

# Second Economy Strategy: Addressing Inequality and Economic Marginalisation



strategy  
project

## A Strategic Framework for Second Economy Strategy

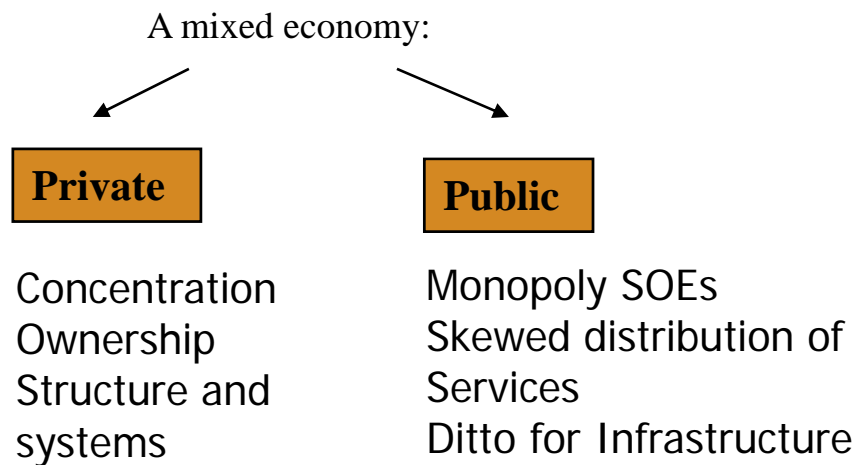
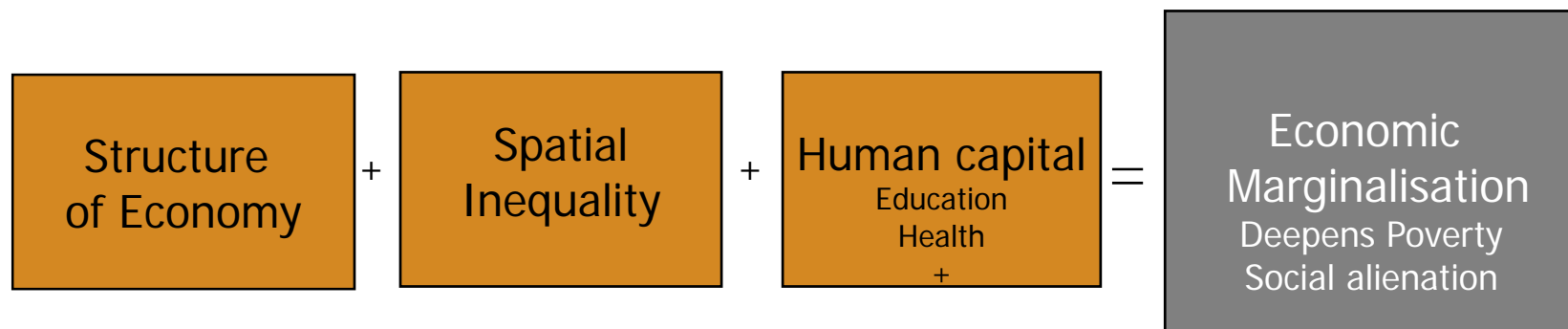
The 2nd Economy Strategy project is an initiative of the Presidency,  
hosted by Trade & Industrial Policy Strategies (TIPS)

# What is the 'second economy'?

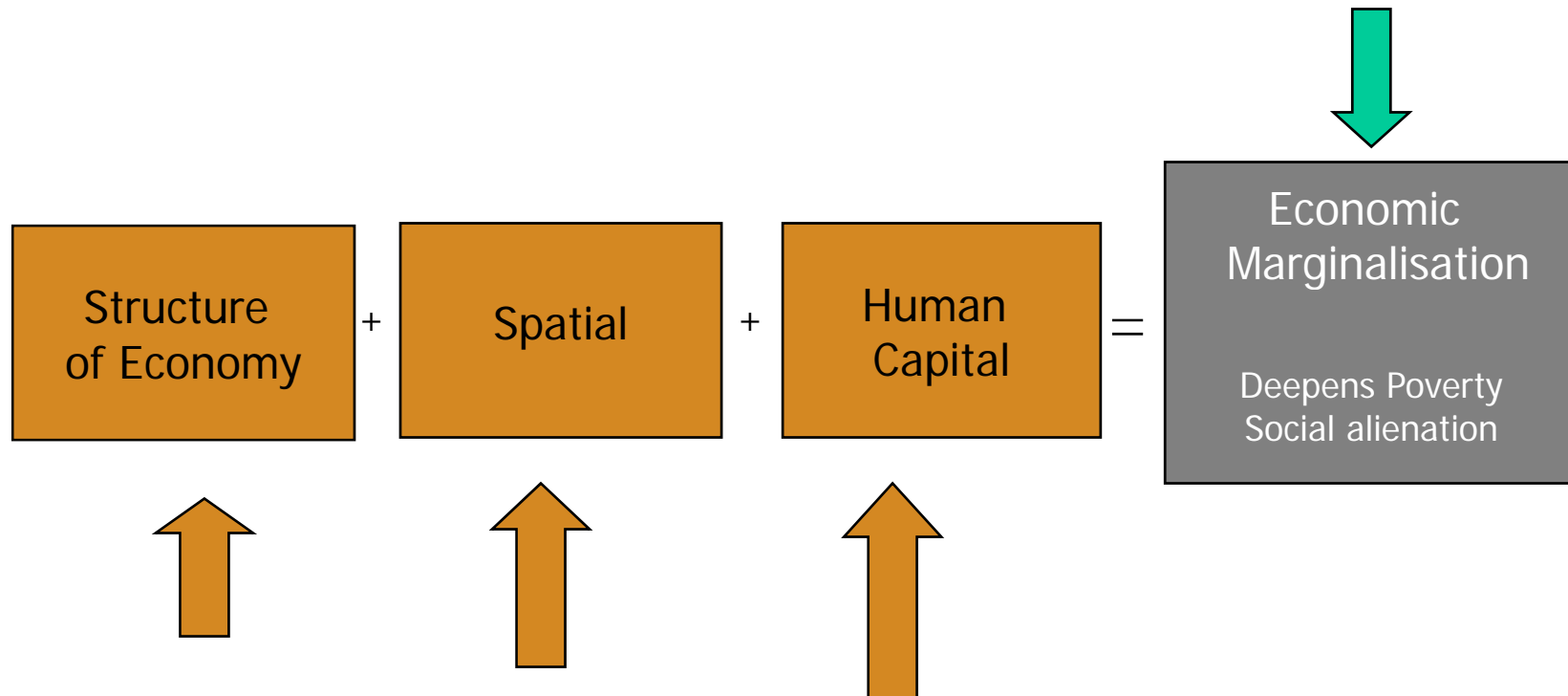
- South Africa has one economy: but it is a highly unequal one: hence the resonance of the notion of 2 economies;
- The terms 'first' and 'second' economy describe the two different ends of this spectrum: with wealth and resources concentrated at one end – and poverty and disadvantage at the other;
- Key legacies of apartheid make this inequality structural – in particular:
  - the spatial legacy of bantustans and apartheid cities,
  - the highly centralised, monopoly structure of SA's core economy;
    - including the labour market legacies of pass laws and a historical reliance on unskilled cheap labour;
  - the highly skewed distribution of assets (land, capital and also human capital)
- Understanding the ways in which the whole economy continues to produce both wealth and poverty is a long-standing debate in SA, with policy implications.
- Deepening our understanding of these relationships and the nature of connections and disconnections within the economy is key to changing them: and is at the heart of transformation – and of strategies for the second economy (2E).

# Inequality frames the 'second economy'

Key elements of structural inequality reinforce economic marginalisation



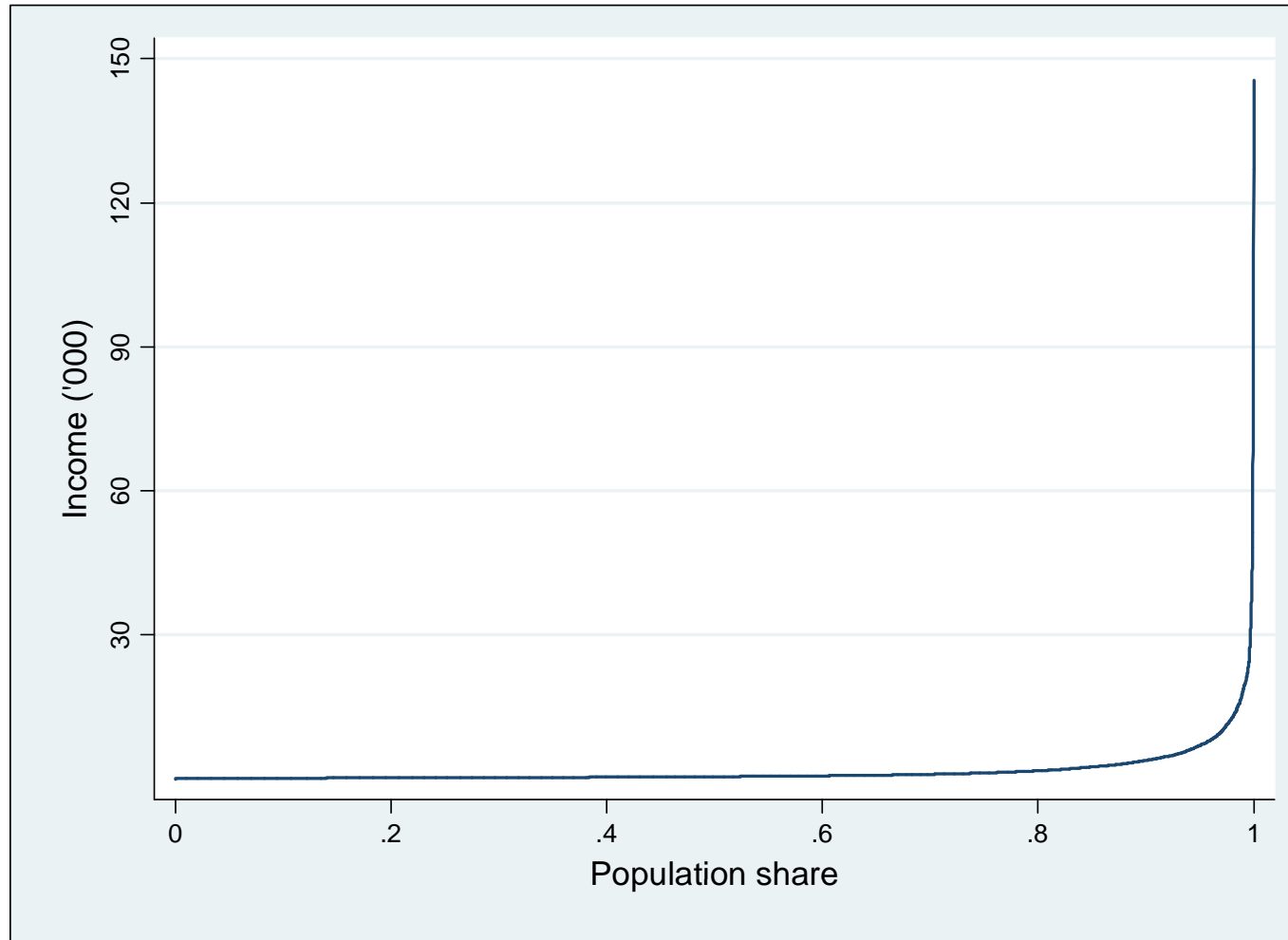
Or the  
'second economy'



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

To break the cycle

# Income distribution in SA.....





# The purpose of a second economy strategy

- To increase levels of participation in the economy, with priority given to increased employment and decent work;
- 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.
- The strategy targets people who are willing and able to earn a living, but are either unemployed, or earn too little from their economic activities to exit from poverty
  - eg the unemployed, the working poor, street traders, subsistence farmers.



# The Review of Second Economy Programmes: Summary Outcomes

- The Review highlighted challenges of scale and the limits of a project-level focus:
  - most programmes targeting 2E reach under 50,000 people: when we need to reach 12million.
  - In many cases, programmes targeting 2E have a project focus;
  - Micro-project approaches reach few beneficiaries, are highly management intensive, leave systems and structures unchanged.
  - These issues identified in other internal reviews in government also:
    - DPLG Review of LED, DSD Review of Poverty Alleviation Projects.
- Successes are most limited where outcomes are measured in market terms: ie where govt's impacts are indirect:
  - eg more jobs, more smme's, better incomes, lower prices;
- Many 2E programmes are unfunded/partially funded mandates, that need co-ordination between departments and spheres of government; hard to do.

EPWP	Youth Service
Sector Strategies	Jobs for Growth
ISRDP	LED
- Lack of voice, organisation and advocacy from below has also constrained delivery.

# 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 opportunities on the margins

- In SA, the informal and sme/smme sector is unusually small given high unemployment
- It is also unusually skewed towards retail activity.

### Why?

- The answers typically focus on supply side issues:
  - Skills, levels of entrepreneurship, access to credit, capital, regulatory barriers.

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

This economic structure limits the scope for new job creation, new ventures, and sme's - and also impacts on even the most survivalist subsistence activities.

How?

# Impacts on the margins

- Markets in marginal areas are ‘thin’
- Poor people buy a limited basket of consumer goods.
- Most of these are mass-produced in the core economy, at a scale that makes it hard to compete on price, even in remote areas:
  - Iwisa, Hulets, sunflower oil, tea, SASKO flour, Black Cat/ Yum Yum peanut butter, cigarettes, beer, mango/litchi/orange/ juice, canned goods etc.
- 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.

This places constraints on the scope for employment creation from sme's targeting poor consumers in local markets.

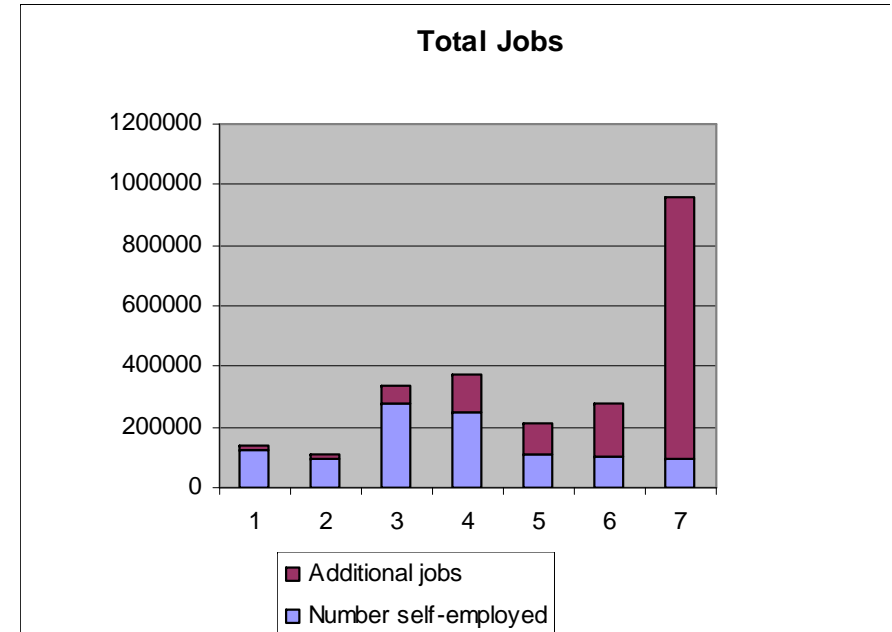
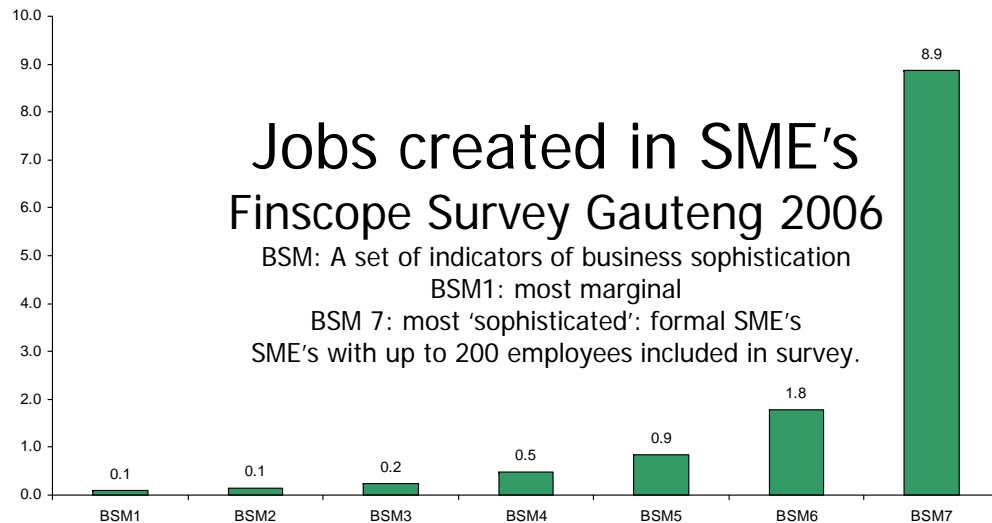
## What are the alternatives?

- There are some local opportunities in fresh produce, trade, and services, and these need to be optimised.
- Access to 'external' or wider markets and value chains is however also key to bringing wealth into the local economy: but requires different types of strategy:
- It requires greater formality: doing business across distance or as part of wider value chains requires a 'contract':
  - Without invoices, bank accounts – formal business can't make or '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 also create massive increases in volume requirements: creating new challenges of co-ordination
  - 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 800 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 – currently largely missing.

# What about urban areas?

## Different opportunities – but similar problems



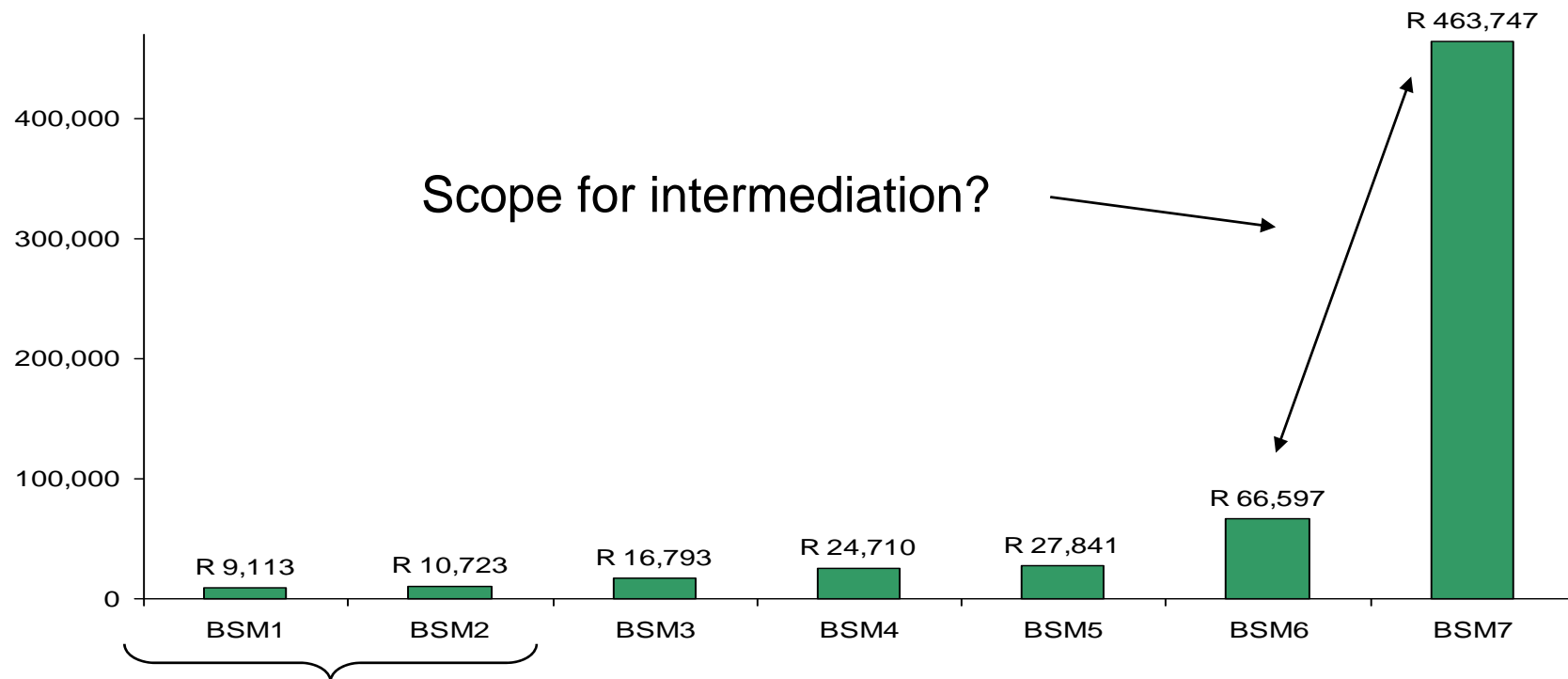
Job creation is closely correlated with higher levels of business sophistication – and formality:

Greater formality unlocks a different scale of opportunities.....where 'formality' is a proxy for the ability to comply with expected business standards.

From the evidence here, hard to argue that compliance with regulation imposes costs on SME's that constrain job creation:

Instead, there seems to be an opportunity cost to informality.....iro both jobs and turnovers.

# Average SME Turnover per annum....



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

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

Little scope for BSM1-5 to go 'up the ladder' because mostly in retail; few benefits to formalisation at this level;

Requires differentiation of strategy.

# Implications for Strategy (1)

- A wider focus on inequality is needed as part of AsgiSA's focus on shared growth;
- Employment needs to be placed at the heart of economic policy
  - Of macro policy
  - Of industrial policy
  - Of trade policy
  - Of SOE's
- 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;
- 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;

## Implications for Strategy (2)

- **New market-based employment is likely to be largely urban, where ‘urban’ includes small towns, dense settlements;**
  - Issues of urban planning, urban efficiency are key to unlocking this; it matters to get this right.
  - For many, exiting from poverty may mean exiting from rural areas. Policy should enable such choices, with implications for urban planning.
- **Does this mean abandoning rural areas?**
  - Of course not. But it means it’s harder and will require a stronger catalytic role from the state to achieve results.
  - As most poor people live in rural areas, it also means giving high priority to human capital development in these areas, to break the cycle.
- **Last but not least: the scale of the challenge means an expanded public works/ public employment programme has a key role to play for the short to medium term at least.**

**And at an overarching level - there’s just no alternative but to address the challenge of restructuring the economy as a whole – not just ‘fixing’ the second economy...**

# Headline Strategies

1. We need an Agenda on Inequality, as part of the shared growth agenda of AsgiSA:
  - Address the key areas of structural inequality
  - And
  - Focus on human capital
  - The social wage
2. We need a Social Compact on Employment, and to place employment at the heart of economic policy:
  - Includes
    - Sector strategies
    - Focus on rural employment
      - Smallholder development
      - Payment for environmental services
      - Human capital development
    - Strategies to promote youth employability
3. Strengthen livelihoods and conditions for the working poor – employed and self-employed;
4. And strategies that target the most marginalised...



# 1. Targeting the most marginalised:

## 1. Significantly expand public employment: full support for EPWP Phase 2

- Support innovation in this area: eg Working for Energy, and Non-state options
- And the Community Work Programme as an anchor strategy for wider 2E strategies being proposed.
- A minimum employment guarantee: why not?

## 2. Transform informal settlements into sustainable neighborhoods, to unlock greater economic opportunity

And get ahead of the game with the release of well-located land, planned infrastructure for service delivery, transport corridors, integration of economic activity;

## 3. Support to home-based food production to address hunger.

Integrate with basic service provision where possible.

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2. Train and unlock... neighborhoods, to
  - And get... planned
  - infrastructure... of economic
  - activity...
3. Community and food... waste management... community-driven...
  - ...-system services.
4. Literacy and... (already in process).

*These programmes  
are not dependant  
on markets  
to achieve their intended  
outcomes  
Although (most) will  
have market effects.....*



## Achieving economic impacts - without depending on markets to do so

- The first level of 2E strategy needs to achieve economic impacts in ways that do not depend on markets to deliver the outcomes;
- The strategies proposed will however have market effects – and should be designed to do so:
  - They have the potential to stimulate local demand and scope for local enterprise activity: ie help to ‘thicken’ local markets;
  - They engage people in economic activity that builds assets and/or incomes, access to services, networks and social capital;
  - They need to be designed to strengthen rather than undermine local market development, to help enable the next level of strategies - that do require participation in markets and where outcomes are measured in market terms:
    - eg market-based employment creation, better jobs, more smme’s, better returns from economic activity, better prices for consumers;
- The strategies as proposed are all enabled by existing policy frameworks; the main challenges are at the level of institutional arrangements and implementation.

## 1.2. Transforming informal settlements

- At least as many people in informal settlements as in RDP houses:
- Manifestation of second economy in urban areas
- Single biggest pro-poor investment – shelter: but need to shift from shelter to sustainable settlements: requires social and economic infrastructure;
- Proposals focus on building access and assets –
  - Location location location
  - housing not just a financial asset, but a social and economic asset; 60% of SME's in Gateng are home-based
  - Significant investment by poor people: but further investment constrained by insecurity.

Detailed set of proposals include:

- Grading and rezoning of informal settlements: as done by City of JHB: by rezoning informal settlements, a basic set of rights established – eg ambulance, police services;
- Incremental options to increase tenure security where feasible: eg the difference a pto makes;
- Focus on pro-poor land acquisition and transportation planning at municipal level
- Area based projects with clear budget line: one pot funding
- Adaptation of development planning instruments.



# Can the CWP provide one of the pieces of the institutional jigsaw?

- The Community Work Programme:
  - An employment safety net
  - Adapting a minimum employment guarantee
  - 1-2 days of work a week: ‘useful work’ decided in ward committees
  - Targeting rural areas and informal settlements
- Formally part of EPWP 2 from April (but scope of scale-up limited by funds - and capacity).
- In all pilots: the work identified includes ‘upgrading’ in informal settlements, and food gardens in all.
- Need to create an interface between upgrading ‘from below’ and planning processes.