
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SPECIAL EDITION: THE STATE OF SMALL BUSINESS IN SOUTH AFRICA

Briefing Note: Markets on the margin: Lessons for today

Kate Philip, author of “Markets on the Margins: Mineworkers, job creation and enterprise development”, on lessons from an important South African experience in developing small enterprise.

Markets on the Margins tells a development story with highs and lows and successes and failures. The story starts just after the national mineworkers strike of 1987. The strike took a heavy toll on mining employers, but in the end over 40 000 workers were dismissed.

The strike was called by the National Union of Mineworkers (NUM), led by Cyril Ramaphosa. NUM was then just five years old but already the largest union in South Africa. It decided to start a job creation programme for the dismissed miners, most of whom came from rural labour-sending areas across southern Africa. This was – and still is – an unusual role for a trade union to play, but NUM invested significantly in its “social plan” for mining communities. I was appointed to head the Mineworkers Development Agency (MDA), which became the development wing of NUM.

The story begins in the dark days of apartheid but ended a decade into the democratic era. Although the context has changed significantly, many of the lessons we learnt are still relevant to small enterprise development today.

The journey had several phases. MDA established 30 worker co-ops; set up eight Development Centres, offering business services; and built a value chain from the bottom up with the successful commercialisation of a marula juice product – Ceres Marula Mania – supplied by 4 000 women in 42 villages. As part of a wider partnership, marula oil was supplied to the Body Shop.

In the process, MDA was also confronted with a paradigm shift in the sector, with an approach called “Making Markets Work for the Poor.” The approach placed markets at the centre of the debate, which brought new insights but also did damage, with its inability to recognise the role of history in ensuring that markets are not a level playing field and that inequality has market effects.

This article focuses on one particular set of lessons that is still highly relevant to current debates, on township economic development in particular.

MDA’s network of Development Centres provided a range of business services to local communities, intended to promote local economic development, with a strategy characterised as “local production for local consumption.” The idea was to maximise the circulation of money in the local economy. Small-scale maize mills, sunflower oil-presses, mini-bakeries, school uniform co-ops, fence-making – we supported it all.

In the process, the Centres also aimed to overcome local market failures. For example, if an entrepreneur was making leather belts, where to buy the buckles? If people were making yoghurt, or atchar, where to buy the plastic containers and foil caps? Casing for ice-lollies? For t-shirt printing, where to buy the inks? In each case, the answer was: in the nearest big city. So the Centres had Business Supply Stores localising the supply of these inputs. They also had equipment-hire facilities for a wide range of enterprise options, so that entrepreneurs could test the market before investing in business start-up. They were a hive of activity. The logic of the model was widely embraced.

Then we did a very thorough impact evaluation. We found that despite all this entrepreneurial energy, the returns to enterprises were shockingly low. For most, this was certainly no pathway out of poverty. Why?

It was from this analysis that we started to understand the impact the wider structure of the economy was having on these enterprises. Think about the manufactured items you would find in the shopping basket of a poor household. Mielie-meal, flour, sugar, tea, peanut butter, soap, margarine, sunflower oil, shoe-polish. Every one of these – and many others not listed – are already mass-produced in the core economy at a scale that makes it very difficult for small producers to compete on either price or on brand recognition.

This is a serious constraint – because the easiest entry point into business for new entrepreneurs is by making and selling goods they know their neighbours need. Yet in the context of South Africa's high levels of concentration, the door to this entry point is often closed. This was a hard lesson to learn. The immediate question, however, was: So what are the alternatives?

In practice, the most obvious alternative, which many entrepreneurs discovered for themselves, was to go into retail – often buying products from the core economy and selling them in more marginal areas, hence the dominance of retail activity in our informal sector. But this is not the only option. In many areas, there are many opportunities for services. If someone needs a document photocopied, or a tyre repaired, or internet access, the fact that it might be cheaper in a nearby town does not assist: they need the service where they are.

In addition, in our highly unequal context, not everyone is poor. Were there opportunities in higher value markets outside the local context that could be targeted – bringing new incomes into the local economy? We initiated the commercialisation of marula products to test what this could mean.

While many of the lessons from this period still apply, the situation is not static. Concentration does not necessarily lead to efficiency. So, for example, increasing levels of concentration in the retail sector since 1994 have led to a growing gulf between farm-gate prices and the retail price of food. This creates new opportunities – for new forms of linkage between producers and consumers. In townships, there are increasing levels of disposable income and new niche opportunities. Products can be differentiated. Small enterprises can also enter into the value chains of larger firms and procurement policies provide new opportunities.

The important point, however, is to recognise how the wider structure of the economy affects the competitive environment at any given time – and to develop strategies accordingly.

Published: January 2019