisition and disposal:**
  - The state has a role in ensuring urban land markets function efficiently for the poor. National government must ensure that an institutional framework for land rights exists and is administered efficiently, while local government must fulfil planning, regulatory and enforcement functions.
  - Policies and interventions need to be aligned, and work with the market, rather than in isolation of it.
  - Public interventions need to be market-enhancing and incentive compatible. This requires introducing market-compatible incentives, legislative simplicity, coherence and certainty and for enhanced affordability at the bottom of the commercial residential market, e.g. through mortgage tax relief for poorer homeowners, introducing finite and declining interest rates for low-end first time buyers, and enhancing incentives in respect of employer-financed housing and accommodation schemes

# Goal of township economic development (1)

- Township economies consist of three aspects:
  - *welfare*, with high levels of dependence on social grants due to high unemployment,
  - *the external economy*, i.e. employment outside the township,
  - *the internal economy*, in formal and informal enterprises
- Within townships, transaction costs are high, education is expensive and can be inappropriate, and the area is physically isolated from the city, with limited access to information and opportunities.

## Goal of township economic development (2)

- Township economic development involves mutually supportive spheres:
  - improving the quality of *residential life*, particularly housing and infrastructure
  - stimulating *commercial activity* - providing high density commercial space in areas with strong footfall close to national retail chains to make local businesses more viable, ensuring increased internal circulation of money, decreasing transaction costs for local residents, focusing on viable commercial and service businesses rather than unsustainable industrial activities, formalising informal business to facilitate expansion and growth.
  - *fostering links* with the rest of the city overcoming apartheid's isolation and improving access (transport infrastructure, electronic connectivity, improved educational opportunities)
- Strategies to promote township development need to address social, spatial and economic exclusion.

# Area based & other interventions (1)

- Economies can be grown in three ways:
  - Creating new enterprises (generates 15 – 25% jobs)
  - Attracting investment from outside (10 – 20% jobs)
  - Growing existing businesses (60 – 80% jobs)
- Spatial and non-spatial interventions are needed
  - Build on local advantages and opportunities,
  - Developing partnerships
  - Integrated action by government, the private sector and NGOs,
  - Invest in hard, soft and institutional infrastructure,
  - Develop strategies to grow and retain local business and skills
  - Provide integrated, multi-sector initiatives.

# Area based & other interventions (2)

- To unlock the markets and promote township economic development strategy needs to include:
  - Developing local capital, human, natural, financial, physical and social
  - Bringing money into the area
  - Keeping money circulating within the township
  - Fostering existing business (i.e. ensuring that they are not disadvantaged by new developments)
  - Maximising local spin-offs from development
  - Integrating into the mainstream economy.

# Area based & other interventions (3)

- Possible interventions:
  - Massive investment in education (ECD – ABET/FET)
  - Development of skills and linkage centres (satellite incubators and mini-hives, buying clubs, marketing clubs and enhanced business networks)
  - Provision of a **range** of financial sources including savings and loans clubs, micro-finance, banks
  - Increased investment in infrastructure and affordable and appropriate services
  - Incremental housing development
  - Development of a commercial and economic hub
  - Improving transport linkages to the CBD, and promoting a transport and industrial corridor along this access
  - Retaining talent and addressing quality of life issues.

# Outcomes of township economic development

## 1. Increasing net township financial flows

- Increasing the demand for township residents in external work, i.e. working outside the township, either by increasing the number of jobs in the city, or improving the competitiveness of township residents so that they can command higher incomes
- Retaining higher income households and attracting new wage earners as residents of townships
- Increasing sales to township enterprises from external markets

## 2. Increasing the internal circulation of money in townships

- Intercepting retail expenditure by township residents at “in township” centres
- Expanding the range and competitiveness of goods and services provided by township enterprises
- Creating property investment opportunities in the township for residents and commercial enterprises
- Increasing the number of jobs within townships

Increasing flows of money into and within townships reduces overall levels of poverty as more people are brought into the functioning market system. If the state enables the necessary supporting structures, the increased flows of income will stimulate markets such as the residential and commercial property markets, and promote overall economic development

# Role of government

- The state can provide the necessary stimulus to unblocking the markets and extending the access frontier to increase access of the poor to markets, and improve the overall efficiency of the market system
- Coordinated support from all spheres of government and policy alignment are key, particularly to ensure appropriate investment in infrastructure and public facilities
- The establishment of an effective technical steering committee, headed by a municipal project manager with the skills and experience and driven by project champions with strong political support can ensure that unnecessary bureaucratic delays are avoided

Important factors in achieving successful township economic development include

- planning,
- the provision of sound public infrastructure,
- proper management and maintenance of the public environment and regulation systems,
- reducing the costs of transactions with external markets,
- developing effective education and skills development systems,
- developing mechanisms to promote better performing residential and commercial property markets, and financial markets,
- developing anchor projects to stimulate markets,
- promoting stakeholder buy-in, and
- offering incentives to market players to facilitate their participation.

# Conclusion

- Township economic development involves an intricate web of interlocking and mutually reinforcing markets, both within the township itself and linked to the broader local, national and global economy. While these can be complex, it is possible to examine them, understand them, and design how to support markets, institutions, and the distribution of benefits.

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