



# **Small business and industrialisation**

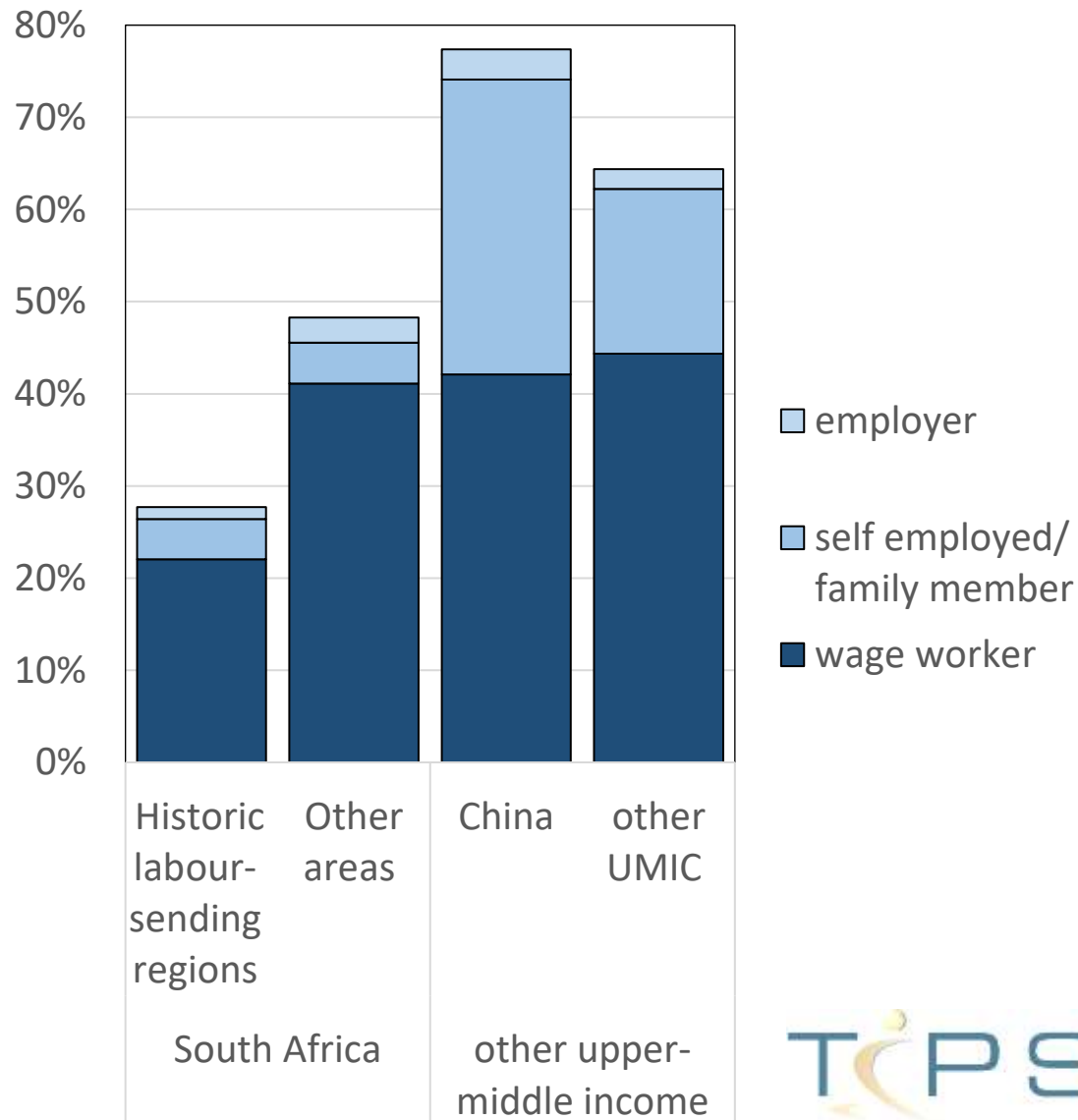
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# The missing middle

- SA faces unusually deep inequality largely because of very limited small businesses
  - Under 5% are employers or self employed, compared to 25% China and over 15% in other upper middle income countries
  - Very low self-employment accounts for most of the deficit in the employment ratio
- For small business owners to equal 20% of employment (as in peer economies) would require 2 million more enterprises – almost twice as many as now
- Strategic options (can combine):
  - Vastly increase the number of family businesses
  - Vastly increase waged employment
  - Social grants or collective ownership to redistribute earned income.



# Why?

- Origins in apartheid history
  - Destruction of black-owned business, both rural and urban, explicitly to reduce employment opportunities
  - Apartheid income differentials mean
    - Formal small business earners have higher incomes but fewer employees
    - Limited demand in working-class communities
  - Government support before 1994 centred on mining value chain and commercial farming
- Reproduction:
  - Deeply inequitable access to productive and financial assets, education, infrastructure, experience and supply-chain relationships
  - Systems in government and private sector effectively limit small business access to industrial and commercial sites, markets, finance and licences
  - Industrial policy focused primarily on encouraging established formal business to move up the value chain and to expand exports



How to rebuild  
ecosystems for small  
business?

# Reproduction after apartheid

Market and government systems still effectively prioritise support for the mining and commercial farming value chains, plus technologically advanced industries

Production structure:  
*Weak 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*

Load-shedding with little mitigation

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

Concentrated ownership of assets, including small businesses and financial savings; profoundly unequal education system; limited inherited networks, experience and relationships; inadequate municipal services and commercial and industrial sites in townships

Generally slow economic growth; high joblessness and low pay constrains demand in working-class communities; difficult for SMEs to break into private and public procurement systems and retail

# The challenge for industrial policy

- Focus on competitive, high-tech (mostly capital-intensive) industries
  - Cannot generate substantial growth in employment
  - Effectively limits scope for small businesses
- How to support producers that
  - Generate incomes and are sustainable, but
  - Are highly decentralised, serve communities where effective demand is limited, and often have no prospect of becoming internationally competitive?
- What does that mean for support for established big businesses?

# What does extensive growth look like?

- *Labour intensive activities:*
  - Services of all kinds, e.g.:
    - tourism and hospitality,
    - cultural industries (live events, design, hairdressing, crafts, etc),
    - engineering and other high level professional services,
    - public services and public employment schemes
  - Small-scale forestry and agriculture – how integrate into supply chains?
  - Construction including public works schemes and solar installation
- *Intermediaries to establish ecosystems:*
  - Really big grants for new programmes to support small businesses and social enterprises
  - Contracting schemes in e.g. agriculture, forestry, clothing/fashion and crafts
  - Franchise operations for services (e.g. fast food, tutoring, cleaning, gardening, etc.)
  - Township enterprises that serve the community or work from new commercial, retail and where desirable light industrial sites
  - More labour-intensive systems in the public services, which are major employers especially for black women, on the model of the community health workers and teacher aides
  - Pro-active support for social enterprise that meets community needs, e.g. installing solar energy or providing ECD
  - Gig employment systems for temporary workers especially in low-paid sectors, as in domestic and farm work, that match workers to employers and provide group benefits and minimum incomes

# Requires:

- Innovative forms of investment, payment and decision-making
- Enable both entrepreneurship and collective action in historically disempowered communities
- Significant changes in industrial policy
  - What happens if employment and equality become top priorities?
  - Sectors and industries supported by incentive schemes and sector desks
  - dtic capacity to support intermediaries that can reach small businesses especially in poor communities
  - Risk management and payment regulations, which requires changes in NT rules
  - Systems to ensure support from other agencies on e.g. infrastructure and education
    - Needs more structured engagement
    - Clear prioritisation of a short list of programmes through Cabinet and the Presidency

# Trade-offs for established industries

- Prioritise competitiveness and growth prospects, not rescue operations
- Key strategies:
  - More reliable and affordable electricity, freight transport and broadband
  - Reduced rents to commodity producers (e.g. soya for poultry; iron ore, coal and scrap for steel; textiles for clothing)
  - Technological upgrades
  - More efficient licencing, without sacrificing standards

- Only protect against competition if it promotes measures to improve competitiveness, rather than replacing them



# In short...

- Paradigm shift to promote extensive growth – scale up support for labour-intensive industries and self-employment
- Walking on two legs:
  - Massively scale up programmes to establish supportive ecosystems for small business – critical role for intermediaries, which requires serious resourcing
  - Help established producers become more competitive, rather than just protecting them from foreign and domestic competition
- Changes in the way the state functions:
  - Re-think what is sustainable, taking into account externalities and long-term needs
  - Unambiguous prioritisation as basis for alignment across the state
  - Reallocation of capacity within the dtic
  - Systems to support intermediaries
  - Management of risks resulting from structural change, rather than just avoiding them



**Re a leboha!**