



**THE REVIEW OF
SECOND ECONOMY PROGRAMMES
January 2008**

**An Overview for the Presidency's
Fifteen-Year Review**

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1. Introduction

The Accelerated and Shared Growth Initiative – South Africa (AsgiSA) Annual Report 2007 highlights the growing momentum in relation to growth and employment in the South African economy, but also notes that the impacts of such gains are not yet being felt in the ‘second economy’, where poverty and inequality still shape people’s lives. The Report notes that programmes targeting the ‘second economy’ are still too modest, and calls for a strategy of ‘massification’ of ‘second economy’ initiatives.

At the July 2007 Cabinet lekgotla, the Presidency was tasked with conducting a review of existing government programmes that target the ‘second economy’, in order to identify where programmes can be scaled up to achieve greater impacts, and where further innovation may be needed. The Review of Second Economy Programmes was done in January 2008 by the Second Economy Strategy Project, an initiative of the Presidency hosted in Trade and Industrial Policy Strategies (TIPS). This is an overview of that review, for the Fifteen Year Review.

2. What is the ‘second economy’?

The description of South Africa as characterised by a ‘first economy’ and a ‘second economy’ entered policy debate following the use of the terms by President Thabo Mbeki in a Letter from the President in *ANC Today* in 2003, where the terms were used to describe some of the structural features of poverty and inequality in South Africa.

The ‘first’ and ‘second’ economies represent two ends of the spectrum within South Africa’s highly unequal economy, with wealth and resources concentrated at one end, and poverty and disadvantage at the other. This inequality is a core legacy of apartheid; some of its most resilient features include the following:

- The spatial legacy of bantustans and of apartheid cities, and the way in which the economic irrationality of both continues to thwart development and impose costs on the poor;
- The labour market legacies of pass laws, migrant labour and reliance on unskilled cheap labour;
- The impact of Bantu education in limiting human capital formation;
- The monopoly structure of South Africa’s core economy – still largely impervious to competition from new entrants or small enterprise;
- The highly skewed distribution of assets such as land and capital is also still mainly intact, despite gains made.
- The way in which the denial of human rights was used to underpin economic advantage. While the Constitution now secures these rights, economic disadvantage persists.

The legacies of each of these key features of apartheid underpin structural inequality in South Africa today, and continue to act as dead-weights on processes

of change. Addressing these issues remains a key part of the ongoing challenge of transformation – and is also at the heart of strategies for the second economy.

While the processes that generate wealth and poverty are clearly linked and interdependent in South Africa, much debate has focused on the nature of the relationship between the two – and between the ‘first’ and ‘second’ economy. This debate has deepened analysis of the wide range of connections and disconnections, dependencies and interdependencies that exist between the most marginal economic activities and the developed end of the South African economy.

Connections and interdependencies

- Street traders and spazas buy mainly branded goods, and are sometimes supported with advertising and promotions from multinational companies;
- Most informal producers and subsistence farmers rely on inputs from the formal sector, and may be selling to formal-sector buyers;
- Remittances from migrant workers are vital to rural economies – and at the same time, these workers contribute to producing wealth in the core economy;
- Seasonal, casual workers on the farms contribute to a key export sector;
- In the cities, an outsourced contract worker with little formal protection may work in the formal sector – and go home to an informal settlement or backyard shack.

While some connections create opportunities, others have been described as forms of ‘negative incorporation,’ with uneven benefits reinforcing unequal patterns of development. The relationship has also been described as a form of ‘asymmetrical interdependence’ – highlighting the power relations involved. While the nature of the connections between the two are important, so too are the many disconnections and weak linkages: those in the ‘second economy’ are disconnected from the benefits of growth and have weak access to institutions and services, including access to finance and markets, access to information and often access to basic services.

The challenge, therefore, is not only to strengthen linkages and access, but also to address the terms on which these take place, the spread of benefits within such relationships, and issues of power.

In sum, the concept of the ‘second economy’ is being used to focus policy attention on continued inequality, disadvantage and forms of marginalisation, and on how these limit economic opportunities, lock many people into poverty and constrain the potential of the economy as a whole. The purpose is to understand how and why these conditions are still being reproduced, and to find ways to change that.

3. Why inequality matters

Inequality matters for reasons of social justice, and equity is an underlying principle at the root of many fundamental human rights. But there is an additional set of policy reasons for locating the ‘second economy’ in relation to inequality as well as poverty that have a direct bearing on our ability to meet the AsgiSA growth targets – and the targets for halving unemployment and poverty by 2014.



An international debate has been taking place on the impacts of inequality on growth. There is some consensus on the following core arguments:

- High levels of inequality in a society act as a constraint on growth;
- When growth does take place in highly unequal societies, it tends not to impact much on poverty reduction; and
- An unequal distribution of assets and human capital reinforces inequality and low levels of growth, while conversely, more equitable distribution of assets such as land and access to education and health services are associated with rising equality and shared growth.

(Summarised from the World Development Report 2006)

This analysis has profound implications for South Africa, both in diagnosing why growth has been slow and has had less impact on poverty than anticipated or intended, and for the design of policies and programmes that will not only achieve higher levels of growth but also the kinds of shared growth needed to halve poverty.

This analysis leads to the converse of trickle-down approaches, because its implications are that social policies and programmes that impact on inequality are vital and necessary investments in shared growth – and may actually be key to the desired levels of 'lift-off' in growth rather than simply being seen as an unfortunate drain on the fiscus.

These arguments also introduce another dimension to how we understand the relationship between the 'first' and 'second' economies, with inequality not just limiting the opportunities for those trapped in the 'second economy' but shackling the potential for strong and sustained growth in the economy as a whole.

4. How the structure of the economy impacts on opportunities on the margins

While inequality may be shackling growth at the developed end of the economy, the structure of the core economy certainly imposes limits on opportunities in marginal areas. The South African economy is dominated by a set of monopoly industries, which has certain consequences for economic development strategies. The focus of policy has tended to be on addressing this issue within the core economy, through the introduction of effective competition policy, the reduction of protective tariffs in some instances and a focus on black economic empowerment to break up the tight hold on racial ownership at the centre.

Less well explored is the impact this economic structure has on the opportunities for small enterprise or new entrants in marginal contexts, even though promoting these has been the focus of strategy for the 'second economy' thus far. There has also been a strong emphasis on development approaches that target local markets, promoting local production for local consumption. Attractive as this is, its

potential in marginal and rural areas is limited by the following key consequences of the structure of the economy:

- Most people in marginal areas are poor and buy a limited number of consumption goods. Most of these are already mass-produced in the core economy: maize meal, bread, sugar, flour, tea, soap, tinned goods, margarine and more.
- For the purchase of larger items, such as furniture, clothing or building materials, mass retailers are present in many rural towns and are able to provide hire purchase terms.
- Poor consumers often prefer branded goods for reasons of price, packaging, quality assurance and the impacts of advertising on aspirations. Small-scale producers targeting local markets can rarely compete.

These factors mean that even where economic activity does take place in the 'second economy,' that money tends not to circulate for long within the local economy, but rather leaks back into the 'first economy' – to pay for the kinds of basic goods described.

As a consequence, the opportunities that exist in local markets tend to be for relatively small volumes, able to sustain micro- or household-level enterprises. Government contracts have a key role, as do certain services.

However, the goal of creating employment on a larger scale often depends on breaking into the higher volume and/or higher value markets that lie beyond the local economy.

This has its own set of consequences for strategy. Access into wider markets requires higher levels of formality, and the ability to enter into formal transactions. With well-established, vertically integrated value chains already existing in sectors such as agro-processing and forestry, it also tends to require access to these value chains or other supplier relationships. Success in doing so requires new forms of linkage, co-ordination and market organisation – creating opportunities for co-operation in relation to access to inputs, marketing and mechanisms to access technical support.

These dynamics have key implications for economic strategy in marginal contexts; understanding how the current structure of the economy shapes the options available in this and other ways is key to operating within it – and to changing it.

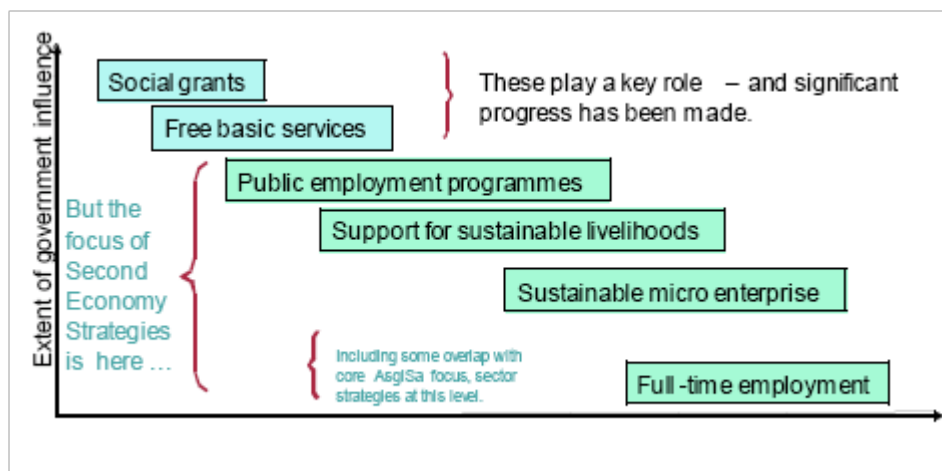
5. How does a focus on the 'second economy' fit into the anti-poverty strategy?

The draft anti-poverty strategy includes the full scope of all of government's social and economic policies and programmes aimed at reducing poverty and at providing pathways out of poverty.

Within this, there is a strong emphasis on decently paid employment (including self-employment) as the most sustainable route out of poverty. The draft anti-poverty strategy characterises the range of government programmes that addresses income poverty as a continuum from social grants through to full-time employment. It argues that government's influence is most direct in relation to social grants – and becomes less direct moving across the spectrum towards full-

time jobs, as market factors increase in importance. Perhaps not surprisingly, government has been most effective in the areas where it has the most direct influence; the key challenge lies in achieving the desired impacts in areas where the outcomes depend increasingly on the interface with market factors.

Figure 1 – Where does the ‘second economy’ strategy fit in?



Strategies targeting the second economy are a part of the wider anti-poverty strategy, and focus on the particular challenges of strengthening economic opportunities in more marginalised contexts, in order to create decent forms of employment and to improve the terms on which people are able to participate in the economy. This means improved returns from sales for small producers, better working conditions for the most vulnerable workers and lower prices for poor consumers.

6. Who is the target of these strategies?

The draft anti-poverty strategy identifies that six million households and 22 million people are poor in South Africa. Not everyone who is poor is able to be economically active, however. These strategies are aimed at improving the opportunities for those who are able to participate in the economy, and to increase the contribution such participation makes to reducing poverty at a household level.

It therefore includes people who are unemployed, as well as people who are involved in economic activity but for returns that are too low to lift them or their households out of poverty. This includes people in subsistence agriculture and in more marginal forms of self-employment and small enterprise (whether formal or informal), as well as the ‘working poor’. Using the categories below, this is about 11.6-million people – out of the total of about 22 million people defined as poor.

Table 1 – Number of unemployed

Unemployed – seeking work	4,400,000
Unemployed – discouraged	3,218,000
Total: 'broad' definition of unemployment	7,618,000

Table 2 – Number of people earning less than R1,000 per month (includes those producing for home consumption as earning nothing)

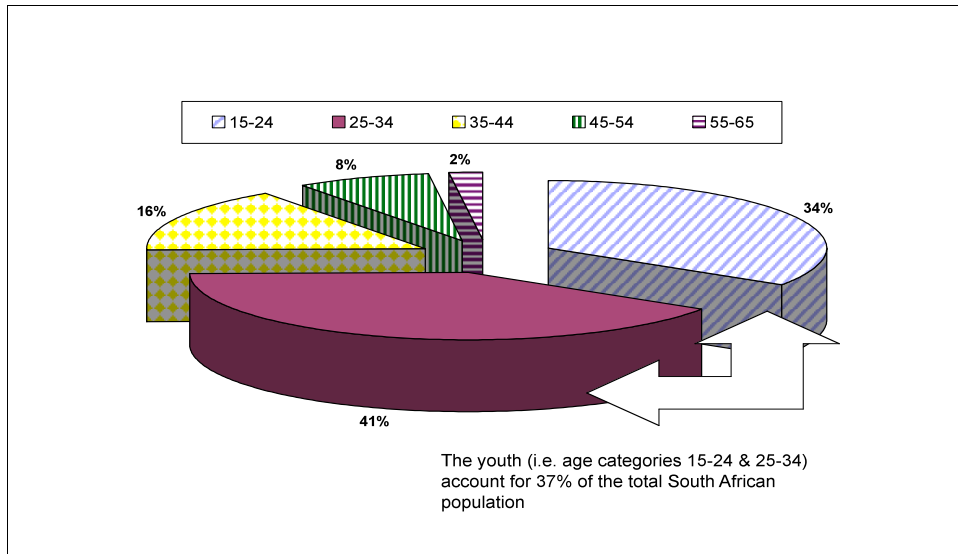
Sector	Number of people earning less than R1,000 per month
Formal sector (excl. agriculture)	992,000
Commercial agriculture	370,000
Informal (mostly subsistence) agriculture	501,000
Informal excluding agriculture	1,475,000
Domestic	688,000
TOTAL	4,025,000

Source for Tables 1 and 2: September 2006 figures from: Statistics South Africa, 2007. Labour Force Survey September 2006. Database on CD-ROM.

Joblessness and low incomes from work have had a disproportionate impact on Africans and young people – particularly women – as well as on the former bantustan regions.

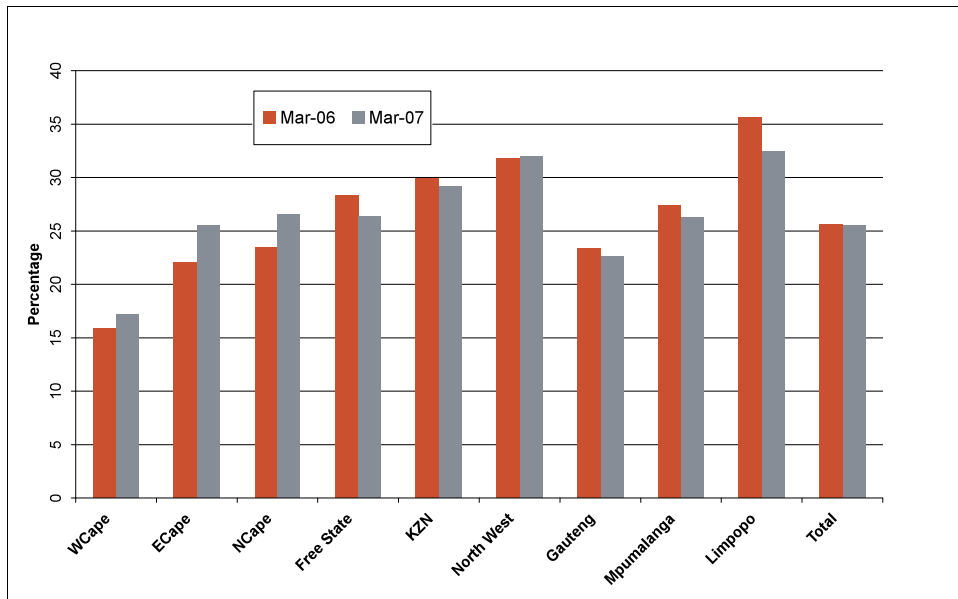
- Africans made up 75% of all employed people, but 90% of the unemployed and discouraged; 91% of all those earning R1,000 a month were African.
- Young people under 25 made up just over 10% of the employed, but 33% of the unemployed and discouraged. The figures for unemployed do not include students or any others who were not actually seeking paid jobs.
- African women made up only 30% of the employed but 50% of the unemployed and almost 60% of discouraged workers. They also made up half of those earning under R1,000 a month – and only 20% of those earning more than this. In part, this was because of low numbers of women in formal employment, while two out of five informal workers are women, and women make up nine tenths of domestic workers.
- Only around a quarter of working-age adults in the former bantustan regions were employed, compared to almost half of those in the rest of the country. Employment in the former bantustans was also typically at very low wages, with over half of those employed earning under R1,000 a month in income.

Figure 2 – Proportion of South African population unemployed, defined by age group



Source: Statistics South Africa

Figure 3 – Provincial unemployment rates



Source: Statistics South Africa

7. The scope and structure of the review

A wide range of policies impacts both directly and indirectly on the 'second economy', including for example, macroeconomic policy and social policies, as well as those public goods and services that make up the social wage. While the impacts of these wider policies are certainly important, the focus of this review has been ring-fenced to look at the performance of a defined set of national programmes targeted directly at achieving impacts in the 'second economy', and that aims to achieve any of the following:

- Create jobs;
- Improve the returns from economic participation;
- Enhance access to assets; and
- Deliver integrated development programmes to do the above at the local level.

In practice, this covers a significant array of programmes, grouped here as follows:

- Public employment: Expanded Public Works Programme (EPWP) and Youth Service;
- Employment and livelihoods: engaging with market processes;
- Sector strategies, small and medium-sized enterprises (SMEs) and co-ops, and small-scale farmers and labour markets;
- Building skills;
- Building assets: land reform, housing and broad-based black economic empowerment (BBBEE);
- Integrated development programmes; and
- Closing the information gap.

The review looks at the following key issues in relation to each programme covered:

- The strategic rationale for the programme;
- An overview of key performance indicators (KPIs) and performance against them;
- An assessment of impacts and issues arising; and
- Identification of areas for potential scaling up of the programme, where appropriate.

8. Summary assessment of impacts and outcomes

There is a range of difficulties in assessing the depth of impacts on economic access or on poverty of the programmes reviewed, and there are difficulties of attribution across the spectrum. While at one level what matters is the overall trends and whether, taken together, government's efforts are leading to the critical shifts in poverty and unemployment required, there is also a need to understand what is working and what is not, in order to inform what is scaled up – and what is wound up. This section summarises the qualitative assessments of the main programmes. The more detailed assessment and supporting data on each area are contained in the 'Review of Second Economy Strategies: January 2008',



commissioned by the Presidency and compiled by the Second Economy Strategy Project, TIPS. This paper for the Fifteen Year Review provides a brief summary of the main conclusions from each section of the Review, but as some of these areas are covered in depth by other papers in the Fifteen Year Review, this paper focuses mainly on the cross-cutting and strategic issues that arose from the review, rather than on individual programmes.

Public employment

EPWP is on track to meet its target of one million work opportunities by 2010. However, these represent 'work opportunities' rather than the equivalent of full-time jobs, so the 316,814 work opportunities delivered by March 2007 translate into about 70,000 full time equivalents. A review of outcomes also highlights that the numbers of days worked per opportunity has been declining, leading to fewer jobs when measured as full-time equivalents. The wage bill has also declined relative to the number of opportunities provided, so impacts on poverty are not rising (Altman, 2007).

Table 3 – Work opportunities created by sector, 2004-07

Sector	2004/05	2005/06	2006/07
Infrastructure	109,712	105,571	146,974
Economic	4,687	1,833	3,483
Environment	58,796	81,186	129,251
Social	1,650	18,308	37,106
Total	174,845	206,898	316,814

Source: Data assembled from the Quarterly Reports of the EPWP and Annexures containing data and information for the period 1 April 2004 to 31 March 2007

Infrastructure continues to contribute the largest number of job opportunities, but at a slower rate of growth than the social and environmental sectors – with the latter catching up on numbers also. In infrastructure, impacts are partly constrained by the need to gear existing infrastructure budgets in more labour-intensive ways, but without the necessary authority or incentives to hold different spheres of government accountable for doing so.

Targets for Early Childhood Development and Home/Community-based Care systems were to create 72,000 permanent positions and 205,000 temporary opportunities in 2007. By the end of August 2007, 68,178 community caregivers were receiving stipends, almost doubling delivery in the social sector; and 985 new ECD sites had been registered, bringing the total to 5,597 of the targeted 6,000 sites, with over 331,763 children receiving subsidies from the Department of Social Development (DSD) through this mechanism (Programme of Action Report December 2007, www.gov.za)

In addition to 'Working for Water', the environmental sector has added 'Working for Woodlands', as well as for wetlands, coastal areas and fire. Significant innovation is taking place in the development of 'environmental services' and eco-systems services, delivering a range of public benefits.

With the right support from government, aspects of this programme have the potential to yield sustainable market-based returns for rural communities, for the rehabilitation and continued maintenance of woodland areas, and other eco-system services that restore natural capital.

First, this is because of the current rapid rise of carbon trading in global markets. With the levels of existing experience in labour-based erosion control, woodland rehabilitation and fire management, coupled with the GIS and satellite mapping of targeted areas already available within these programmes, South Africa is ahead of the game in being able to identify degraded sites, support their rehabilitation, and provide the means of verification required to access growing international markets. Unfamiliar as such markets may be, evidence suggests they are already growing exponentially (Blignault, Marais and Turpie, 2007).

Table 4 – Livelihood implications for restoration, operations and maintenance of ecosystem services

Function	Potential jobs (full-time equivalents)	Jobs created at current budgets
Restoration	52,000	1,580
Integrated veldt and forest fires	9,000	1,700
Invasive alien plants	32,000	10,520
Total	93,000	13,800

Source: Christo Marais, DWAF

Youth have been a particular focus of public employment. The National Youth Service had a target of 20,000 for 2007; by December, 11,286 young people were registered with the National Youth Service (NYS). In the campaign to link unemployed graduates with economic opportunities, 8,288 CVs were submitted to the JOBS database held by the Umsobomvu Youth Fund (UYF); and 2,518 CVs were submitted to Opportunity Providers, but only 91 job placements were facilitated. By December 2007, it was reported that 273,899 young people had visited UYF Youths Advisory Centres (YACs) and YAC points. NYS also had a target of enrolling 30,000 volunteers in community development activities. A total of 20,872 volunteers had participated in programmes by December (Programme of Action Report, December 2007, www.gov.za).

Significant effort has gone into a rigorous review of outcomes in public employment programmes in order to identify blockages, assess constraints in current institutional and financial arrangements and to develop proposals to address these in order to take public employment to a different level. It is the area where plans for scaling up are the most advanced. This process has been lead by the EPWP, and is discussed further below.



Market-based employment

The creation of market-based employment is the 'first prize' in reaching the targets of halving unemployment and poverty. But, as is noted in the draft anti-poverty strategy, the contradiction – and frustration – for government is that its role in supporting these market-based forms of employment and economic activity is mainly at an enabling and framework level, and in catalysing change in how markets work. Even where interventions are more direct, success still depends on a market response. Current approaches are grappling with this challenge.

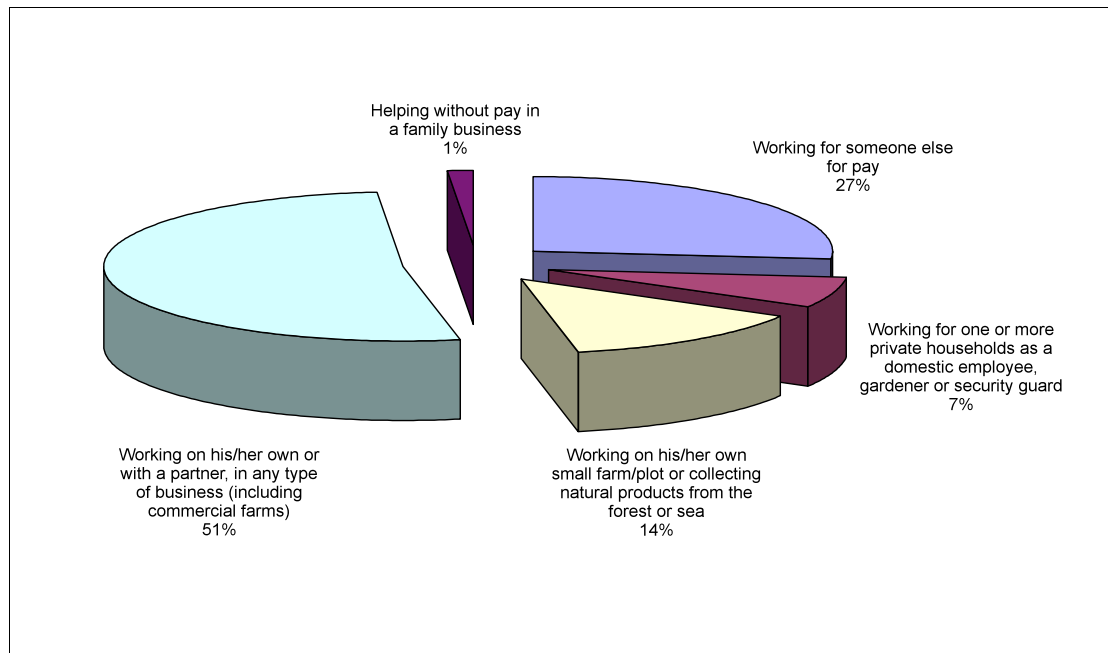
Sector strategies: Despite a range of priority sectors being identified in AsgiSA and also in the Industrial Policy Action Plan (IPAP) there has not been much progress in developing and operationalising sector strategies, nor is employment creation a prominent priority within the recently approved IPAP, yet most private sector jobs will need to come from these sectors if South Africa is to meet the target of halving unemployment.

Progress in this area is urgent, in ways that give priority to employment creation, improved market access for marginalised producers and improved conditions for vulnerable workers. This means looking in an integrated way at how sectors work, at where opportunities to achieve these outcomes lie, at the institutional innovations that are needed and at the role of the state in the process. These issues cannot be tackled in relation to the second economy in isolation from wider sector strategies, and need to be given priority within them.

SMEs and co-ops have been seen as providing a relatively easy entry point into business and as having the potential to contribute significantly to employment creation. While the Department of Trade and Industry (the dti) is the lead department in this area, many departments have engaged in forms of SME support, including the Tourism Enterprise Programme (TEP) of the Department of Environment and Tourism, as part of the Department of Provincial and Local Government's (DPLG's) Local Economic Development programmes and the Department of Labour's (DOL's) New Venture Creation Learnerships (NVCL). The Department of Agriculture has also supported co-operatives along with other departments as part of the 'Jobs for Growth' initiative. Employment creation through SME and co-op development has, however, proved hard; these entities face a range of constraints that have limited their employment impacts.

For the second economy, the focus is on the marginal and informal end of the spectrum. At a national level, South Africa is "unique at its level of development in having a very high rate of open unemployment, and such a small contribution by informal firms", which in 2005 made up about 14% of total employment, excluding domestic work (Altman, June 2007). This is notably lower than other similar developing countries, such as Brazil, where over 50% of people are in the informal sector.

Figure 4 – Composition of informal sector by employment status



Source: Statistics South Africa

Within the informal sector, retailers of varying kinds make up nearly 50% of the sector. This includes mainly street traders, street caterers, spaza shops and shebeens. Incomes are concentrated at the lower end of the spectrum, but with overlap with the working poor in formal employment.

SME support strategy has included tackling regulatory constraints, business development services, access to finance and facilitating market access.

Since 2004, the regulatory burden on SMEs has been consistently reduced, particularly in relation to tax issues. This has included the scrapping of Regional Services Council levies, exemption from skills development levies, improved depreciation write-offs, a tax amnesty for SMEs and the removal of the secondary tax on companies. A small business tax compliance study will be used to inform further changes in 2008.

In 2007, work on municipal regulations, labour market issues, taxation and a process to arrive at a standard definition of SMEs was initiated. A manual was developed by DPLG to assist municipalities to reduce the red tape on SMMs. Regulatory Impact Assessment processes currently being introduced for new legislation will also highlight potential impacts on SMEs.

In the 2008 Budget speech, the creation of tax incentives for the provision of 'angel finance' was announced. This is a mechanism used in some developed countries to incentivise private individuals or companies to invest in equity in small businesses.

More recently, in November 2007, Cabinet decided to enforce a 30-day payment system for SMMs within government, with enforcement through a Call Centre number for complaints, and National Treasury oversight.



The focus of regulatory change has, however, largely impacted at the more formal end of the spectrum of SMMEs. Given that about 50% of informal sector participants are in the retail sector and that a large number of these are street traders, the scope to adapt municipal by-laws to facilitate rather than frustrate such livelihoods is a key area that has been noted before but where limited progress has been made.

Despite the development of significant support infrastructure for business development services, and despite the difficulties in measuring this, the impacts and levels of outreach of business development services appear limited.

According to the dti's Annual Report to the Presidency, approvals to Khula channel partners increased to a record of R746-million in 2007, representing a 60% increase over the period. 65% and 32% of the funds were disbursed to black- and women-owned businesses respectively. However, this still falls significantly below the levels required to meet the Financial Sector Charter targets.

The South African Micro Finance Apex Fund (SAMAF) was established to target micro-finance, in recognition that other development finance institutions were not reaching this level. Although it is relatively new, numbers of borrowers serviced are still very low. While information on co-ops is hard to aggregate (and disaggregate) from multiple sources, business health checks have highlighted the levels of business vulnerability and marginality of many such initiatives.

While much of the focus of support has been on supply-side constraints, such as access to skills and finance, the structure of the economy is a 'binding constraint' that makes it hard for SMEs to compete. This is particularly the case in more marginal areas and in markets that target poor consumers, where pricing and branding rule.

A September 2007 Review of the Jobs for Growth programme also highlighted the role being played by a range of different forms of market intermediaries and co-ops, playing a key linkage role between marginal areas and marginalised producers, and wider market opportunities. In marginal areas where local markets are often limited, expanding incomes and employment often require strategies to target higher value and higher volume external markets, and with this, new forms of co-ordination and market organisation are often required. Jobs for Growth has focused on facilitating market access for marginalised producers through the negotiation of off-take agreements with large formal-sector buyers.

The dti provides a number of incentives to co-ops, with the Small Enterprise Development Agency (SEDA) providing entrepreneurship and technical skills development. New systems have been launched by the Companies and Intellectual Property Registration Office (CIPRO) for the registration of co-operatives, and CIPRO is now working on the decentralisation of co-operatives registration.

However, with nearly 50% of the informal sector involved in street trading, spazas and other forms of retail, the lack of policy focus or support to this area is a gap to

be remedied, as well as support to other marginal income generating activities amongst the very poor.

At this stage, however, while targets for SMEs and co-ops are high, outcomes in terms of employment created are significantly lower than projected, in a context in which SMEs have often been seen as the key locus of new job creation. The returns to entrepreneurs tend to be low also, limiting the poverty impacts. This is an area where the interface between government programmes and the achievement of market-based outcomes require further assessment and innovation to improve outcomes.

Smallholder development: 1.3-million households have access to land for farming purposes, although often on very small plots of land. 97% of these households are engaged in some form of farming activity, yet the contributions this makes to livelihoods is low (General Household Survey, 2006). However, both the Integrated Food Security Strategy and certain provincial programmes to boost returns from commercialising subsistence agriculture have shown steady improvements in returns. In the Eastern Cape, in the Siyakhula/Massive programme, yields improved by 360% over four years, to match commercial norms, with rising participation from farmers. In addition, there are a range of initiatives to link smallholders into agro-processing value chains, such as in relation to forestry, sugar and biofuels. Poverty levels in rural areas and former homelands in particular make this a key priority area; limited access to land and the slow pace of land reform are critical constraints.

Extension services have battled to cope with a significant change in the scale and scope of their mandate, which now includes a spectrum of forms of support to emerging farmers, such as facilitation of access to markets, to business development services and to finance, as well as community and institutional development issues. The significant expansion of extension services is currently in process to meet these changed needs.

The Micro Agricultural Financial Institution of South Africa (MAFISA) was set up to improve access to financial services for the poor, and is located in the Department of Agriculture. The scheme was initially piloted in three provinces – Limpopo, Eastern Cape and KwaZulu-Natal – and in July 2007 it was announced that it would be rolled out nationally. At this stage the bulk of MAFISA loans are managed by the Land Bank.

In the pilot phase that ended in March 2007, MAFISA loaned an amount of R41-million to 5,170 farmers – significantly higher than the target of 2,000 farmers, but small nevertheless. Early indications suggest a default rate of 35% to 40% – higher than the 30% target. A fraud situation at one of the Land Bank branches administering MAFISA loans has been a setback (National Treasury, 2007).

Labour market policy has provided protection and core standards for formal sector workers, with wage determinations targeted at the most vulnerable sectors, including domestic workers, farm workers and those in the taxi sector. Impacts in relation to domestic work demonstrate clear gains, with wage increases accompanied by a steady rise in levels of employment. By contrast, the impacts in agriculture are contested. While the significant decline in jobs in agriculture did follow the introduction of a minimum wage, this was also accompanied by the eviction of approximately 900,000 people from farms, in response to the introduction of the Extension of Security of Tenure Act (ESTA). In fragmented sectors such as the taxi industry, wage determinations are hard to enforce.



The critical challenge for the 'second economy' relates, however, to the continued lack of access to rights, services and forms of protection for informal sector and casual workers. Changing patterns of work mean forms of protection that have traditionally formed part of the employment contract are increasingly at risk, and there is a need to explore how these might be linked into systems of social protection instead.

Finally, new entrants to the labour market in South Africa face high barriers. Youth in marginal areas often lack access to information and to the social networks that might link them to work opportunities. Formal qualifications are often a poor test of competence, and employers therefore prefer to employ people with previous work experience. The work-search process can involve high costs of transport – whether to queue at a factory gate or to go for an interview. There is scope for improved services to overcome these barriers.

The DoL is developing a database as part of its Employment Services to match job seekers with opportunities. In addition, it is anticipated that through this process, as well as by ensuring that there is information about economic growth trends in a locale, it will be possible to offer advice to learners about training programmes to undertake in order to access these opportunities. However, evidence suggests that such databases require a complementary set of face-to-face services to be effective (Boulle, 2008).

Skills development

Implementation of Kah Ri Gudi, the ambitious national literacy programme is in its inception phase, and should lead to significant scaling up in this area.

In relation to the wider skills challenge, the National Skills Development Strategy (NSDS) includes a number of objectives that respond to the need to support access to employment and self-employment within the 'second economy'. These objectives include:

- Promoting and accelerating quality training for all in the workplace;
- Promoting employability and sustainable livelihood through skills development; and
- Assisting designated groups, including new entrants, to participate in accredited work, integrated learning and work-based programmes to acquire critical skills to enter the labour market and self-employment.

A range of programmes attempt to achieve this. With regards to small and micro-enterprise development, the NVCL aims to create SMEs by providing learnerships to selected emerging enterprises. Within the context of EPWP where the NVCL is centrally driven, the programme works through creating 'ring-fenced' procurement of goods and services by Public Bodies. In consultation with the relevant sector education and training authority (SETA), the national Department of Public Works (NDPW) allocates the learnerships to Public Bodies on a first-come-first-served

basis through the signing of a Memorandum of Agreement (MOA) between the NDPW, the relevant SETA and the Public Body.

The Basic Entrepreneurial Skills Development (BESD) programme is also being piloted within the DoL's Employment Services. This supports flexible on-site delivery, inter-linking training and job creation, coaching and mentorship and integrating business, technical and life skills. These processes are supported by Entrepreneurial Development Practitioners who have been trained through monies allocated by the National Skills Fund (NSF).

The NSF is one of the key levers in achieving a number of the National Skills Development Strategy (NSDS) objectives. The NSF strives to extend skills development opportunities to the most disadvantaged citizens and communities. It receives 20% of the national skills levy income and allocates it to skills development projects that attempt to stimulate skills development for human, community and economic development. It does this through funding programmes designed to achieve the NSDS and Skills Development Act (SDA) objectives. The amount available is approximately R1-billion per year. The procedure adopted to enable targeted spending of NSF funds towards projects aligned to the NSDS and government development objectives has been to establish funding windows and invite proposals for projects against the specified windows. There are a number of funding windows; those that are most pertinent to the second economy include:

- Social Development Initiatives (including EPWP)
 - Funding directed at projects that are aimed at addressing unemployment and job creation, principally through government initiatives.
- Adult Basic Education and Training (ABET)
 - Funding of ABET programmes that for the unemployed.
- Critical Skills Support
 - Funding directed at projects that are aimed at addressing scarce and AsgiSA priority skills development, including improved access to such training for designated groups.
- Informal Sector Support
 - Funding non-levy paying community-based organisations (CBOs), co-operatives, new ventures and other second economy initiatives.
- Discretionary and Innovation Projects
 - This enables the DG to allocate funds to additional projects agreed as important.

Funding to support these priorities can be accessed by the SETAs, which make an application for particular projects which relate to these priorities. Alternatively, retrenched workers, new entrants to the labour market and work seekers are specifically addressed in programmes that fall within the Provincial Offices of Labour, as well as other programmes that are supported by the NSF such as the EPWP and the NYS. Many of these programmes intend to either support these learners to access formal employment (and there is a strong emphasis on placement in these programmes) or to initiate or sustain an SMME.

While the detailed outcomes of these different programmes are outlined more fully in the review, and while some programmes are achieving better results than others, it remains the case that skills development targeted at the unemployed, at self-employed people or at SMEs is not achieving either the scale or the level of impact required. At present, the numbers completing programmes remain low,



costs are high and success rates are disappointing. Only a very small percentage of learners in SMEs succeed in setting up or maintaining a business.

Partly this reflects the difficulties of SME development, but the problem does go further. In the formal sector, employers as levy-payers determine their skills development priorities. For the unemployed or for SMEs, decisions on training priorities tend to be supply driven and unresponsive to the particular conditions faced. Creating more demand-driven mechanisms is a key challenge.

Building the assets of the poor

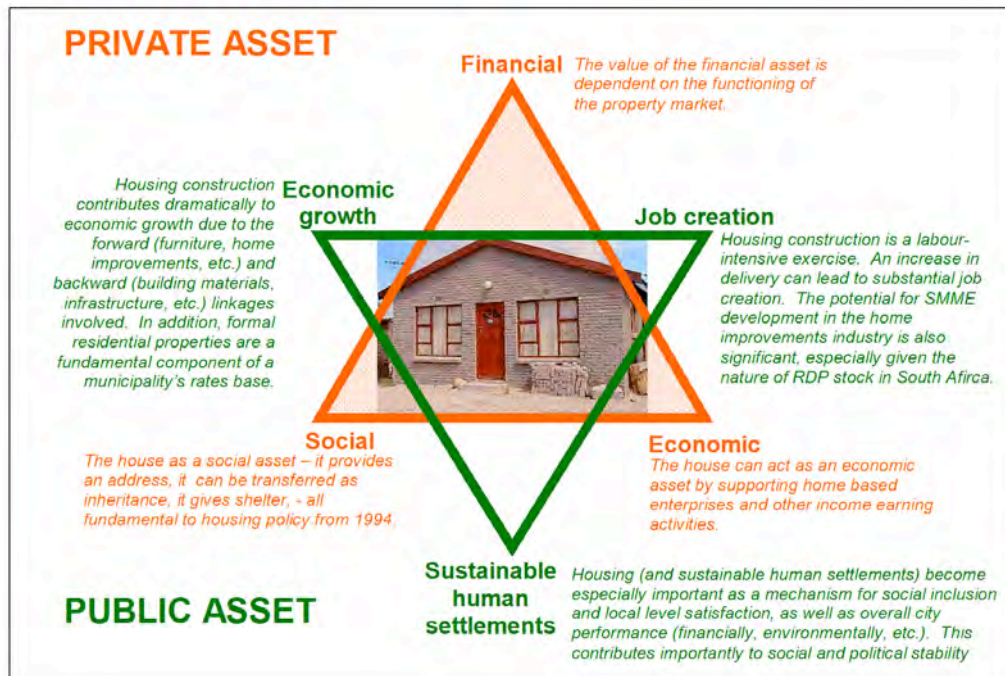
The housing programme: Housing has been built at a significant scale, with 1.9-million households registered as beneficiaries of houses, and 2.3-million houses either completed or in process. There are, however, still about two million people on waiting lists, and building these houses will take seven years to complete at current rates of delivery. About 2.4-million households are currently living in informal settlements.

Despite significant gains in relation to housing, the programme has tended to reinforce old spatial divisions and it has missed opportunities to create economic opportunities at local level or to contribute to overcoming economic inefficiencies in the wider economy. In situ upgrading of informal settlements is slow and gaps in the housing ladder limit mobility, with rising prices and costs of land and finance limiting affordability. These factors have significantly reduced the potential impacts on poverty. While these issues are substantially tackled in the current policy, Breaking New Ground (BNG), a range of bottlenecks and constraints has limited implementation of BNG thus far.

At the same time, a range of market factors creates opportunities but also complicates the housing challenge. Backyard shacks currently house as many people as the housing programme has managed to do; these create rental incomes for home-owners of an estimated R5-billion a year. While this supports densification and provides income streams for homeowners, municipalities have responded ambivalently, as these place pressure on bulk services and skew current calculations on the appropriate allocations of free basic services to households.

Housing also plays a unique role as an asset. While analysis has tended to focus on its role as a potential financial asset, with title providing the possibility of access to finance, its function as an 'asset' is wider than this, as illustrated below.

Figure 5 – Housing’s unique role as an asset (Source: FinMark)



Even where housing does not act as a financial asset, it may still act as an economic asset, for example, as a base for a small enterprise or as a source of rental income. Recent research also demonstrates that for poor households, the role of the house as a social asset is still seen as its most important function.

Second economy issues in housing are as follows:

- Informality and insecurity limit the ability to realise benefits from investments in improvements;
- There are backlogs in titling even for, for example, Reconstruction and Development Programme (RDP) housing, limiting the benefits.
- Poor location in relation to jobs and opportunities entrenches economic marginalisation.
- Gaps in the housing ladder: Households earning above R3,500 do not qualify for subsidies – but if they earn below R7,500 a month they can rarely access housing finance.
- Provision of electricity to RDP houses is often for lighting only, inhibiting business activity: no fridges, hot-plates, electric sewing machines, etc.
- The creation of ‘dormitory towns’ limited the development of viable communities; zoning practices often exclude home-based businesses in residential areas and also business zoning.

Land reform: About 4.8% of white-owned land has been redistributed, of the target of 30% by 2014, and it is widely recognised that land reform needs to reach significantly greater scale. However, its relevance to ‘second economy’ strategy or to addressing poverty and marginalisation does also depend on how broad-based



this is. If scaling up means the transfer of large parcels of land to a small group of people, it will be a significant opportunity lost – particularly given the identified link between equitable land distribution and wider equity in societies. As it is, however, those who have acquired land have often not been able to use it to create sustainable incomes, and those who work the land already – such as farm workers, labour tenants and subsistence farmers – have often not yet been able to secure better access to viable agricultural land through land reform processes.

BBBEE: 78.2% of companies were found not to be compliant with BEE in the presidential Black Business Working Group Baseline 2007 Report. However, there are areas of emerging innovation and potential. Employee Share Ownership Plans (ESOPs) are starting to reach significant scale, in the mining industry in particular. There are instances of stokvels buying assets and investing, and a need to integrate BBBEE into sector strategies. There is a long way to go, however.

Integrated Development Programmes

A wide range of initiatives is under way under the banner of integrated development programmes, Local Economic Development (LED) and the nodal development programmes. However, implementation is shackled by co-ordination challenges, and scaling up requires stronger political commitment to this across all departments and all spheres of government.

There is also a need to improve the linkages between spatial and economic planning. At present, the National Spatial Development Framework and the National Industrial Policy Framework do not yet ‘speak’ to each other, despite the fact that industrial policy is implemented in a spatial context – in other words, jobs and opportunities exist at the local level.

In its review of lessons from LED, DPLG has identified that scaled-up impacts require a move away from a focus on projects. In the first phase of LED, many local governments attempted to support LED by providing direct support to the establishment of projects at a local level. Such projects absorbed significant management time and capacity, with impacts limited mainly to the direct beneficiaries, without achieving wider impacts on LED. The processes of selecting project beneficiaries introduced scope for patronage politics, and a lack of clarity over the ownership of assets in such projects created the potential for conflict. Few projects have survived beyond the period for which they were funded.

DPLG is currently engaged in developing strategies that achieve more systemic, community-wide impacts to create the conditions for diverse forms of local enterprise to flourish.

As part of the revised LED strategy, new forms of community investment are also proposed. This links to similar themes from DSD and EPWP, and is taken up under ‘scaling up’ below

Access to information in the second economy

Community Development Workers are employed at local government level to provide information to communities about public services and resources, and to facilitate community involvement at local level. They are expected to have a very wide knowledge of government programmes, to multi-task and to juggle accountability to multiple stakeholders through a National Task Team chaired by DPSA and DPLG. A 'masterplan' to clarify their role is in progress; the process has noted that too much is expected of them but they are a resource for community development at the local level.

Youth Advisory Centres were established by the Umsobomvu Youth Fund to provide information on employment, self-employment, education and training, civil participation and health and well-being. 125 YAC sites have been approved, many co-located with Multi-Purpose Community Centres. Information available focuses on the number of sites operating. A more qualitative assessment was not done.

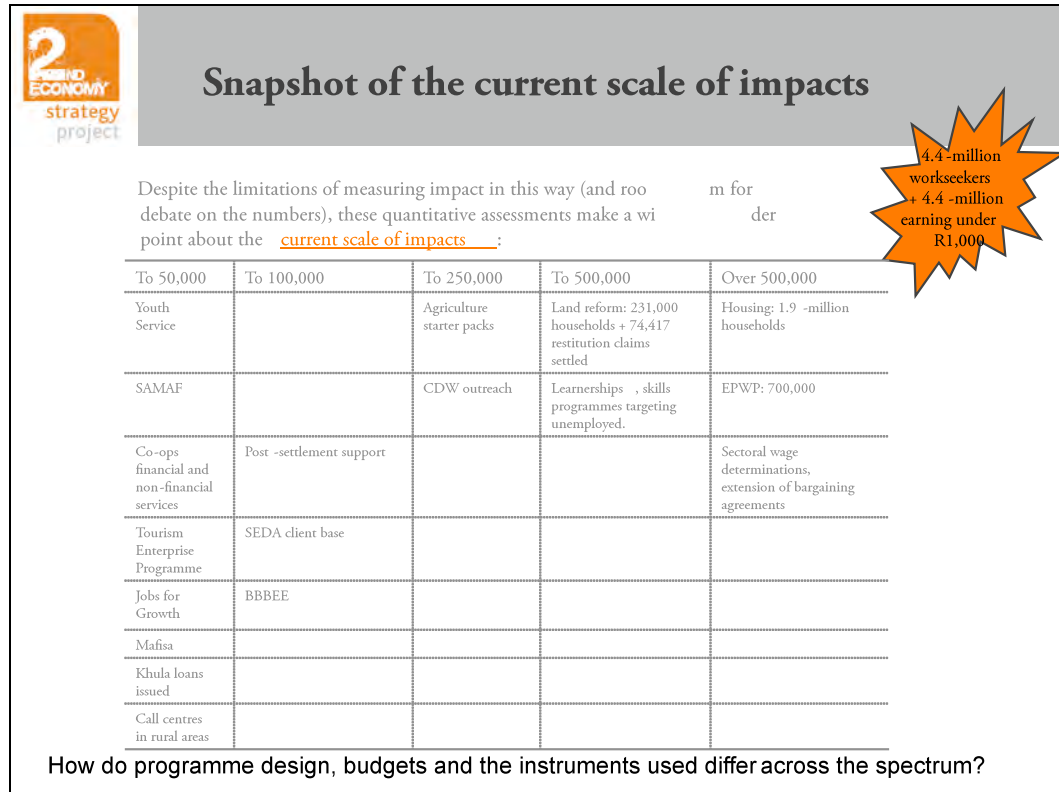
9. Cross-cutting issues and challenges in scaling up

While government performance in relation to the delivery of social services such as grants and basic services has been significant and at a scale that has had measurable impacts on poverty, the modest scale of outreach of the economic programmes reviewed here is striking. While some 12 million people have been identified as broadly within the second economy, many programmes reviewed here struggle to reach 50,000 people – those that reach the 100,000s are the good performers, with only housing delivery exceeding a million. Many programmes are limited to a project level, without managing to unlock the significant power of government to impact at a wider societal level.

While it is not really possible to compare programmes as equivalents, and, for example, receiving a visit by an extension officer cannot be compared with receiving an RDP house, the table below nevertheless gives an indication of the gap between the current scale of delivery in 'second economy' programmes and the scale required.



Figure 6 – Current versus required scale of delivery in second economy programmes



This section looks at some of the reasons for the limited scale at which many economic programmes targeting the poor are operating.

Underfunding, prioritisation and the appetite for risk

A number of ‘second economy’ programmes are unfunded, indirectly funded or partly funded mandates that rely on ‘change in the way things are done’ within government and/or with partners to achieve their impacts. In effect, this is often simply underfunding.

All of the following programmes have relied, to a greater or lesser extent, on gearing or leveraging existing budgets in government, or having to make special application through mechanisms that have proved unwieldy, rather than being funded activities in their own right. No incentives or authority is attached to trying to leverage these budgets, however. Alternatively, as with land reform, there is simply a disjuncture between the targets set and the resources allocated.

- EPWP;
- Youth service;
- Sector strategies;
- Jobs for Growth;
- Integrated Rural Development Strategy;
- Urban development strategy; and
- Community development workers.

Some key challenges to scaling up arise from having to integrate these programmes into line functions and their respective budgets, The fundamental assumption behind this approach seems to be that this can be done without significant additional costs. This assumption is often incorrect, with the result that departments will keep such programmes small rather than risk overspending.

Another effect of integrating these programmes into line functions without increasing their budgets is that it diminishes the appetite for risk among implementing bodies. For example, EPWP reports difficulties persuading officials to change the delivery methods with which they are familiar, in case this puts their ability to achieve their outputs at risk. So, for example, in places where delivery of services is behind schedule, the willingness of officials to add another 'hurdle' by introducing new methods of delivery is often low.

So while changing the way things are done in government in order to focus on the poor is certainly desirable, this process also needs the right incentive structures and the right scale of resources and accessible mechanisms to make it happen. There is a need to review and refine the fiscal allocation and transfer mechanisms in place, especially where implementation requires provincial and local government involvement. While including budget allocations for programmes within the equitable share to Provinces seems to put these at risk of reallocation to other Provincial priorities, the conditional grant came in for much criticism from departments.

Finally, the challenge of scaling up needs to take place within a clearer overall fiscal policy framework. An EPWP official compared going into Medium Term Expenditure Framework (MTEF) sessions to "going into a dark room and trying to work out how much space there is". There will be choices and trade-offs in selecting the kinds of scaled-up interventions that are possible, and a hierarchy of priorities will be required. On the one hand, some of the programmes and projects being implemented under the rubric of the 'second economy' constitute the most innovative and potentially sustainable interventions by government. On the other hand, this policy commitment is not expressed in dedicated budgets, changes in the incentives in the public service, and in overall co-ordination at an administrative and political level.

Co-ordination and implementation problems

Linked to the above, a number of strategic programmes straddle various departments. This poses a significant co-ordination challenge, with a lack of clarity over where authority and accountability lies, and with weak (or no) incentives for departments to co-operate – compounded where budgets are undefined also. This applies, for example, to all the integrated development programmes, to EPWP and Jobs for Growth, and is further complicated where different spheres of government are also involved. The question was posed whether the significant time and effort



spent on co-ordination could not be better spent on implementation. Mechanisms to address these challenges are key to scaling up a range of existing programmes.

In some cases, such as in relation to Breaking New Ground, the challenge is not so much to design scaled-up initiatives than it is to implement existing policies and programmes, and to identify and 'unblock' regulatory, administrative and/or capacity constraints in making existing entitlements or support accessible.

Lack of voice and advocacy

Scaling up impacts would be much assisted by stronger civil society organisation able to lobby and advocate on their own behalf – whether smallholders in the forestry sector negotiating terms of access as part of a sector strategy, or street traders clarifying their needs in interaction with municipalities, farmers organising input supply co-ops from below, communities participating in *in situ* upgrading, or traders associations lobbying the South African Revenue Service (SARS).

The interface with markets

The point has been made that government performance is strongest where it most directly influences outcomes, as is the case in the social programmes. In the economic programmes, the desired impacts depend to varying degrees on the interface between government and the wider market.

This raises questions about the levers and instruments available to government at that interface. How does government shape markets to achieve outcomes that increase employment and opportunities? How does the state use its power to change institutions and structures in society, to change the way the economy operates and the distributional impacts? How does this translate into the design of economic programmes in support of the anti-poverty strategy?

A wider discussion on this issue is needed, but the following are some examples of instruments and mechanisms:

- The role of effective legislation and regulation in facilitating changed outcomes and structural change (and the role of poor regulation in blocking initiative or change).
- The role of fiscal measures – which can and do have impacts in the 'second economy', such as VAT exemptions for street traders;
- The scope for social compacts to achieve impacts at scale. The Financial Sector Charter and the impacts of the Mzansi account in reaching the unbanked is an example; it is also an example of using market mechanisms to deliver.
- The potential role of incentives (or penalties) in changing patterns of economic action across the society, for example, BEE – if not yet BBBEE.
- Ways of using government resources to gear other forms of implementing capacity in the society, including both civil society and the private sector,

rather than necessarily implementing directly. In some ways, and despite the challenges, the scale of delivery of housing nevertheless reflects such a partnership with the private sector.

- The potential to resource more demand-led mechanisms that enable communities to take the initiative: community investment approaches hold such potential.
- Getting to grips with the interface between 'systemic level' change – and how this actually translates into change on the ground. Important as they are, framework changes made at the stroke of a pen do not always translate easily into the intended impacts on the ground.
- Addressing the significant entry barriers for smaller players, as value chains are dominated by large companies, and supporting forms of economic organisation and engagement able to address issues of power and market dominance.

Low targets and a project-level focus

Many 'second economy' programmes remain focused at a project level, and while this may be of vital benefit to direct participants, such approaches leave wider structural blockages and market failures unchanged, and unless they are used to draw lessons and inform wider design processes, tend to reach very limited numbers of people.

Where government departments are directly involved in the establishment of income-generating or SME projects, a range of complex issues arise. The focus on making group formation a condition of funding support in some programmes has at times set groups up for failure where market conditions are unable to support the volume outputs from such scales of production; while a focus on 'jobs created' has sometimes placed the emphasis on new projects rather than on strengthening existing marginalised entrepreneurs. DPLG has also highlighted how management-intensive direct involvement in project establishment proved to be in LED programmes, as well as the issues that arose around ownership of publicly funded assets in an enterprise context, the small numbers of beneficiaries relative to the scale of demand and the risks of patronage politics associated with this.

In sum, scaling up the impacts of economic programmes to combat poverty need to include new ways of thinking about delivery, about achieving impacts at scale, about the interface with markets and about achieving societal-level change in the opportunities and returns for people on the margins.

10. Opportunities for scaling up

The Review was asked to identify areas where current initiatives show the kinds of results and potential that would allow them to scale up rapidly. By definition, the focus here is therefore not on new programmes, but on how best to build on the strengths of current initiatives. Innovation and identification of new programmes and approaches to address gaps in current programming will form part of a follow-up process.

Core priority areas that would have significant impacts on employment creation, marginalisation and poverty are recommended here, in a cross-cutting way:



Scale up public employment

There are significant opportunities to scale up public employment, but this requires a wider and more flexible concept of what is meant by public employment programmes, the flexibility to use diverse delivery mechanisms, and the budgets and institutional frameworks to support this. Proposals in this respect, including for a form of wage incentive to promote labour-intensive public works and public services works are at an advanced stage from EPWP.

While targets will be finalised as part of the anti-poverty plan, the magnitude under debate is between one and two million full-time equivalents per annum by 2014.

Create a vehicle for community-driven investment

- Common strands exist across DPLG, DSD, EPWP, the 'Get to Work' programme and in the draft anti-poverty strategy to create mechanisms for more community-driven approaches to local investment in community assets, infrastructure and services.
- This can draw on a range of current experiences in which communities are setting priorities for resource allocations, in cross-cutting ways. Such an approach has the potential to make a major contribution to creating community assets, extending access to social services, localising public employment programmes, building social cohesion and creating new interfaces between the state and communities.
- Annual budgets would need to be targeted at meaningful levels to achieve results. For example, targeting 200,000 households next year and scaling up to three million households within three years and six million in five years, but targeted at sufficiently local levels to achieve empowerment. Getting the institutional and budget arrangements right will entail some innovation and risk; new approaches to budgeting will need to be developed in partnership with National Treasury.

Upgrade informal settlements

The upgrading of informal settlements is the single biggest priority to address urban poverty and marginalisation. This requires a massive programme to operationalise existing Breaking New Ground policy and subsidy options (not yet widely implemented). This should prioritise the urgent extension of basic services to all informal settlements where there is a reasonable prospect of full upgrading in the future – with such upgrading planned to follow shortly thereafter.

Municipalities need to work with whole communities, not just those who qualify for subsidies, to secure involvement and buy-in for the planning process

Mechanisms similar to National Treasury's Neighbourhood Development Partnership Grant need to be developed to incentivise and support strategies to promote economic activity, to develop transport nodes and access to social

services in informal settlements, in order to create viable communities. A set of norms and standards are needed to guide such processes.

There are clear links between this process, the expansion of public employment opportunities and the community investment mechanisms discussed above. The need to find budget mechanisms able to fast-track and facilitate such processes needs to form part of the wider task of looking at changed methods of resourcing initiatives from below, as discussed above.

Whilst these policy changes are needed, they need to occur in an environment that accepts that informal settlements are not temporary features of the urban landscape. Instead, the upgrading of informal settlements within an integrated development programme could potentially improve livelihoods.

Support smallholder development

A smallholder development strategy needs to be developed with the following key elements:

- Investment in the economic infrastructure of rural areas, including, inter alia, roads, fencing, land rehabilitation and access to irrigation, as applicable.
- Market development approaches that facilitate linkages, market access and the development of appropriate marketing organisations; strategies to address access to market infrastructure, for example, grain silos; the development of fresh produce markets; and links to sector strategies.

In addition: fast-track support to the Eastern Cape's proposed model to support the commercialisation of smallholder agriculture is needed, building on the Siyakhula/Massive programme targeting 70,000 households; identify key success factors and the potential to replicate in other areas as part of the above process.

This requires a fundamental rethink on land reform, in terms of how land is prioritised and acquired, and who benefits and how, to ensure that the outcomes are broad-based, reduce poverty and expand economic opportunities for the marginalised.

As in the anti-poverty strategy, the target is to achieve improvements in the livelihoods of 300,000 subsistence farmers and to reach 100,000 people a year through smallholder schemes that aim for higher income targets for participants, and address the issues above.

Sector strategies

The operationalisation of sector strategies needs to be given appropriate political priority and also resourced. The resources required for strategy development aren't large, but are vital to effective engagement, consultation, research and design.

The daunting challenge for these processes is to engage with the way markets are structured at a systemic level. These have developed in ways that exclude and marginalise the poor, and that tend to concentrate benefits and returns from participation at the centre. Changing this is key to shared growth and to breaking the first economy/second economy patterns of distribution. Solutions have to



include institutions for voice, access to resources, and access to markets for those excluded or marginalised: yet at the same time, identify the right mix of incentives to secure the active co-operation of established interests. It's a uniquely South African challenge, with social compacts and negotiated solutions providing a tried and tested South African solution.

Every sector strategy should identify targets for employment creation, support and market access for new producers, improved conditions for the most vulnerable workers, and monitor progress against them. This methodology to be developed and applied to the following sectors as a priority:

- Agro-processing;
- Forestry;
- Plastics;
- Construction; and
- The retail sector: In addition to a focus on street traders and spazas as part of a sector strategy, this would focus on issues of market access for small producers and from labour-intensive sectors.

These approaches need to link to SME support, smallholder development strategies and LED.

Market institutions and secondary co-ops

The need for forms of economic co-ordination and co-operation to create economies of scale of various kinds and to bridge the gap between small and/or informal producers and external markets and value chains is a cross-cutting theme in sector strategies, SMEs, and smallholder development. It also has as much relevance for street traders and the most marginalised entrepreneurs as it does for those 'in the zone of transition' into more formal markets – or export markets for that matter.

The Department of Trade and Industry's Co-op Unit should be resourced to support the development of models to do this, and to monitor outcomes.

Linked to this, support for forms of association and organisation of economic roleplayers on the margins is key to reducing their marginalisation, strengthening their voice, and improving their ability to lobby and advocate for change on their own behalf.

Strengthen voices from the margins

Support for forms of association and organisation of economic roleplayers on the margins is key to reducing their marginalisation, strengthening their voice and improving their ability to lobby and advocate on their own behalf. Mechanisms to support such forms of association need to be strengthened.

Target poor regulation and ineffective administration

Across all sectors, examples arose of regulatory hurdles and administrative stasis blocking opportunities for those on the margins. A mechanism to target the regulations and administrative blockages most affecting poor people is needed to upscale delivery and impacts; locate in the Presidency, link to Regulatory Impact Assessment processes, but find ways to give it teeth.

11. Conclusion

There are many other ways in which current programmes can be scaled up; many of these are included in the recommendations in the conclusions of the review. However, more important than a long to-do list is to focus resources, capacity and political will behind these as priority areas.

There are risks involved, and significant institutional challenges, but the risks of continuing at current low levels of impact are high in more fundamental ways.

Finally, the review of 'second economy' strategies summarised here is 'part one' of a wider process that will now shift to a greater focus on where innovation and new programme design is required to scale up impacts in employment creation and poverty reduction.



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