Rethinking Privatization: The Case of Urban Transportation in Nairobi, Kenya

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Abstract

The implicit notion that the private sector is the major or exclusive creator of economic value is wrong. Government, through both its provision of service and its role in regulating and mediating social conflict and providing mechanisms for collective decision making, adds at least as much value to the economy as does the private sector. Therefore as we move into the 21st century it is critical that we understand how the value chain of public production works, what regulatory mechanisms are needed to make it work, the conditions under which it makes more sense to partner with outsiders, and when it is simply better to directly provide services. To understand how we might reframe the privatization debate in terms of both the legitimating and service functions of government, we will consider the challenge of creating a viable public transport system in Nairobi, Kenya.

In cities in the developing world the provision of urban public transport is often a complex amalgam that links formal and informal transport in a context of extremely rapid urbanization. Nairobi is typical in this regard. Therefore it is necessary to disentangle the various elements of physical transport technology from the social and organizational structures in which they are embedded if we are to develop workable solutions to the challenge.

In Nairobi control of physical transport technologies is split between the public sector and the private sector. The public sector supplies the transport infrastructure, through the Ministry of Roads and Public Works and the Nairobi City Council. The private sector supplies the bulk of the transport services through fixed-route services provided by City Hoppa, a private bus operator, and a vast fleet of privately owned mini-buses, known locally as matatus. There is also a quasi publicly provided public transport service: the Kenya Bus Company. However as a result of both a shortage of public subsidy and a turn away from the popularity of direct public service among development policy makers, the service level of the Kenya Bus Company has fallen drastically. In the vacuum City Hoppa and the matatus have stepped in to address the transport need. This has resulted in the tremendous growth of the matatu industry, to both positive and negative effects. Because the public and private actors involved in transport are so numerous, making an effective planning framework operational is difficult. Despite the interdependence of all the actors, there are no ongoing institutional structures through which they can negotiate and cooperate to meet the ever-changing demands of a modern urban transport system. Moreover because metropolitan Nairobi is now spreading well beyond the limits of the city into adjacent municipalities there needs to be some institutional context for regional transportation planning. Thus it becomes important that the Ministry of Local Governments and the Department of Physical Planning at the Ministry of Lands are included in the planning process.

Because on the surface public transport appears to be a "marketable" service, the planning process has been negatively impacted by the efforts of international financial institutions to impose privatization and deregulation policies upon low- and middle-income countries. This insistence on market-driven demand-side solutions when supply-side public interventions are needed has badly exacerbated the urgent problems resulting from rapid urbanization, which Nairobi and similar cities currently face.

I. Introduction

Approximately 60 percent of the global population will be urban by mid-century, and rapid urbanization is expected to continue into the foreseeable future. The vast majority of the global urban expansion now underway is taking place in the Global South.[4] Within the Global South the fastest urban growth is occurring in the poorest places. Over 1 billion people now live in urban slums. By 2030, if nothing is done, that number will reach 2 billion. A vital part of any solution to the problem of grinding urban poverty must include the creation of good public services. Hence concerns with equity, efficiency and effectiveness are paramount. In this paper we explore the implications of the pro-privatization and pro-deregulation view of development policymakers and planners that has dominated discussions of urban services for cities in the Global South during the last quarter century. We do this via an inquiry into the challenge of creating modern urban public transport for Nairobi, Kenya.

The implicit notion underlying the pro-privatization and pro-deregulation approach to urban public services is that the private sector is either the sole or the major creator of social and economic value regardless of local specifics. Building on this assumption, the thrust of policy and planning approaches has been to lessen the regulatory powers of government and privatize as much of government as possible. This is typically done via arrangements such as tendering (i.e., contracting), the creation of public-private partnerships (PPPs) or load shedding (i.e., the dropping of all public responsibility for a good or service). The objective behind these efforts is to privilege restrictive fiscal goals and competition for direct foreign investment (FDI) above other social concerns such as equity and sustainability, thus altering the nature of government itself. The belief is that such an approach will somehow "fast track" economic development in the low- and middle-income countries of the world.

This policy of deregulation and privatization has resulted in a market-oriented approach to infrastructure and public service creation in developing countries. This approach exemplifies the new public management (NPM) notion that the public sector is at best a facilitator of useful action and is more often a hindrance to efficient and effective economic development in general and to public services in particular. Only the private sector operating in competitive markets, which are viewed as the natural and sustainable state of social functioning, is capable of creating goods and services of real and lasting value. The view of the public sector embodied in this approach is consistent with the dominant disbelief in the ability of developing countries to take on any large projects effectively. We find that the effects resulting from this approach reveal its inherent contradictions. Its results have been stagnation or deterioration of efforts to improve what are often poor public services and an exacerbation of the serious problems with mobility, safety, health and economic development that the cities of the developing world now face and need to quickly overcome. The case of urban transportation in Nairobi, Kenya, provides an illustrative look at the negative effects of the dominant policy approaches to economic development and also provides an indication of a possible way forward.

II. Urban Transport Realities: A Brief Comparison of Cities of the Global North and Global South

About one-third of urban residents in the Global South live in slums, and these numbers are steadily increasing (UN Millennium Project 2005, Garau, Sclar & Carolini 2005). Although there is widespread agreement that cities in the Global South desperately need good urban public transport, systems are not easily put in place. There is no lack of transferable ideas--such as bus

[4] By "Global South" we mean the low- and middle-income countries that are largely located in the southern hemisphere. "Global North" refers to the economically advanced high-income countries of the world, which are by and large located in the northern hemisphere.

rapid transit, light rail, and safe non-motorized transport--to draw upon. One might think that what makes it most difficult to bring such ideas to fruition is the need to finance infrastructure or the need for rolling stock financing, but these are not the principal barriers. There is actually a great deal of financing that could be accessed via the international finance institutions, bi-lateral donors, local development banks, foreign direct investment, and internal domestic resources. Rather, the principal obstacle is the widespread belief that it is impossible to make anything of sufficient scale happen in these places. As touched upon previously, this pessimism can be traced to the, by now almost instinctual, belief that the formal and informal institutions of governance in developing countries are effectively dysfunctional.

The institutional structure of urban public transport systems in the Global North and Global South typically differ along two axes--market structure and system organization (Őrn 2005). Systems in the Global North are characterized by monopolistic operations, publicly regulated fare structures and clearly delineated, fixed and coordinated route systems regardless of whether they are based on bus service, light rail or metro service. In the Global South on the other hand, there tend to be a wide range of variations on systems that border between paratransit and semi-fixed route operation. These include minibuses, three-wheeled vehicles, and motorized and nonmotorized rickshaws. The market structure is typically characterized by low barriers to market entry when no effective legal or extra-legal impediments are set in place[5] for potential service suppliers and hence results in a highly competitive system in which individual owner-drivers compete with one another along a mix of uncoordinated and informally designated routes. Although owner-drivers are the norm, small fleets of vehicles in which a single owner supplies vehicles to several drivers in something akin to fleet operation are also not uncommon.

In both the Global North and Global South taxi fleets supplement the public transport system. Taxis partially compete with the public transport system for customers, though there is some clear market segmentation here. In the Global North taxi fleets are tightly regulated by local government. In exchange for acceptance of fare and safety regulation, governments give taxi owners and fleet operators protection from unrestricted entry of competitors into the market. In the Global South, taxi competition and price competition is often limited by informal organizations of taxi owners and drivers who find various ways to make life difficult for potential competitors.

This difference in the institutional organization of urban transport creates a different set of organizational-institutional challenges in each region. A major *raison d'être* for public transport is to relieve congestion. In the Global North the challenge at present is to inject efficiency and higher productivity into these systems either through a lowering of the barriers of monopoly operation or through organizational improvements in service delivery via improved labor and management cooperation. In that sense much of the contemporary Global North management debate looks much like the privatization debate of the 20th century. In the Global South the challenge is to create formal systems or impose public order on existing informal systems so that they can deliver on the promise of relieving traffic congestion, enhancing environmental quality, improving public safety and making mobility universally available. One of the most common outcomes of the informal systems of public transport in the Global South is that they often exacerbate congestion. The goal of any reform there must be to bring order to systems that are highly competitive but where competition has a destructive effect on the ability of the cities to develop sustainable land use and transport in an effective, efficient and environmentally sustainable manner.

It is simply not good enough to argue that nothing can be done until effective institutions of governance somehow materialize or evolve. Nor is it good enough to just call for more aid on the grounds that the need is dire. Instead it is important to engage these rapidly urbanizing places

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[5] By effective legal impediments, we mean such things as licensing systems to operate that are enforced, and by extra-legal impediments, we refer to cartels of suppliers who conspire to shut new entrants out of the market.

as they presently exist and begin to work simultaneously on the challenge of creating effective urban transport systems alongside institutional improvement. In this paper we will argue that not only can the two not be separated, but to produce positive results they can and must be approached in a synergistic and complimentary manner. Progress on creating good urban transport will encourage improvement in governance, and improvements in governance will lead to further improvements not just in urban transport but also in many other critical aspects of urban development. In that sense, this approach can be seen as a specific application of a more general approach to the challenge of economic development. It reframes the argument from a "chicken and egg debate" as to whether institutional change needs to come first (Easterly 2006) or large scale investment needs to come first (Sachs 2005). Instead we need to work on the resource investments in ways that improve the institutions of governance. After all, what use are objectives directed at institutional improvement without criteria that can be measured? A focus on improving public transport offers just such criteria and stands to improve cities in critical ways that reach far beyond the scope of conventional thinking about transportation.

We will make our case in the context of a discussion of a project presently underway in Nairobi, Kenya. In the succeeding section we turn to the specifics of the Nairobi metropolitan region to glean lessons for moving forward in Nairobi specifically, and in turn to pass on some of these lessons to other cities around the world that are facing similar challenges. Through our discussion of transportation in Nairobi, Kenya, we will show that one cannot talk about a dynamic process such as transport improvement devoid of a discussion of the institutional changes necessary to manage such an evolving system. This requires looking at a more complex picture than strictly market-based models allow.

III. Public Bus Transport in the Nairobi Metropolitan Region

The shape of what would become British East Africa (Kenya and Uganda) resulted from deliberations in 1888 at a conference in Berlin among the European colonial powers to divide up the African continent among themselves. In 1898 work began on a railway line to connect the British colonial port of Mombassa on the Indian Ocean with the colonial interior at Lake Victoria. Nairobi was initially established as a way station on the rail line. In 1901 it became a city, as European settlers began pouring into the East African colony as a result of its newfound accessibility and the desirability of its location. In 1907 Nairobi was designated as the colonial capital of East Africa.[6] By 1930 there were about 50,000 residents in Nairobi and, thanks to the success of the railway, the city was continuing to grow rapidly. In February 1934 the Overseas Motor Transport Company of London was granted a franchise to operate a bus service in Nairobi using 13 buses on 12 routes.[7] In 1950, the Kenya Bus Services (KBS) became an independent corporation with publicly traded shares and with a continuation of its exclusive franchise extended for an additional 21 years starting in 1953. In 1964, just after independence, United Transport International took over the management of KBS. The City Council acquired a quarter of the company's shares in 1966 and a new 20-year franchise agreement was signed. In November 1991, Stagecoach Holdings Limited of the United Kingdom bought United Transport's 75 percent share in KBS Ltd. In 1986, the Kenyan Government started the *Nyayo Bus Service Corporation* as a parastatal under the Office of President Moi. It was intended to provide employment to Kenyan youths and to compete with the KBS and the matatus.[8] The Nyayo fleet

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[6] http://crawfurd.dk/africa/kenya_timeline.htm Accessed October 11, 2007.
[7] http://www.kenyaweb.com/transport/transporters.html Accessed October 11, 2007
[8] Matatus are the local Kenyan name for the fleet of minivans that ply the streets of Nairobi and other cities and supply paratransit services to urban residents. At the start of the matatu operations in the 1950s, a standard fare of thirty cents was charged, irrespective of the distance covered. The term "matatu" is derived from the Kikuyu phrase *"mang otore matatu"* which means "thirty cents", the then standard charge (Aduwo 1990).

grew from 6 vehicles in 1986 to 335 in 1994 with various capacities (74 to 108 seats). Subsequently, and for a variety of interconnected reasons, KBS soon found itself struggling with declining market share, new regulation on personnel, speed and capacity, and a change of routes instituted by Stagecoach; Nairobi City Council still owned 25% of the shares. In October 1998, a consortium of local investors acquired KBS Ltd from Stagecoach Holdings. They are the present majority owners.[9] By the beginning of the 2000s, KBS was a very weak operation, with limited routes and severely under-maintained rolling stock. *Nyayo Bus Service Corporation* finds itself in a similar declining position. It is also worth noting that a new entrant, *City Hoppa,* a privately owned provider, has entered the market and expanded quickly skimming traffic along profitable lines. However matatus predominate as *de facto* public transit in Nairobi (Aligula, et al. 2005).

IV. Matatu Service

Matatu service in Nairobi began in the 1950s, prior to independence. The service began in response to the colonial segregation of Nairobi, which forced Africans to live largely on the outskirts of the city limits of Nairobi, with the notable exception of Kibera, which is currently reputed to be Africa's largest urban slum (Mitullah, 2003). Therefore the public-bus-based transport system, which was designed to serve the Europeans living in the western part of the city, was by design never able to meet the needs of the African population. Area residents began using matatus for both personal transport and to haul goods to and from nearby rural areas and to the residential zone on the eastern edge of the city where they were permitted to settle (Aduwo 1990; Khayesi 2002). With independence in 1963 and the abolition of restrictions on African residence, there was a corresponding increase in urban population. The size of the matatu fleet expanded, and matatu operations began moving into the center of Nairobi.

When the matatus arrived in central Nairobi starting in the early 1960s they were immediately seen as illegal competitors by KBS management and the local government authorities. This led to systematic harassment of the matatu operators throughout the 1960s and into the early 1970s. It is important to understand that by the early 1970s the matatu operations had become a large and politically embedded industry in the Nairobi economy. As a transport enterprise, matatu operation includes a range of formal and informal business operations: repair shops, ownership, regulation, vehicle importation, licensing, and driver training. In addition, because of the quasi-legal status of the operation, there was also a network of political and other relationships that smoothed the way for the industry to operate despite official harassment. Moreover given its early history as a solution to the mobility segregation of the colonial era there was a great deal of popular goodwill towards the operations. Ultimately legalization came to the industry via lobbying efforts by members of the business community of Kenyan President Mzee Jomo Kenyatta. He issued a presidential decree in 1973 that allowed the matatus to carry fare-paying passengers without the need for a Public Service Vehicle (PSV) license (Macharia 1987, Chitere and Kibua). As a result of this legalization Nairobi experienced a major increase in matatu transport, growing from 375 vehicles in 1973 to 1567 in 1979. The *Matatu Vehicle Owners Association* (MVOA) was formed and in 1982, the Traffic Amendment Act recognized MVOA as a PSV operator.

After the death of President Kenyatta in 1978, the presidency was assumed by vice president Daniel Arap Moi, who moved quickly to consolidate power and declare Kenya a one-party state. As a result the decade of the 1980s was a politically turbulent era. Matatu drivers were active participants in the protest politics of that decade. As a result of this, in 1988 the recognition of the MVOA as the official PVA was withdrawn by the government. MVOA de-registration in 1988 initiated the fragmentation of the sector. To fill the organizational void left by the loss of the MVOA as the single official designated PVA licensee and to protect their routes

[9] http://www.kenyaweb.com/transport/transporters.html Accessed October 11, 2007

from new competition, the owners and drivers reorganized themselves in route associations which barred non-members from plying the routes of those in the association. For new entrants to enter the industry there are "goodwill" payments to the route association that must be paid before the new entrant can ply the route. According to Khayesi (2002), "There are about 150 membership-route associations in Kenya, 63 of which are in the city of Nairobi."[10] While the route associations limit entrance of new competitors into the market, there is still fierce competition among the existing route drivers for passengers.

The economics of the matatu industry are straightforward. The fare box has to cover all the costs of operation. The fare in turn is limited by the low incomes of the matatu riding public. Thus the basic situation is that there is a sufficient oversupply of matatus to cause the operators to compete fiercely for customers to earn enough income to cover the costs of operation. The result is that operators are racing improperly maintained vehicles in a stiff competition with rivals.[11] This has predictably led to serious safety problems for both pedestrians and other road users, including other matatu operators. In an attempt to regulate the speed of matatus, in 1996 the Ministry of Transport required that speed governors be placed in all vehicles by March of that year (Khayesi 1999). As a result of collective political action by the matatu owners and drivers the requirement for speed governors was quickly shelved. However the problem of safety did not go away. In 2002 for the first time the national government finally did impose new rules on matatu operation (these took effect in 2004). Governors which restrict operation to 80 kph were installed in the matatus and there was a requirement that vans could carry no more passengers than there were seat belts. The standard matau is a 14-passenger van, including a driver and a conductor to collect fares. Consequently it can only carry 12 fare-paying passengers at a time. Prior to the new rules these vans would sometimes hold as many as 21 passengers sitting on one another's laps. Though it is still too early to know the full impacts of the new rules, they have so far proven largely effective at reducing speeds, injuries, and fatalities. There was a reduction in accidents of about 73% in the first six months of implementation of the legal notice. Additionally, they have done much to reduce crime in the form of cracking down on illegal cartels and formalizing the payment of matatu operators. There are some limitations and negative externalities, however, such as the tampering of speed governors to enable higher speeds, substandard seat belts, corruption, and a general inability to meet the demand for more public transport (Chitere and Kibua).

V. The Present Urban Transport Predicament in Nairobi

While Nairobi's unique history has been the key factor in shaping the city, the transport situation in Nairobi shares a great deal in common with other cities in the Global South. In these cities, public transport, to the extent that it exists at all, is largely an improvised system. Urban transport tends to be bifurcated and segregated by social class (Vasconcellos 2001). The most affluent residents are often chauffeured or drive in their own private vehicles on typically very poor road infrastructure in highly congested central business districts. The poor on the other hand have little access to mobility; walking is their characteristic mode of urban travel. They are often forced to share the same roadways where the more affluent ride. This lack of pedestrian accommodation contributes to both slower travel for all parties and high rates of pedestrian fatalities. When the poor do use motorized transport it is typically through informal modes of overcrowded and unsafe mini-vans or aging taxis.[12] The operators of such vehicles often charge prices that are comparatively high in relation to local incomes. Although travel times are somewhat better at the

[10] Personal Interview, of Mr. Dickson Mbugua, Chairman, Matatu Welfare Association, 11 September 2001 by Khayesi (2002).

[11] Tunbridge, L. 1998. Kenya: Art in the fast lane. *BBC Focus on Africa* (April-June): 54, 56. Cited in Khayesi, 2002.

[12] The matatus are quite typical in this regard.

edges of the urban center, closer to the center these conditions lead to chronic gridlock and travel speeds that are only slightly better than walking. The transport systems that serve the affluent are not public and the ones used by the poor are at best poor systems.

The current situation in terms of public transport in Nairobi can be summed up as follows: There is intense coverage of the city by matatus. The various bus operations are a secondary system at best. For the majority of urban residents the primary means of urban transportation is walking. The central business district is congested all day long and traveling even short distances by motor vehicle can take an inordinate amount of time. Sidewalks for pedestrians are few, and many compete with motor vehicles for travel space on the sides of roads. The result is that there are unacceptably high pedestrian fatality rates. The air quality in and around the city is poor, which leads to high rates of respiratory disease. Nairobi is the gateway to East Africa for both tourism and commerce, but its highly congested streets inhibit the rate of investment there. If given the space to grow, additional investment could catapult its economy into an important locus in the global economy. Nairobi is characterized by high density slum settlements near the central business district and other employment centers. Given a lack of good, safe and affordable public transport, the poorest people need to live within walking distance of places of employment, no matter how insufferable the conditions. However anyone who can afford to purchase a motor vehicle and move away from the center of the city does so. The costs of motorized transport are dropping and becoming competitive with that of the matatus. Increasingly, less expensive motorized transport is taking the form of two-wheeled scooters and motorcycles. Plus an influx of inexpensive second-hand cars from Japan and other places brings the costs of car ownership within the reach of a larger swath of the middle class there. The recent introduction of very low-cost new autos in India will eventually exacerbate the situation further.[13] All of this will create pressure to build more roads and overpasses and further the sprawl in the region. It will do nothing to solve the larger problems of improving social equality, creating environmental sustainability or enhancing the attractiveness of the city as a center of investment for East Africa.

If this situation is to change, it is not merely a question of having a rational plan, though that is necessary. Simply increasing privatization and deregulation without regard for local circumstances will do nothing to solve these problems. Rather the critical issue is understanding the existing decision-making process and how it might realistically be changed to alter the dynamic built into the *status quo*.

VI. Land Use and Urban Transportation in Nairobi, Kenya: Evaluating the Institutional Framework

For urban development planners, land use and transport define each other. Land use patterns generate differential demands for locational access. Transport systems supply locational access. In every society the degrees of access provided are differentiated by the social status, wealth and income of various groups of urban residents. Land use was a central tool of social control for colonial officials. At independence, influential politicians and the rich took over this role (Olima 1997). The result of this history is that land ownership in Nairobi is highly skewed in terms of distribution and closely linked to political power, wealth, and social status. Consequently any attempt to improve transport access must focus not just on the players in the transport industry but also on the political economics of land use access.

This political economics plays itself out clearly in the distribution of residential settlements in and around Nairobi. Housing for the mass of poor and working class residents typically takes one of two forms: commutation to outlying parts of Nairobi or to its satellite cities,

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[13] See New York Times October 12, 2007 "In India a $2,500 pace car."
http://www.nytimes.com/2007/10/12/business/worldbusiness/12cars.html?pagewanted=all

or overcrowding in slums within walking distance of employment centers. For the rapidly urbanizing Nairobi metropolitan population, this amounts to having to choose between two evils: either living in slums close enough to walk to one's place of employment and suffering all the degradations that accompany such living, or residing in peri-urban spaces and enduring the physical burdens and the costs of commutation in terms of time and money.

This dilemma is not unique to Nairobi. It plays out in similar patterns throughout the Global South, and especially in sub-Saharan Africa. However while there is a generic component to this there are also specific aspects that need to be taken into special account. Any effective solution must address both the generic nature of this colonial racial problem and the specific institutional constraints that characterize the situation in Nairobi. Although Africans were not permitted to live near the central business district of Nairobi, and thus many always commuted in from the surrounding peri-urban areas, there was one notable and important exception to this pattern of spatial location: That was Kibera, Africa's largest urban slum. It is right next to the downtown. It was the one place that the British permitted African troops loyal to the government to be billeted. After independence it evolved into the highly dense slum it is today.

If land use can become a tool for defining a national identity, the irony of the recent privatization of the Kenyan railway serves as a case in point. Railroad history is repeating itself in the Uganda-Kenya concession, which was signed in 2006. This recent privatization was undertaken to bring in new FDI to upgrade the railroad and open the possibility for more investment in the interior of the country. The investors are clear that they see their profits deriving from ferry goods from Uganda through Kenya to the port of Mombassa. While the ability to improve goods transport is certainly a positive, Nairobi's dire need for better public transport will have to take a back seat. It means the loss of the opportunity to use the rail infrastructure to guide the expansion of the metropolis via commuter rail.

The notion of defining a national identity--which in the rapidly urbanizing context of Africa, would best be described as an "African city identity"--is essential to developing a "just city" model for Kenya and thus overcoming the historic heritage of the city. Nairobi inherited a "British" Metropolitan Plan from 1973, which relies on British planning rules that were developed during the colonial era. This master plan is thorough, but it presents significant urban challenges that are still relevant for the metropolitan area. The Nairobi City Council and the Ministries of Lands and Transport still refer to this plan, even if no part of it has been implemented under that name. The 1973 Nairobi Metropolitan Growth Strategy technically expired in 2003, which presents a good opportunity to rethink the metropolitan area, not only in physical terms but also in political and institutional terms.

The Department of Urban Planning at the Nairobi City Council and the Department of Planning at the Ministry of Lands have started working on a concept paper for a new Nairobi Metropolitan Growth Strategy. This concept note was recently discussed between the Permanent Secretaries of the Ministry of Lands and the Ministry of Local Government, including the Department of Urban Development at the Ministry of Local Government, in officially launching the plan preparation, which will include a larger number of stakeholders. A Metropolitan Committee has been created and put directly under the Cabinet of the President of Kenya in 2007.

The Nairobi Metropolitan Concept Note is important for three reasons. First it sets the context for linking the infrastructure development piece, and therefore the economic development piece, to the institutional and political one. Second, metropolitan planning is an opportune tool to use for addressing social policy because it allows one to think about redistribution in a well-defined context. Third, it provides a chance to reinvent a political process and institutions with a distinctly Kenyan identity.

VII. A Critical View of Institutional Functioning in Nairobi: Interactions between the Public and the Private Spheres

In order to analyze the workable arrangements necessary for improved supply of transport in Nairobi it is first necessary to disentangle the various elements of "physical and social technologies," the "institutional functioning," that constitute the effective transport system. In Nairobi, at the most basic level, control of what Nelson (2005, 2006) would call "physical technologies" is split between the public sector and the private sector. The public sector supplies the transport infrastructure, through the Ministry of Roads and Public Works and the Nairobi City Council (Aligula, et. al. 2005). As previously discussed, the private sector supplies the bulk of the transport services through fixed route services provided by City Hoppa and the matatus.

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) conducted surveys on the transport situation in Nairobi in 2004. These studies found that "available bus stops were originally put to serve the operation of the KBS," but they are now used by the matatus, which have also been creating additional bus stops based on community preferences and land use evolutions (Aligula, et al., 2005). The matatus have been very efficient in their ability to cope with the spread of metropolitan Nairobi when one considers land-use changes without the benefits of regulation. The impact on the environment and security of this quick-response industry is enormous and continues to feed this unplanned growth. This capacity of matatu organizations to respond to the demand is possible largely due to their organizational structure. The matatu industry is organized by only two bodies: the Matatu Welfare Association, which represents the drivers, and the Matatu Owners Association. This informal industry has been able to economize on both the physical technologies--usually old, poorly maintained vehicles--and the social technologies, such as the large human labor force, which is usually underpaid and lacks a minimal social net. This low-cost input in a social arrangement is not without consequences. KIPPRA's surveys reveal that among commuters there are widespread complaints of indiscipline, poor public relations, and lack of professionalism and courtesy from the matatus' drivers. Most drivers (over 80%) are paid informally on a daily basis, even after an attempt from the Ministry of Transport to regulate the payroll in this industry toward a monthly basis in order to secure employment. Most of them have no health or insurance benefits (Aligula, et al. 2005).

The stagnation of investment in public infrastructure has resulted in the private sector moving in to fill the void in other areas as well. The Nairobi Central Business Association has developed a number of pilot projects such as the lighting system on the road between Kenyatta International Airport and the Nairobi Central Business District (Interview with Nabutola, September 2006). The cost is picked up by private revenues generated by advertisements on the light poles. Using this experience as an example, the business group argues that other similar private sector projects should emerge to address many infrastructure needs. While certain components of infrastructure supply, in particular those that have commercial appeal, could be successful in the private sector, the larger problem of uniform improvement in transport infrastructure will invariably remain a public sector responsibility.

Although the challenge of adequate "physical technology" is great, it pales in comparison to the need for "social technologies" to make organizational arrangements and interactions workable. In Nairobi, several actors must be brought into the process of developing the organizational forms that will be needed if a viable and efficient system of urban public transport is to emerge. Because these actors are so numerous, making a comprehensive legislative framework operative is difficult, but it is without a doubt a worthwhile challenge, and some encouraging steps in that direction are currently being taken. Among the key actors necessary are the Ministry of Transport, the Nairobi City Council, the Office of the President and the Kenya Revenue Authority within the Ministry of Finance (Aligula, et al. 2005). Within these agencies there are a range of different individual actors that must also be brought into the process of planning and implementing any change in the transport system.

One of the strongest facts to emerge from an analysis of the institutional snapshot of the Nairobi urban transport context that we have provided is that despite the interdependence of all these actors, there are currently no formal, and more importantly, ongoing institutional structures through which they can negotiate and cooperate. Moreover, because metropolitan Nairobi is spreading beyond the limits of the city into adjacent municipalities, there needs to be some institutional context for more regional planning for transport services. Thus it becomes important that the Ministry of Local Governments and the Department of Physical Planning at the Ministry of Lands (Aligula, et al. 2005), are also part of the transport planning and plan implementation process. There is presently a movement underway involving the Ministry of Lands and the Ministry of Local Governments to create a land-use planning process among the metropolitan municipalities. Clearly if this is to succeed it will have to include the various actors involved in transport service provision and infrastructure development. Land-use planning cannot succeed divorced from transport planning and both must derive from a comprehensive understanding of local circumstances and needs.

VIII. Neoliberalism and Fiscal Planning: A Context for Understanding Urban Service Delivery in the Global South

Following the collapse of communism, there was a sudden policy shift among the Western powers active in African development along with the International Financial Institutions or IFIs (the World Bank and the International Monetary Fund) away from support through loans and grants for active state intervention in economic development to policies of *laissez-faire* economic development. This shift was most pronounced in the lending policies of the IFIs and the structural-adjustment policies that emanated from these institutions. Such "neoliberal" policies had a major impact on countries such as Kenya that are dependent on development assistance for infrastructure creation. Planning in these countries and elsewhere turned to "fiscal planning," focusing on physical and social development strategies driven by considerations for maximizing local economic development and the local capture of taxes and other revenue sources.[14]

Neoliberal policies have four organizing elements: 1) the promotion of the privatization and deregulation of public services and public utilities, 2) enacting enforceable legal protections for the autonomy of private property owners, 3) the enforcement of tight fiscal policy intended to constrain governmental social spending through tight control on taxes and expenditures aimed at creating a fiscal surplus, 4) as a matter of macroeconomic policy, according primacy to anti-inflationary monetary policy to maintain price stability and the value of foreign investments. Essentially neoliberal policy rests on a *laissez-faire* and export-based theory of economic development.

Neoliberalism is commonly associated with the Washington Consensus (Stiglitz 2002), which was based on theories of economic development that significantly downplayed the importance of governance and hence the viability and effectiveness of social and political institutions. While this policy prescription has been widespread and longlasting, it has held particular sway for Africa and the rest of the Global South, where formal and informal institutions of governance are so often considered dysfunctional and pessimism has dominated attitudes toward developmental efforts. Thandika Mkadawire observes that "most of the analyses about African states that have led to so much despondency . . . are based on invidious comparison

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[14] We distinguish between three approaches to planning: master planning, social planning and fiscal planning. Master planning is classical physical planning with an emphasis on the location of land uses and infrastructure. Social planning is planning with a main focus on the issues of equity among urban residents. These two forms of planning hold the need for an activist state as central to accomplishing there missions. Fiscal planning is planning designed to foster development which maximizes revenue regardless of its impact on the physical environment or its equity outcomes. It presumes government to be passive and the market the active agent of urban development. See Sclar (2007).

between African states in crisis and idealized and tendentiously characterized states elsewhere. This invidious comparison has occulted African states, making concrete analysis of their character less important than the normative statements about what they should be. . . ." (Mkadawire 2001). The problems faced by developing countries are certainly very real, but it is important to acknowledge that their origins are not necessarily intrinsic to these societies. It is now widely acknowledged that many problems either result from or are exacerbated by extrinsically imposed policies either in the colonial past or the globalized present. Ironically, neoliberal policies, though well intentioned, have actually created a self-fulfilling prophesy: the resulting lack of investment in public service provision in many cities in the Global South has contributed to the degradation of infrastructure and existing institutional capacity, thus strengthening the view that institutions of governance in the cities of developing nations are inherently dysfunctional.

With little regard for situations in which local government and local institutions have proven useful or necessary, the dominant policy analysis presumes that the central organizational-management question is one of figuring out how to make private market demand the preferred driver of successful transport supply, regardless of situational specifics (Gwilliam 2003; Estache and Gómez-Lobo 2004). According to the standard policy approach, unless there is some compelling and unusual special circumstance to make private markets unworkable, private operation, in response to effective market demand will bring efficiencies that can overcome the inadequacies of both government and the social economy in which it is embedded.

There are two strong implicit assumptions in this market-oriented approach to policy. The first is that even with quasi-public goods such as urban public transport, supply responses to market demand provide an adequate mechanism for adjusting supply to a socially desirable level. The second assumption is that competitive markets are sufficiently commonplace and anything else is sufficiently anomalous that the transport market that emerges will be more or less self-regulating. These beliefs hold even in the face of evidence collected by advocates for market deregulation of the problems that these markets have as self-regulating mechanisms serving a larger public good (Gwilliam 2005). There are two problems here. The first is that when we are dealing with public or quasi-public goods, much of the decision making needs to be initiated not on the demand but on the supply side of the market. Hence there is a need for service planning, and in the case of transport, service planning that accounts for land use and access concerns. The second is the problem of market structure. When one surveys the rich variety of markets in existence, it turns out that the idealized competitive market of neoclassical economics textbooks is more akin to a rare orchid grown in a specialized hot house than it is to a hearty garden weed that blooms wherever it is planted. Indeed one of the strongest features of real world competitive markets is their high degree of instability and short shelf life. It is only the buyers and not the sellers who venerate competition. Sellers move quickly to undermine it in all its many forms. The informal cartels formed by private transport providers in Nairobi and other cities in the Global South to stave off competition where barriers to market entry are low are not exceptions--they are the general rule.

Taken together these policy prescriptions represented the core of the structural adjustment policies that the Bretton Woods institutions (the IMF and the World Bank) have imposed upon poor developing countries as conditions for loans since the 1980s. This approach is built on the assumption that, although structural adjustment inflicts painful social costs on the borrowers in the short run, attaining these policy goals would, in the long run, lead to the emergence of a powerful competitive and efficient market economy in these developing societies. It was assumed that this market would be sufficiently powerful that it would not only improve economic performance but also transform existing institutional "rules of the game," including especially a shrinkage of pervasive corruption and overstaffing in the public sector. An important policy outcome of structural adjustment, consistent with and export-based approach to development was to make developing cities and nations attractive to foreign direct investment.

Foreign investors in turn would stimulate economic development and bring urban prosperity to these otherwise poor cities in poor societies via investments in privatized infrastructure or new enterprise development that would lead to technology transfers and modernization.

A strong assumption of neoliberal policy is that institutional evolution need not be a consideration in policy choice. The power of markets according to neoliberal doctrine is such that they eventually create incidental positive institutional change capable of overcoming historical impediments to the process of modernization. It is argued that the imposition of a strong private market economy will, as a complimentary byproduct, create the necessary and sufficient conditions to lead to the emergence of a new modernizing set of private and public institutions of governance. The attractive dynamism of these new institutions will be sufficient to overcome and replace the preexisting ones which were *prima fascia*, judged as inefficient and archaic. Hence in a neoliberal approach to development policy, it is not essential to be concerned about the process of institutional evolution, as market forces will guide society in positive directions. Therefore the policy prescriptions that have emerged from neoliberal policy analysis in recent years concentrate on the imposition of competitive markets and assume that the necessary institutional adjustments will simply follow along nicely.

That is the theory. Experience has not been kind to this neoliberal theory. Instead of existing institutions adapting to the imposed rules of an idealized market, the institutions of each developing society bent the market rules to accommodate their needs. As we saw in the transformation of Russia from communism, the “markets” that emerged could be the very opposite of progressive. In Russia, they were decidedly retrogressive. These “markets” and the kleptocracy which emerged to sustain them bore only a slight and very distant resemblance to the neatly articulated intentions of the policy designers. The markets that did emerge contained many different configurations of market transactions and social transactions as well as occasional glints of competition that were quickly transformed into oligarchy, oligopoly, monopoly and a resurgence of authoritarian government. In almost all instances those who were most well off and well positioned when the neoliberalization process began were more so in the end when authoritarian rule was re-imposed. Those who were poor at first were absolutely destitute after neoliberalization.

IX. Transportation: A Quasi-Public Good

As demonstrated by the Nairobi case, one of the major problems with the promotion of market liberalization for urban public services in the Global South is that it fails to account for the existing institutional conditions of governance or of the public-goods nature of transport and other public services as it seeks to “reform” them. As a result of this neglect of the institutional context, the effective outcome of much of the privatization effort that was the policy instrument of choice in recent years is that policies proved to be capable of facilitating the demise of publicly provided services, but were rarely able to replace them via an effective market capable of creating an equal, let alone better, private-sector alternative.

Because of the unique features of urban transportation, in a great many cities this sector has been particularly negatively impacted by the efforts at privatization and deregulation that characterized neoliberal development policy. This is especially the case in cities in developing countries. As a result despite that fact that populations there are growing rapidly, there has been little improvement in these systems. The results are not only congestion and air pollution, but also the concentration of large informal urban settlements close to the urban center to ensure that the poor can walk to employment in both the formal, but more often, the informal urban economy.

A particular problem faced by urban transport has been a misunderstanding of its salient characteristics. From the point of view of the rider, urban transportation may look a great deal like an ordinary private good or service for sale. Individual riders can purchase transport trips in a manner that is identical to their choices about cinema tickets and fruits and vegetables. Privatization and deregulation policy draws its analytic strength from this face of the service. If transport is nothing more than one more privately purchased good or service, the case for a passive role for government and a strong one for the unregulated market is strong. According to neoliberal doctrine, the best that a government can do is to simply get out of the way and permit the private market to supply the service in proportion to the intensity of the demand. The current system of matatus in Nairobi is an excellent manifestation of all that is good and bad in this approach.

If the consumer side were all that was at stake in urban transport, the neoliberal approach might make sense. But that is not all there is to the matter. Because of the power of urban transport to impact land-use patterns and environmental quality, the external impacts of the collective market-based decisions of travelers are far greater than the impacts on the individual traveler. Transportation powerfully organizes urban land use by the ways it permits and denies access to various groups in the urban population. As demonstrated by the Nairobi case, the results can have extreme consequences for everyone in the city: from groups that are pushed to the periphery or that are forced to live in squalid conditions in more central areas, to pedestrians suffering from respiratory illnesses or injury as a consequence of walking among heavy traffic while on the way to places of employment, and even to the wealthy who find themselves stuck for unreasonable amounts of time in extremely heavy traffic on congested streets. We therefore define urban transport as a quasi-public good (Sclar 2005). Although it exhibits the characteristics of a private good its larger non market or external impacts make it simultaneously, and more importantly, a public good. Further complicating its status as a quasi-public good is the reality that it does not easily, if ever, cover its full costs via charges imposed on users. To the extent that we place more emphasis on the public characteristics of transport rather than the private, institutional analysis suggests that workable arrangements require that we look beyond market governance. We must approach the subject from the point of view of a public good with a minor role for market forces in determining patterns of day-to-day use.

The ways in which urban transportation is subsidized are as important in determining its impact on urban life as the physical characteristics of the system. The need for perennial subsidy derives from the fact that its fixed infrastructure costs for construction and maintenance of rights-of-way, i.e., roads and rail beds as well as the more variable costs of purchase and maintenance of rolling stock, can never be fully covered by charges to the base of users. Travelers in large volumes simply stop traveling when the system's costs get too high and then the ability of the area to capture the external benefits of good mobility via urban public transport is lost. Typically users are only charged a fare or toll that approximates the low marginal cost of their use, plus a bit more towards the fixed costs of service operation. Thus regardless of how service is organized, there is an abiding need for public subsidy and hence public policy and planning in determining how systems should operate.

X. Concluding Observations

Sometimes deregulation and privatization make sense. But they only make sense in highly specific contexts to achieve highly specific ends. The problems arise when they are treated as first principals for public policy in the field of public services. Two important factors are downplayed in this approach. The first is the historic and institutional context in which the service is delivered. The second is the overly heavy reliance on consumer demand to determine appropriate levels of output. Consumer demand alone fails to account for the very real positive and negative externalities that characterize these outputs. The result is underinvestment by the public sector in both infrastructure and appropriate service subsidies to capture the positive externalities and avoid the negative ones. With regard to the first it is clear that there has been underinvestment in public transport with the result that bus service does not play a significant role in urban mobility. With regard to the second the over reliance on matatus is a major contributor to the all-day-long gridlock in the center of Nairobi and the problems of air quality and public safety.

If Nairobi is to have the functional and mass-based public transport system that it sorely needs, two things are clear. There needs to be an institutional frame work in which all the stakeholders effectively participate. A planning process that does not take all these groups into account is a recipe for further stagnation. In terms of the matatu industry, any plan must not just regulate them but also provide them with meaningful incentives to alter their operations and move in new directions.

The planning approach for this new regional system needs to include master planning and social planning, as well as fiscal planning. There needs to be master planning for the transport system itself, a land use plan that compliments the transport plan and a plan for the other elements of infrastructure that are needed to accommodate the anticipated growth of metropolitan Nairobi. There must be social planning to ensure that all segments of the population are included and accounted for in the plan. Finally in the context of these, there needs to be a fiscal plan to ensure the financing of both the infrastructure investments and the long term needs for subsidy to ensure that the social benefits are captured for all. Nairobi is not alone in this regard. Most cities in the Global South could benefit greatly from a more balanced approach to planning in a variety of sectors, and in the transportation sector in particular. The rapid urbanization currently occurring in these cities makes it even more pressing to find solutions that address the complexity of the contexts at hand--specifically, approaches that acknowledge the importance of a deep understanding of the interdependence of the relevant institutions and actors and the economic and social significance of externalities that reach far beyond an ability to meet market demands. Only from such an understanding can effective plans be made operational. Transport has such a profound impact on the shape of cities that approaching it with an unbalanced or inadequate perspective can have terrible consequences. Likewise, the context of urban transport also provides tremendous opportunity to address a wide range of social inequities and concerns and can have a great impact on many other sectors.

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