



strategy
project

A Framework for Second Economy Strategy: Addressing Inequality and Economic Marginalisation

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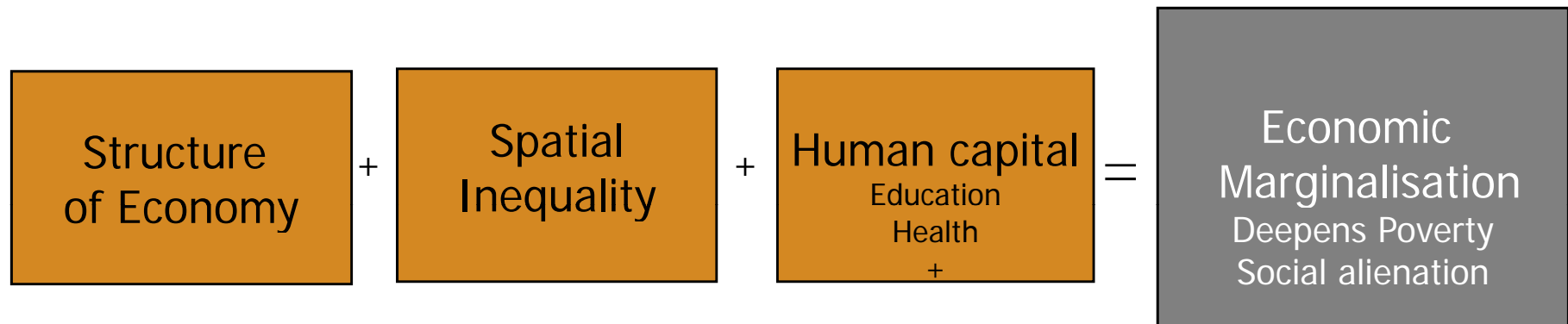
The 2nd Economy Strategy project is an initiative of the Presidency,
hosted by Trade & Industrial Policy Strategies (TIPS)

What is the ‘second economy’?

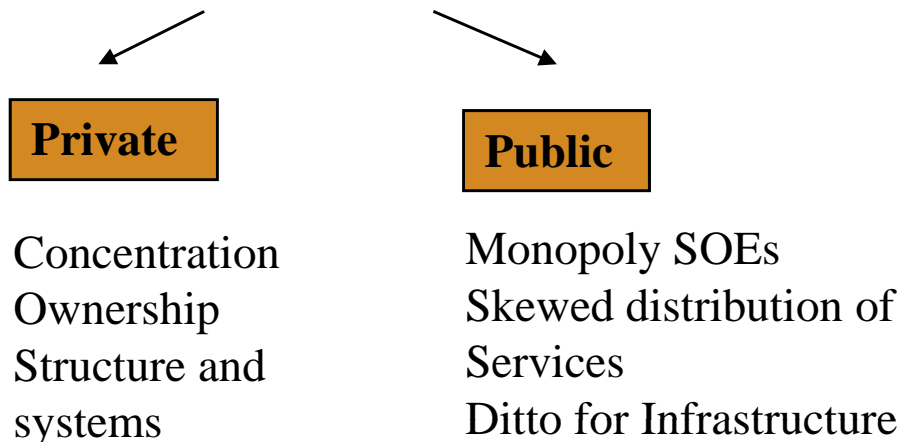
- The ‘first’ and ‘second’ economies in SA are manifestations of the high levels of inequality in the economy and society.
- Key legacies of apartheid make this inequality structural – in particular:
 - the spatial legacy of bantustans and apartheid cities,
 - the labour market legacies of pass laws and a historical reliance on unskilled cheap labour;
 - the monopoly structure of SA’s core economy;
 - the highly skewed distribution of assets (land, capital and also human capital)
- The ‘first’ and ‘second’ economies are terms to describe the different ends of this spectrum of continued inequality, with wealth and resources concentrated at one end – and poverty and disadvantage at the other.
- The nature of the relationships between the two, and the extent of their interdependence is a longstanding South African debate - with analysis seeking to make visible the ways in which wealth and poverty are reproduced, and the nature of the connections and disconnections that underpin this process:
 - ‘negative incorporation’; ‘asymmetrical interdependence’;
- Deepening our understanding of these relationships is key to changing them: and is at the heart of transformation – and of strategies for the second economy.
- Strategies that tackle inequality are part of the overarching framework for second economy strategies.

Inequality frames 2E

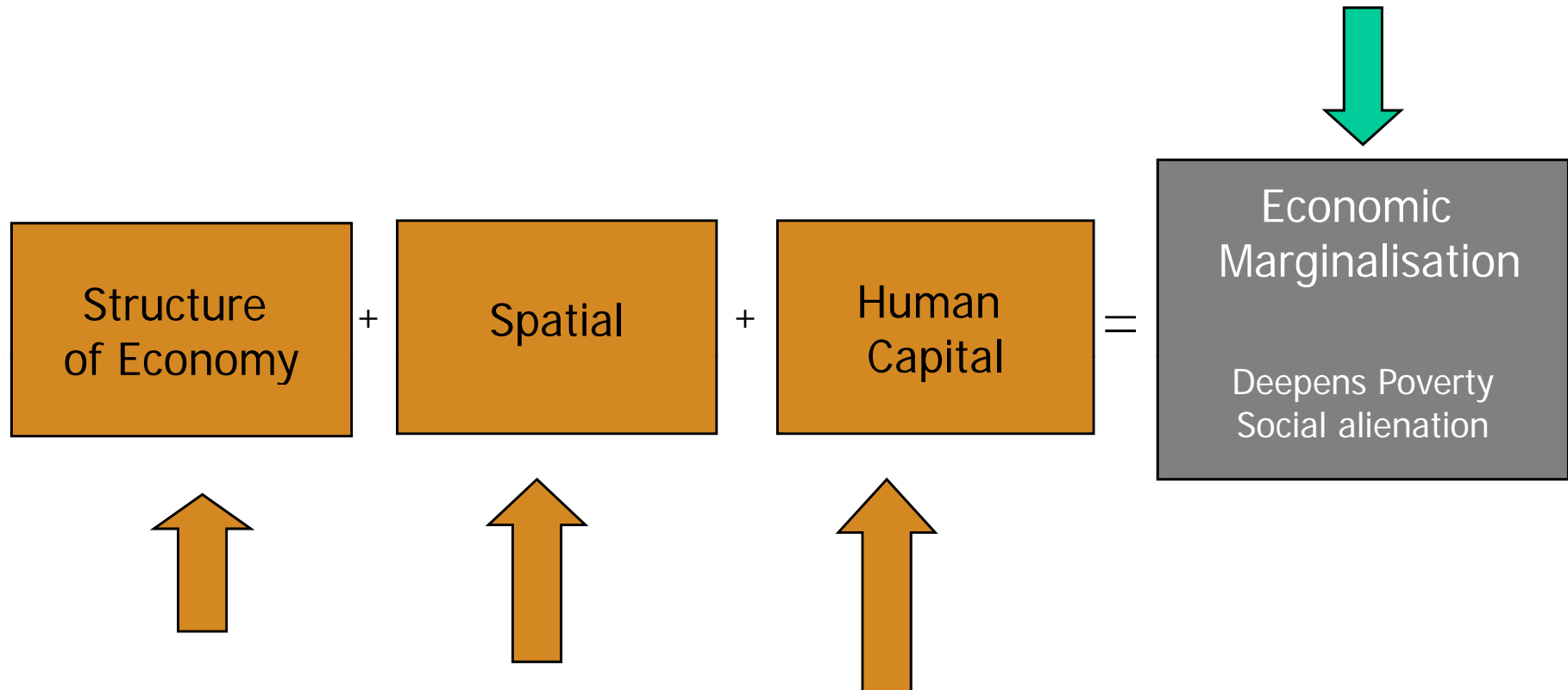
Key elements of structural inequality in South Africa



A mixed economy:



The 'second economy'



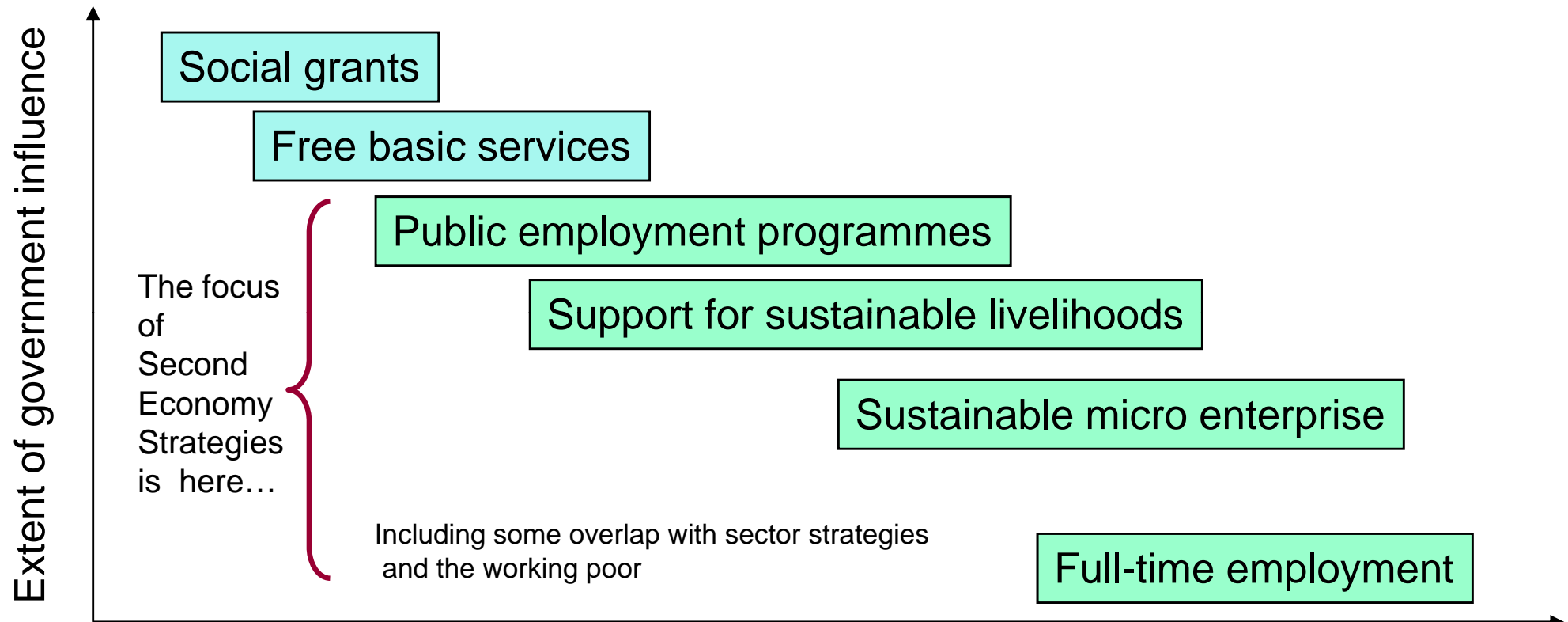
Strategies to address inequality need to
frame strategies for the second economy

To break the cycle

The purpose of a second economy strategy

- To increase levels of participation in the economy
- To improve the terms of - and returns from – economic activity to levels that lift people out of poverty
- To increase the ability of the poor to gain and secure assets
- To ensure basic needs are accessible and affordable;
- To improve the distribution of returns from economic activity across the society.

How do strategies for 2E link to the anti-poverty strategy?



- Strategies targeting the second economy are part of the wider anti-poverty strategy.
- They focus on the economic dimensions of the anti-poverty strategy
- On strengthening economic opportunities for poor people: more employment, better returns for small/marginalised SME's, better working conditions for vulnerable workers, lower prices for poor consumers etc

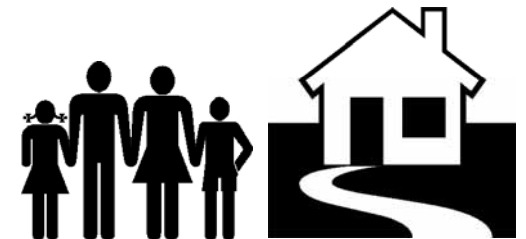
The Review of Second Economy Programmes: Summary Outcomes

- **Challenges of scale:**
 - Project focus,
 - most programmes reaching under 50,000
 - Other reviews confirm this critique of ‘project’ approaches:
 - DPLG, dti Co-op Baseline, DSD
- **Unfunded or partially funded mandates, also requiring co-ordination between departments and spheres of government;**

EPWP	Youth Service
Sector Strategies	Jobs for Growth
ISRDP	LED
- **A recognition that successes are limited where outcomes are measured in market terms:**
 - eg more jobs, more smme’s, better incomes, lower prices;
- **Lack of voice, organisation and advocacy from below.**

The Interface with Markets


- Government performance is strongest where it most directly influences outcomes – eg in the social programmes.
 - In the economic programmes, success is measured in relation to outcomes measured in market terms: eg more jobs, better returns for small producers, lower prices for poor consumers.
 - Government's impacts here are indirect: they depend on the interface between government action and wider markets – which are far less predictable than in the social sector.
 - So far, impacts in 'the second economy' are low. This begs a number of questions:
- What levers and instruments are available to government to shape market outcomes – to achieve greater employment and equity?
 - Do we know which ones work best, and are they being used?
 - How does this translate into the design of economic programmes targeting the margins?



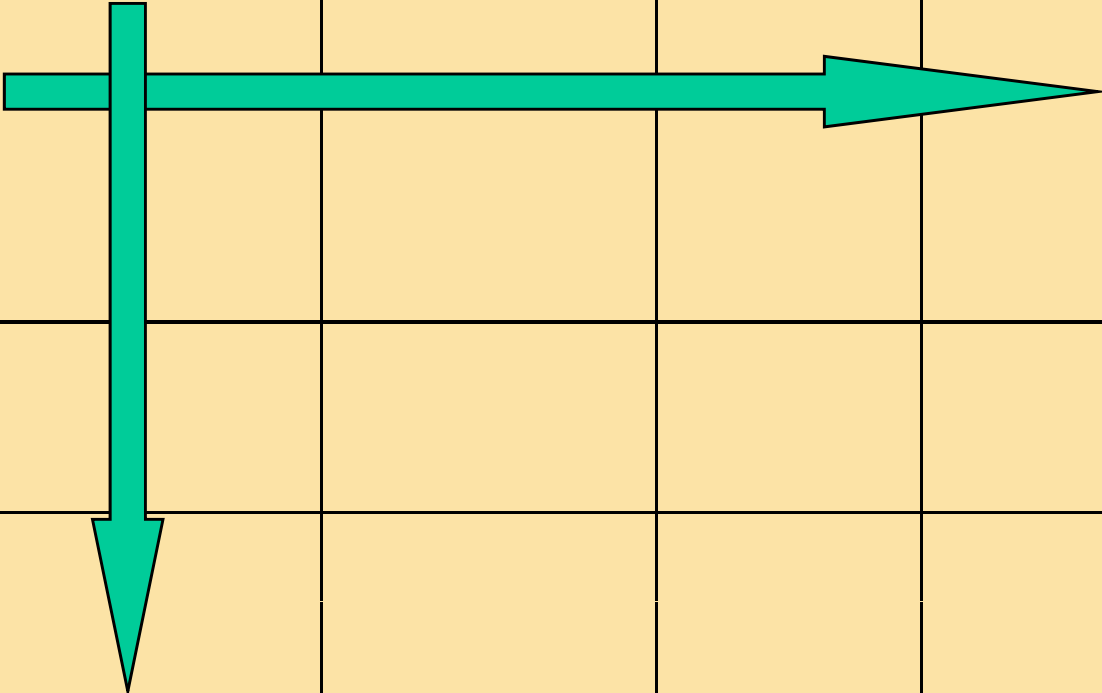
Developing a framework to address inequality and economic marginalisation

Inequality

Strategies to address economic marginalisation



Second Economy Strategy	More employment, better employment (including self employment)	Better access to and returns from economic activity	Ability to gain and secure assets	Access to affordable basic goods and services
Structure of the economy Ownership Centralisation Power and value Labour market legacies Access for sme's Production structure Public.private				
Spatial Dimensions Urban Rural				
Human capital HRD Access to health Access to basic needs Social capital/ inclusion				



The structure of the economy and employment creation

- The South African economy is highly centralised, capital intensive and dominated by a set of monopoly industries: with consequences for economic development strategies.
- Capital intensive industries exclude SME participation and make employment creation expensive.
- The focus of policy has been to try to address this within the core economy:
 - through the introduction of effective competition policy,
 - the reduction of protective tariffs where these protect vested interests;
 - Sector strategies to support new industries and activities
 - Attempts to challenge import parity pricing
 - and a focus on black economic empowerment to break up the tight hold on racial ownership at the centre.
- **These are all second economy issues**
(and the Competition Commission is a Second Economy institution)

.....because the current structure of the core economy limits the scope for new job creation, new ventures, and sme's - and impacts on even the most survivalist subsistence activities.

How the structure of the economy impacts on the margins

A South African conundrum:

- Why is the informal and sme/smme sector so small when unemployment is so high?
- Why is nearly 50% of the informal sector in retail?
- The answers typically focus on supply side issues:
 - Skills
 - Levels of entrepreneurship
 - Access to credit, capital
 - Easy of entry, regulatory barriers
 - For co-ops: additional complexity of collective management
 - Etc.

These do matter. But some of the answers also lie in understanding the impacts of SA's production and market structures on the margins

Structures of production, distribution and demand

- Markets in marginal areas are ‘thin’
- Poor people buy a limited basket of consumer goods.
- Most of these are (still) mass-produced in the core economy, at a scale that makes it hard to compete on price, even taking into account the cost of distance;
- Distribution systems are efficient enough to reach even remote areas;
- Branded goods (and branded stores) provide quality assurance
- Advertising impacts on aspirations

Small scale producers have to compete in relation to price, quality and brand recognition.
It's very hard. It's not always possible.

What about agriculture?

- There are local markets for agricultural produce: but markets are thin and returns are low here too.
- The traditional approach to rural development and improving farm incomes in poor countries is to assist farmers to go **up the value chain** by supporting forms of agro-processing.
- **But in SA: a highly-centralised, vertically-integrated agro-processing sector already exists in relation to every key staple you care to name:**
 - Iwisa, Hulets, sunflower oil, tea, SASKO flour, Black Cat/ Yum Yum peanut butter, cigarettes, beer, mango/litchi/orange/ juice, canned goods etc.
- Such strategies implicitly assume a ‘dualism’ in the economy that sees first and second economies existing in parallel, rather than as ‘asymmetrically interdependent’ (Webster and Van Holdt).

What are the alternatives?

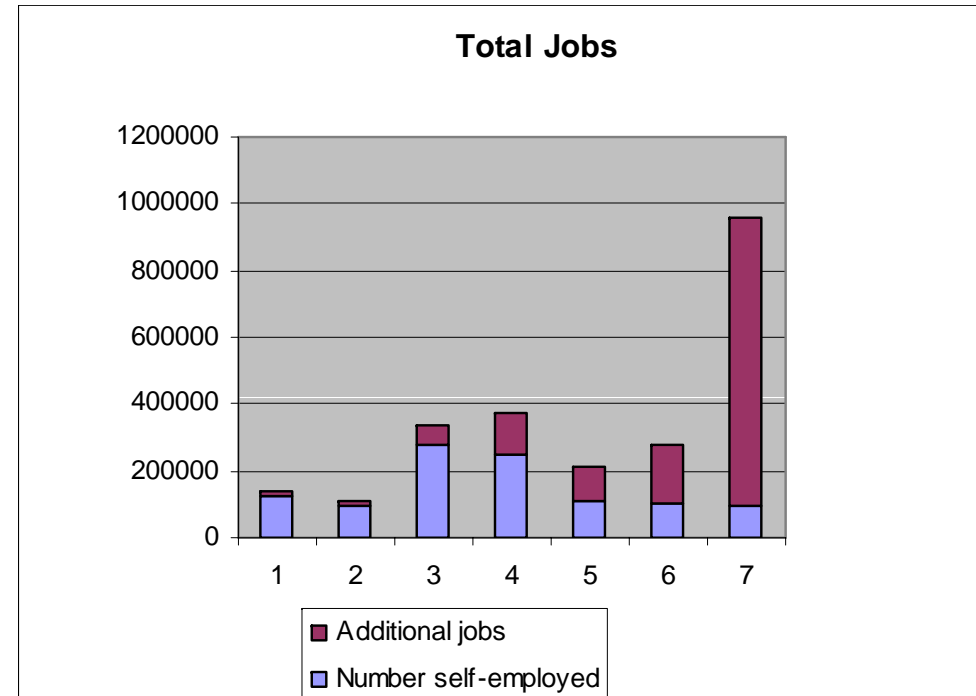
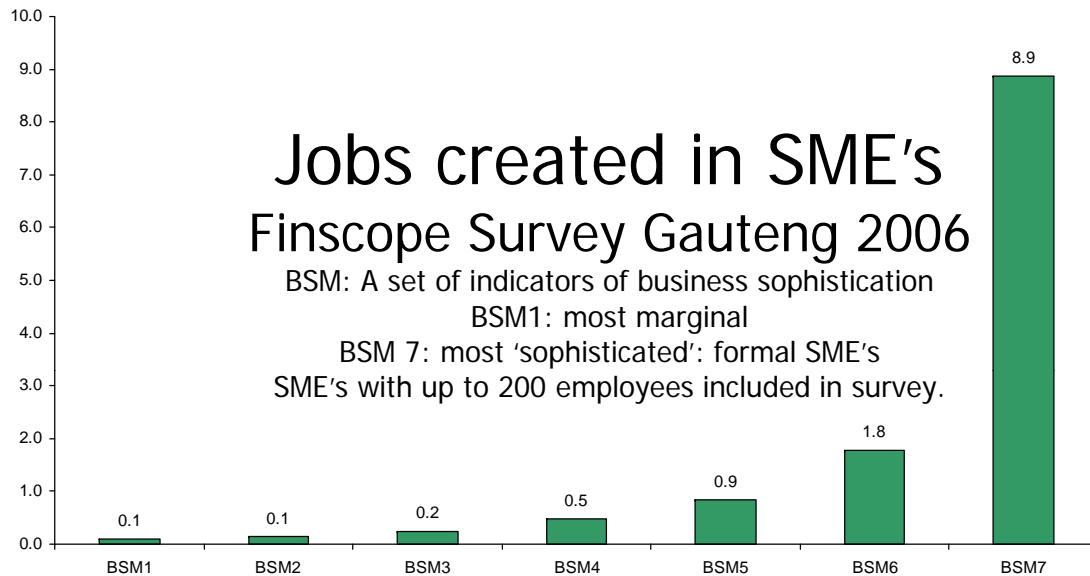
Accessing wider markets is also hard:

- It requires greater formality: transacting across distance requires an enforceable contract:
 - invoices, delivery notes, receipts, bank accounts, an address
 - Without these – formal business can't 'recognise' the transaction: because neither auditors nor SARS will do so.
- Participation in wider value chains requires greater quality assurance and compliance with standards, including labour standards;
- Access into external markets can create massive increases in volume requirements:
 - Marula: needed 4,000 women in 42 villages to reach Ceres' volume requirements for Marula Mania;
 - Il Corte Inglese (a Spanish department store) ordered 17,000 beaded bracelets in a single order to 'Gone Rural': it took 200 beaders to produce.
 - Umgeni beans: sought 8,000 tons of beans from small farmers: could secure only 17.3 tons.

Entry into wider value chains often needs intermediary forms of organisation and co-ordination.

What about urban areas?

Different opportunities – but similar problems



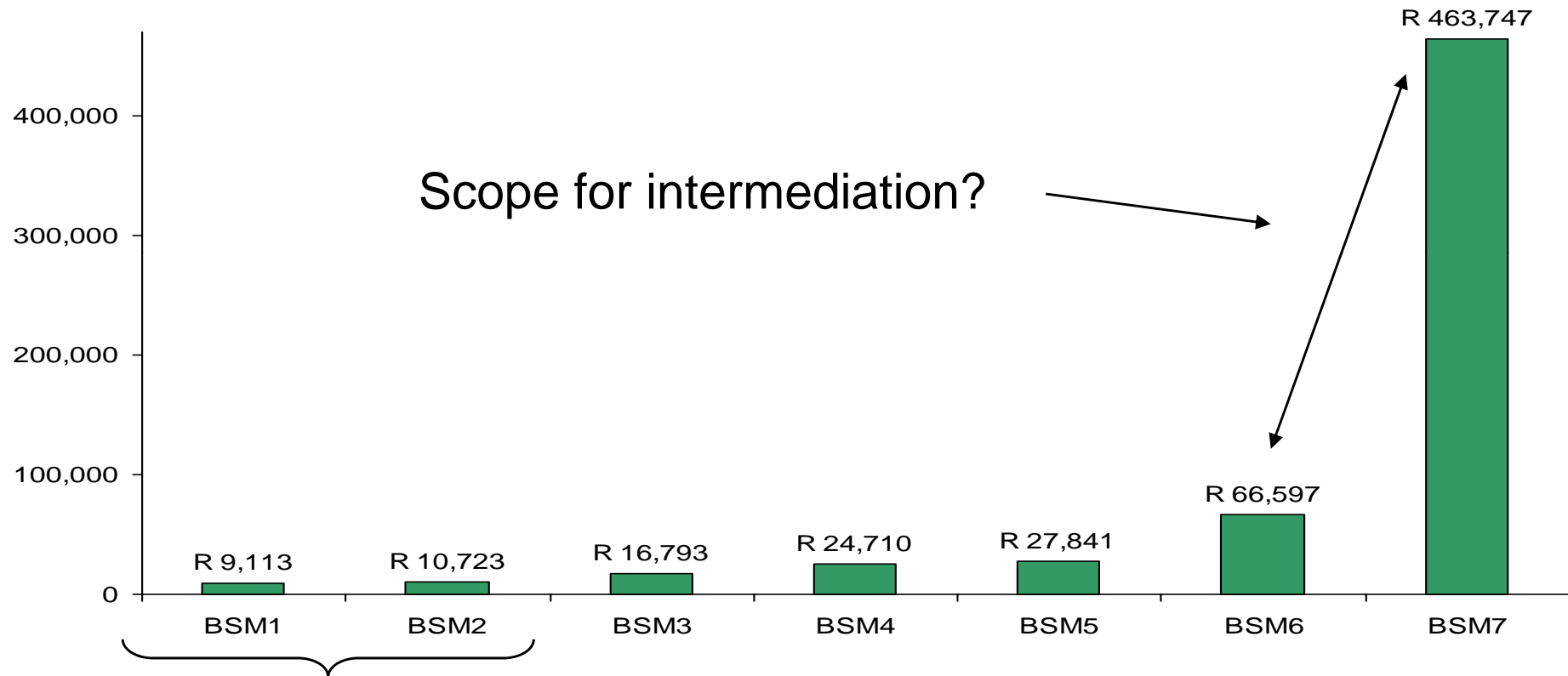
Job creation is closely correlated with higher levels of formality:

ie the evidence does not support the argument that regulation acts as a constraint on SME job creation.

If anything, greater formality seems to unlock a different scale of opportunities.....

Formality a proxy for the ability to comply with expected business standards....

Average SME Turnover per annum....



With a 20% profit margin / 'take-home' rate:

Average earnings in BSM 6 of just over R1,100/month:

But significant increases in returns for BSM7.

BSM6: 73 % black (68% African): BSM 7: 37% black (28% African):

Demographics a factor – but not the whole story.

Implications for Employment Strategy

- Employment creation ‘from below’ – through micro-enterprise or self employment - faces significant constraints and is a poverty trap for many;
 - Those least likely to be employed are unfortunately also least likely to succeed in becoming self-employed:
 - Our strategies therefore cannot rely on the most economically marginalised ‘self-employing’ their way out of poverty;
 - Need to focus on ‘opportunity entrepreneurs’, and aim to find alternatives for ‘necessity entrepreneurs;’
 - Strategies of support to self-employment, livelihood strategies are necessary but not sufficient as a pathway out of poverty
- New work, decent work is likely to come mainly from growth in the more developed/formal/core economy: including the more formal end of the SME sector;
 - Issues of employment, market access and the spread of power and benefits in value chains need to take centre stage as part of core industrial policy, trade policy and sector strategies;
- And there is no alternative but to grapple with the challenge of changing the structure of the whole economy.....not just ‘fixing’ the second economy....

Segmenting strategies for micro-enterprise and the informal sector

There are three broad 'zones' that require distinct strategies, informed by different opportunities and anticipated outcomes:

1. A focus on expanding employment and decent work must aim to strengthen BSM 7: improve access to markets, capital, and formal value chains, all of which requires increased capacity to comply with accepted business practices and standards;
2. The 'zone of transition': within this segment, scope for market institutions and forms of intermediation, strategies to bridge the gap into wider markets: rural and urban;
3. For street traders and more marginal enterprises:
 - Staying small and informal is often a choice; expansion is 'sideways';
 - Scope to redefine notions of 'formality' to provide recognition, legitimacy without adding costs;
 - Markets are local and rely largely on direct sales
 - Focus on improving access, opportunities and returns;
 - reduce risk, mitigate threats;
 - grow the non-economic 'returns' also.

Impacts of Spatial Inequality

Land, location and labour markets

- People were forced off the land and into the labour market in one violent process, with the following impacts
 - De-agrarianisation for many: dependence on wages and work.
 - Poor people are often unable to use land-based livelihoods as a ‘safety-net even in rural areas:
 - most people in ex-bantustans do not rely on agriculture for livelihoods.
- In some areas, ‘rural’ is really low-density ‘urban’;
- People move backwards and forwards between ‘urban’ and ‘rural’;
 - households (and income and expenditure) often straddle both – with costs and benefits; location linked to life-cycles;
- In cities and towns: apartheid spatial legacies impact on inclusion, access and efficiency:
 - Poorly located housing raises the costs of services and also of employment: SA has a high ‘reservation wage’, with impacts on productivity in the economy as a whole;
 - ‘Dormitory-towns’ constrain economic activity and access to social services, limiting economic dynamism in residential areas, reducing economic opportunities and adding to the cost of living and the costs of employment.

Urban planning matters for shared growth

- Urban areas – from metros to small towns – ‘crowd in’ opportunities, and most new employment is likely to be urban.
- ‘The health of a rural local economy depends on the dynamism of the town that serves it’;
- Efficient, inclusive, dynamic cities and towns are vital to shared growth;
 - Spatial legacies and current urban planning often limit this;
 - Requires densification coupled with integration of economic activity, especially on transport corridors.
- **People will keep coming, so:**
 - Facilitate access for new entrants
 - Accommodate transience, mobility, migrancy, agency: as well as permanence, rights and tenure security;
 - Get ahead of the game with the planned release of well located, serviced land, planned to enable economic activity.

Breaking the cycle in rural areas

Rural development is vital for breaking the cycle of inequality and poverty even if rural areas are not the main site of market-based employment growth.

Strategies for rural employment are a priority. These include:

- Support and investment in agriculture, across a spectrum from subsistence to export markets: with a special focus on smallholder development.
- Innovation to deliver more effective approaches to land reform and restitution – that look beyond land alone, to wider transformation of ownership and the spread of benefits in agriculture-based value chains.
 - Urgent action to prevent a new wave of rural job loss where land under claim affects jobs in whole value chains eg timber, sugar, and fruit.

In addition:

- A strong focus on human capital development and services
- On the role of rural towns
- Improve conditions for the working poor
- Strategies to improve livelihoods contribution from subsistence activity
- And be willing to innovate.....

Environmental services: New opportunities for rural (and urban) employment

- A new take on the parable of giving a man a fish vs giving him a rod;
- A new reality: natural resource constraints mean new value placed on natural capital globally.
- For example: water is an increasingly scarce resource, on which agriculture, industry and urban areas rely.
- Like energy – taken for granted: but not for long.
- Rural areas are the custodians: actions taken (or not taken) impact on volumes available: clearing of alien invasives can increase flows by a measurable 30%: other actions likewise.
 - Who delivers the service, who uses the water, who pays?
- The current allocation of costs and benefits is biased to urban areas: sustainable rural development requires a fairer allocation: a redistributive opportunity.
- Plus: other new markets (and employment opportunities) in environmental goods and services:
 - Energy: waste to biogas
 - carbon credits
 - More.

Translation into Headline Strategies

Headline strategies need to achieve several outcomes at once;
Taken together, they need to address all the elements below
But it's not a linear (modular) process

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Some of the headline strategies to be considered further in this conference are highlighted here.

1: Tackle Inequality

A wider agenda than 2E: vital to 2E

1. **Requires a wider strategy beyond 2E:** but key areas of structural inequality are cross-cutting concerns in strategies to follow.

In addition:

2. **Prioritise Human Capital Development: to break the cycle**

- HRD, literacy, skills are well established priorities;
- **Areas for additional focus:**
- Child nutrition;
- Early Childhood Development
- Improve access to (and use of) treatment for HIV/Aids:
- Building participation and social solidarity.

3. **Increase the social wage: focus on economic and social services:**

- So far, cross-subsidisation in access to services has had the greatest impacts on patterns of distribution in SA;
- It reduces the cost burden of spatial inequality for the poor;
- **Prioritise affordable public transport.**

2. Target the most vulnerable

women, youth, marginal areas,
informal settlements, the social protection gap

Proposal for three linked national programmes:

1. Significantly expand public employment: EPWP 2
 - Including: the Community Work Programme
2. Transform informal settlements into sustainable neighborhoods
And secure well-located urban land for planned new settlement.
- Support a national household food-security programme:
 - Let's get Growing 😊

These programmes are not dependant on markets to achieve their intended outcomes:

but:

- They all stimulate local demand and scope for local enterprise activity: ie help to 'thicken' local markets;
- They all engage people in economic activity that builds assets and/or incomes, networks and social capital;
- All three are enabled by existing policy frameworks and can start with little delay.

2.1. The Community Work Programme

A minimum employment guarantee:

Why not?

To guarantee those who need it a minimum number of days of regular work - 1-2 days a week - to supplement other livelihood strategies.

- The Community Work Programme is an employment safety net, not an employment solution.
- It addresses a key gap in social protection, while promoting social and economic participation;
- It allows for targeting of spatial poverty traps;
- A potential 'anchor strategy' for addressing marginalisation:
 - Provides a ward-level mechanism for community participation in identifying 'useful work';
 - Creates community assets, public goods and services
 - It's an area-based mechanism that could provide an implementing platform for a range of existing programmes: eg
 - Zibambele: rural roads maintenance
 - Informal settlement upgrading, where applicable;
 - Home-Based Care etc

3. Create Employment, decent work

First prize for poverty, inequality and 2E: and hardest to do

- Place employment (including self-employment) and decent work at the core of economic policy
- Sector Strategies
 - Operationalise approaches that engage stakeholders, give priority to employment, access issues: first steps in forestry
 - Develop instruments to respond to ‘self discovery’
 - Create mechanisms to support association, organisation;
 - Explore and innovate in the use of instruments ‘at the market interface’:
 - how to achieve systemic shifts eg in structure of demand, spread of power and value in value chains;
- Focus on rural employment
 - Human capital development
 - Smallholder development
 - **Environmental goods and services**
- Target the working poor
 - In formal employment
 - In self-employment: street traders, micro enterprise.

Markets for Environmental Goods and Services

A different kind of green revolution?

The value of carbon credits from rehabilitation of land and/or good land-use practice currently exceeds the returns from many current, conventional land-use practices:

- and it's a value paid in foreign exchange.
- **The carbon credits market is new.**
- **It's a prime example of the fact that markets are 'social constructs' – this one is certainly still 'under construction:' with scope to influence the terms on which it develops.**
- There are many challenges in ensuring poor communities benefit: but some significant potential advantages:
 - This market is not constrained by the slow pace of land reform
 - It's a new market: don't have to 'claw' market share away from vested interests;
 - Institutions not well established for any players; in formation;
 - An 'asset' (for carbon credits) is degraded land....
 - Payment is for rehabilitation: no harvesting or transport.
 - A growing global market
 - Strong improvements in related livelihood opportunities, sustainability;
 - Strong positive knock-on effects for agriculture.

Thank you!

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