



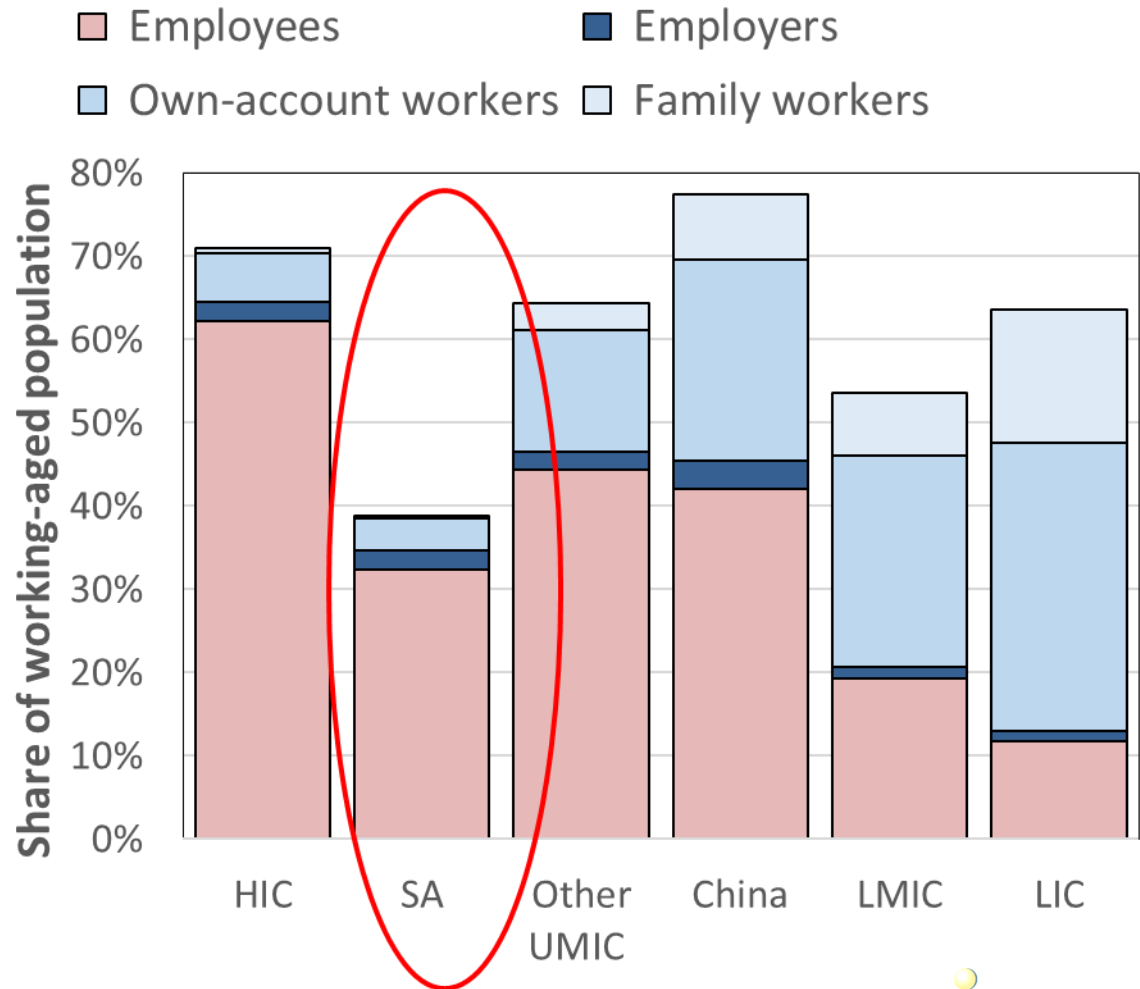
Small business in industrial policy

TIPS Development Dialogue

May 2023

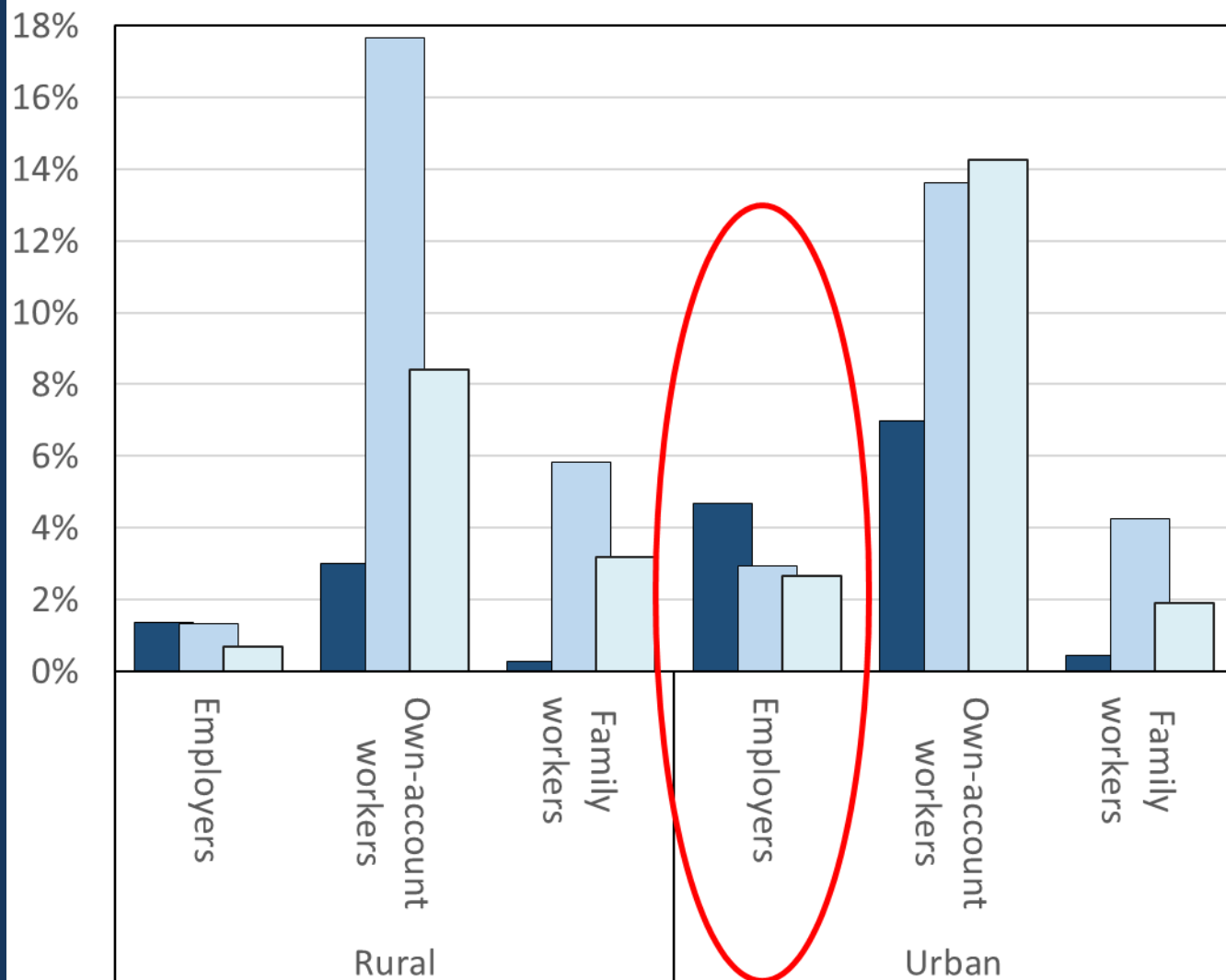
The missing middle

- SA faces unusually deep inequality largely because of very limited small business
 - Far fewer people earn livelihoods from their own businesses than in other upper middle-income countries – accounts for over half of difference in employment ratio
 - Income from productive assets and financial savings is even more unequal than wages and salaries.
- By extension, an industrial policy aimed at inclusive industrialisation needs to step up the number of small businesses.
- For small business owners to equal 20% of employment would require 2 million more enterprises – almost twice as many as in early 2020s



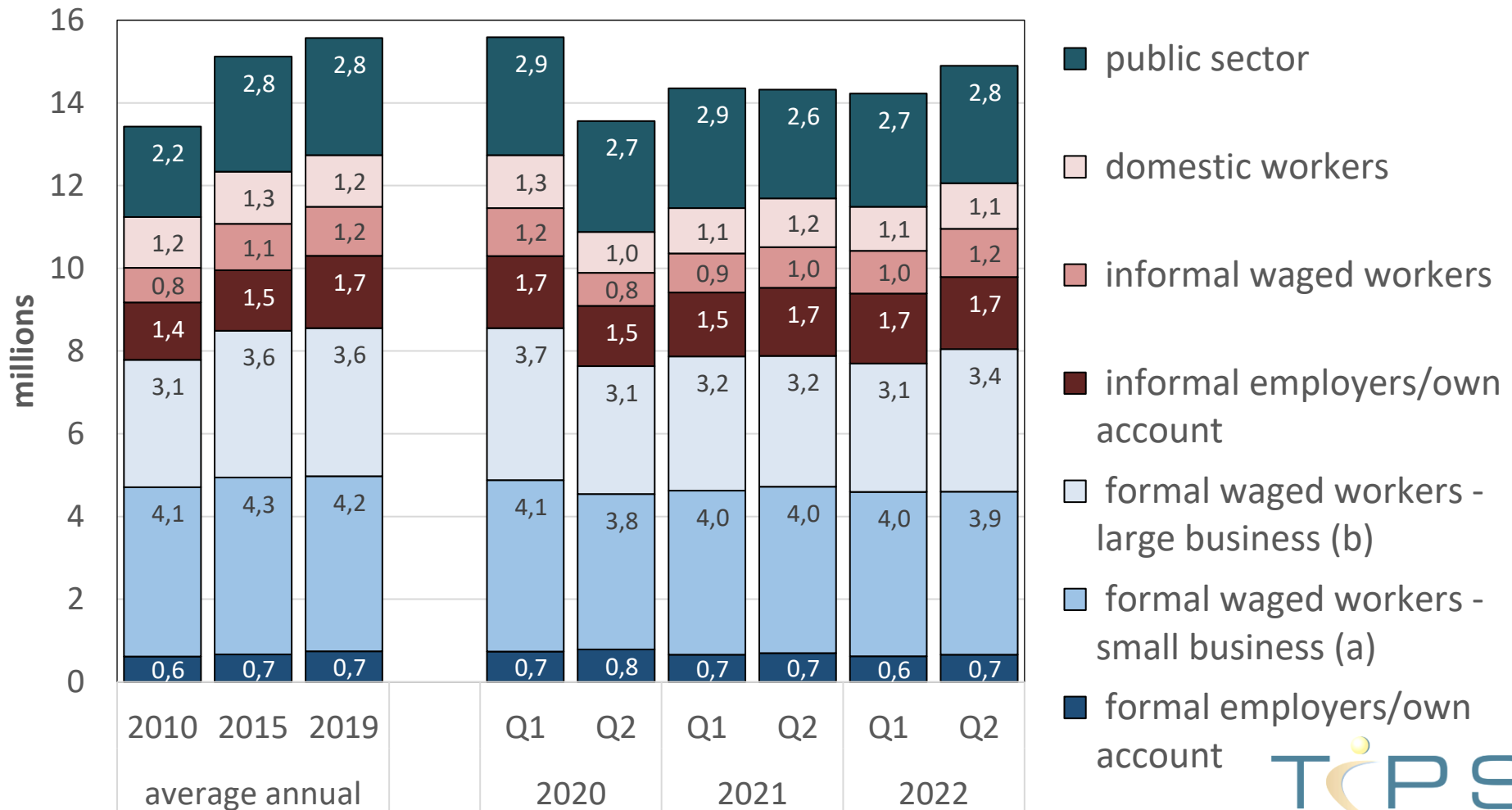
Why?

■ South Africa ■ China ■ Other upper middle income



- Shaped by apartheid history
 - Dependence on mining value chain
 - Destruction of black-owned business, both rural and urban
 - Apartheid income differentials translating into lower employment and higher incomes for formal small business owners
- Reproduce because persistence of
 - Deeply inequitable and therefore limited access to productive and financial assets, education, infrastructure and experience
 - Systems in government and private sector that limit small business, especially around access to industrial and commercial sites, procurement, finance and licences

Trends



Constraints on emerging businesses

Constraints emerge in terms of

- demand;
- production structure focused on capital-intensive sectors;
- resourcing (including ownership of assets, skills and networks, infrastructure)

Market and government systems historically prioritised support for the mining and commercial farming value chains, and for technologically advanced industries

Production structure:
Comparatively small labour-intensive industries and limited small-scale production in dominant value chains

Demand structure:
Deep inequality constrains household demand for easily produced goods and services

Relatively slow economic growth except during commodity booms; high joblessness and unusually unequal pay only partly offset by government redistribution, depressing demand in working class communities

Load-shedding

Emerging entrepreneurs :
Shortfalls in capital, education, experience, networks and infrastructure

Concentrated ownership of assets, including small businesses and financial savings; profoundly unequal education; limited inherited experience of entrepreneurship; most communities lacked adequate municipal services as well as defined commercial and industrial sites

The challenge for industrial policy

- Focus on competitive and high tech industries effectively shuts out most self-employment
- How to support sectors that generate incomes and are sustainable but NOT internationally competitive?

Strategies

- Large scale promotion of more labour-intensive industries, even if they will only reach local and regional markets for the foreseeable future
 - Requires a fundamental re-direction of industrial policy measures to support services and production of basic necessities for SA and the region
 - Extensive growth (based on drawing in more resources) rather than intensive growth (based on rising productivity of employed resources)
- New strategies to expand demand for small producers, such as programmes
 - To subsidise basic necessities to working-class communities
 - Transform procurement especially of consumables by government agencies, big business and formal retail
 - Meaningful access for small business to customers – formal retail sites, taxi ranks, institutions, construction and other business sites
- Step-up in programmes to meet the needs of actual and potential entrepreneurs for resources in a holistic fashion
 - Provide productive assets on a mass scale, e.g. land reform, financing for new business – which is very high risk
 - Improved infrastructure plus commercial and industrial sites in working-class communities
 - More equitable access to relevant, quality education
 - Step up in relevant skills development, mentoring and operational support
- Urgent measures to mitigate the impact of loadshedding on small businesses, e.g. through financing for solar/battery combinations

What does extensive growth look like?

- Examples:

- Smallholder agricultural schemes with significant private or public extension, financing and marketing.
- Platforms for crafts, entertainment, hospitality and services that raise standards while helping with marketing, e.g.
 - For entertainers, subsidising venues, streaming and marketing for paraphernalia and concerts
 - For ECD, rolling out subsidies for centres in working-class communities with training and infrastructure.
- New industrial and commercial sites for small businesses around working-class communities.
- Government subsidies to low-income households to invest in goods and services that would significantly improve living standards and productivity, e.g.:
 - solar lighting and heating systems
 - mopeds, e-bikes and bicycles
 - computers and broadband connections
 - daycare and preschools
 - school feeding schemes.

- Many such programmes already exist, but on a tiny scale
- Needs a paradigm shift in industrial policy to support on a sufficiently large scale
- In effect: second best, but necessary and viable

What are our actual priorities? What an end state of industrial policy look like?



Re a leboha!