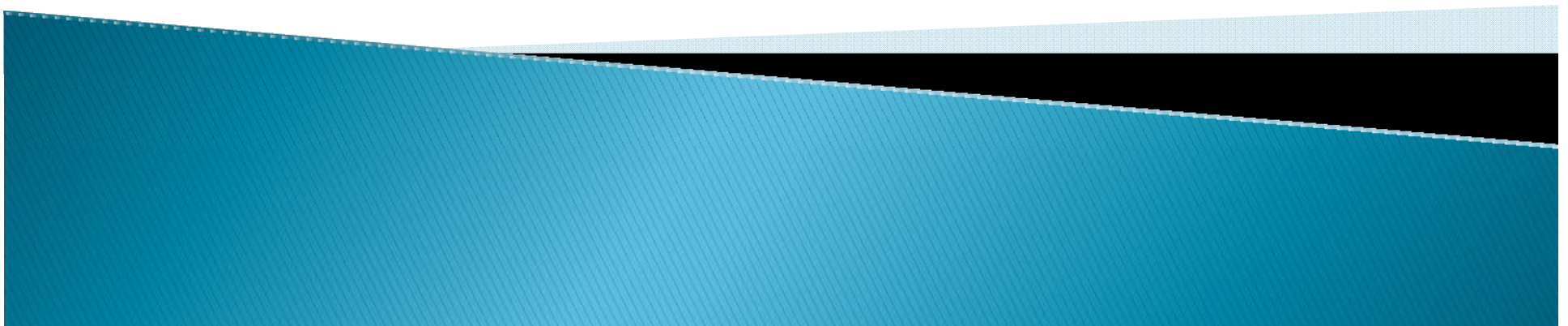


How structural inequality impacts on opportunities on the margins

Kate Philip



How the structure of the economy impacts on the margins

A South African conundrum:

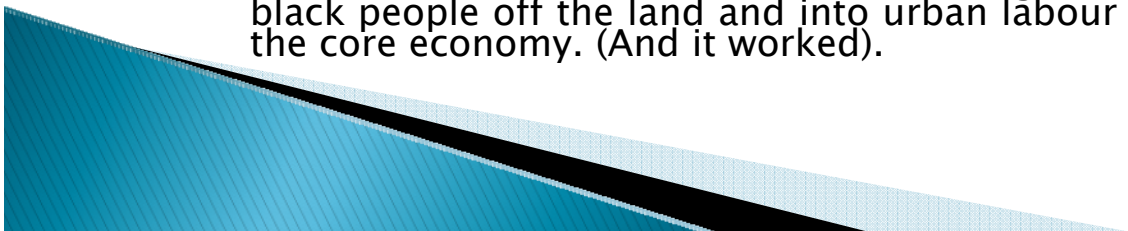
- ▶ Why is the informal and sme/smme sector so small when unemployment is so high?
- ▶ Why is the informal sector so dominated by retail? Where is small-scale manufacturing? Where are services?
- ▶ The answers typically focus on these issues:
 - Skills
 - Levels of entrepreneurship
 - Access to credit, capital
 - Easy of entry, regulatory barriers
 - For co-ops: additional complexity of collective management

These do matter. But some of the answers also lie in understanding the impacts of structural inequality on economic opportunity on the margins

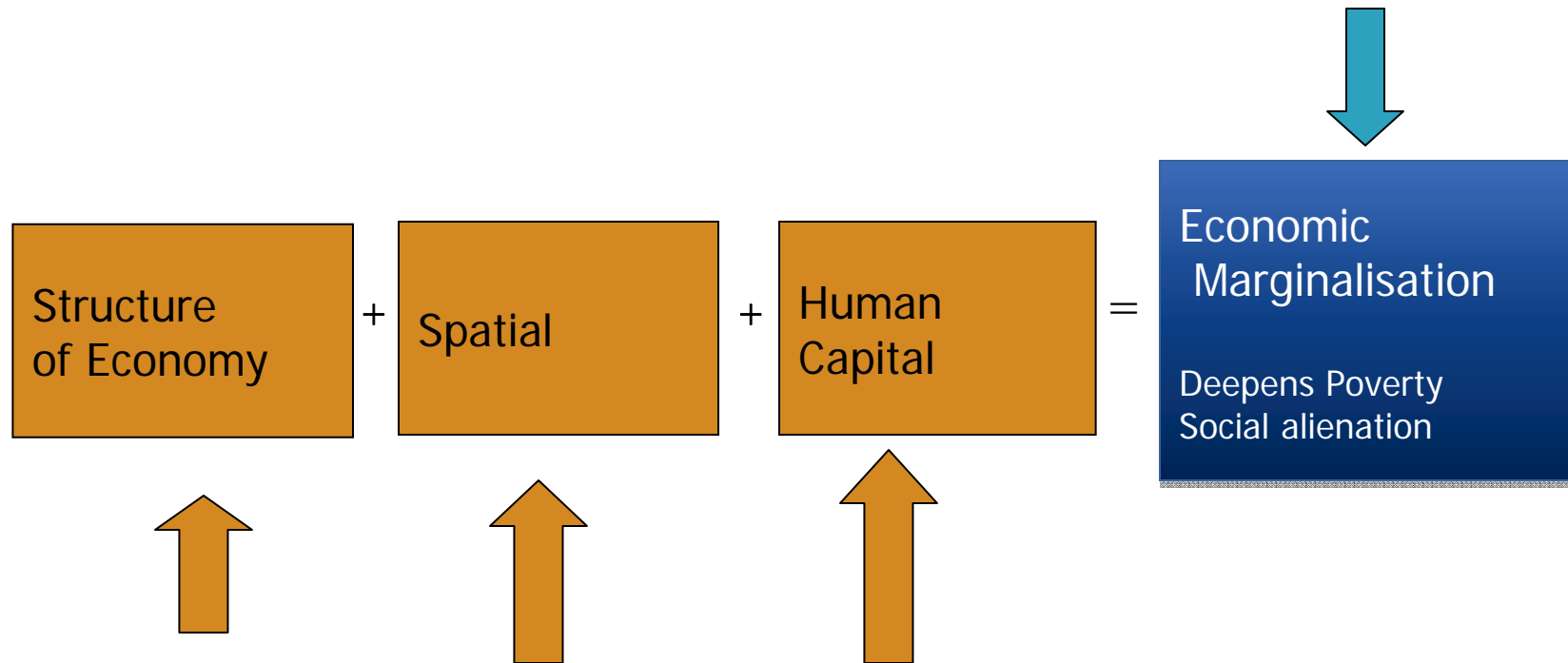


A Focus on Inequality

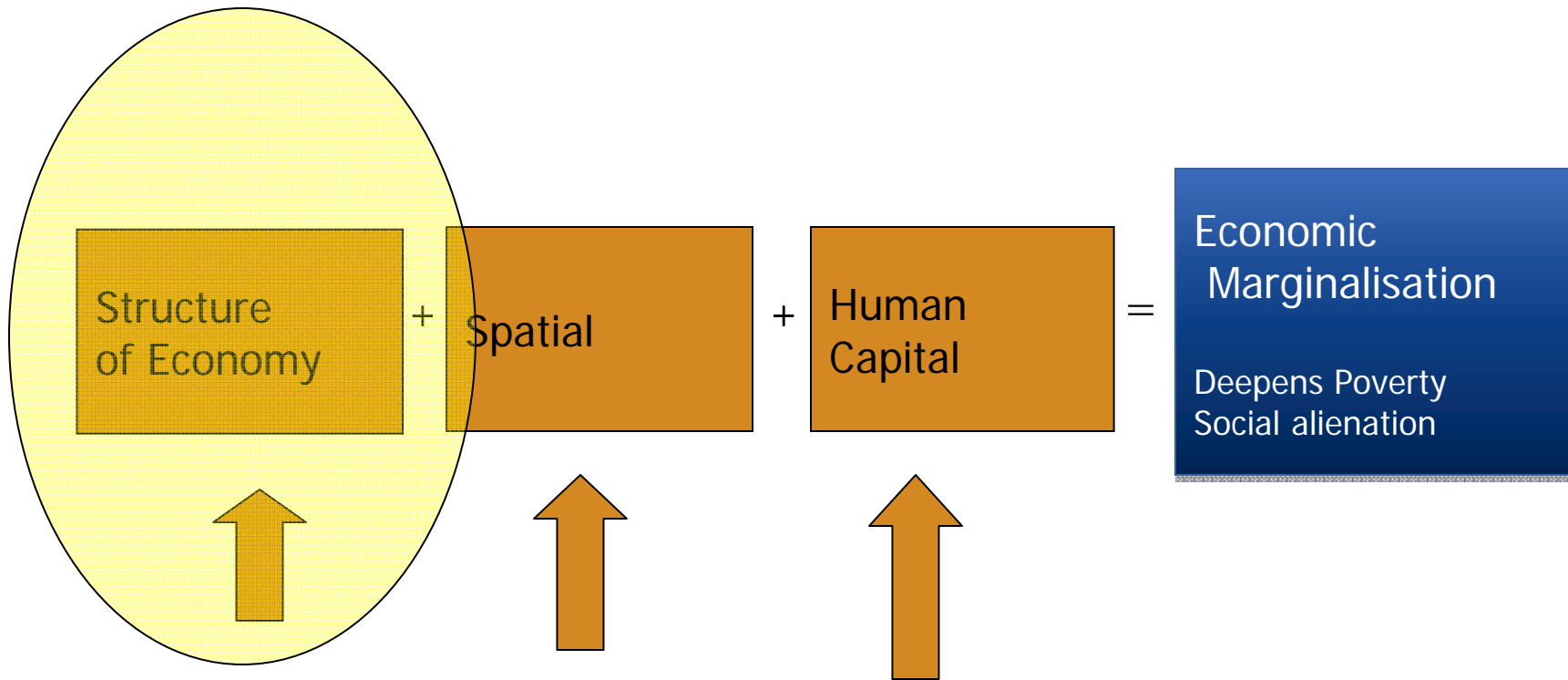
- ▶ The Second Economy Strategy Framework highlighted the need to locate analysis of 'dualism', the 'second economy' back in an understanding of inequality.
- ▶ In particular, the key legacies of apartheid that make this inequality deeply structural:
 - the spatial legacies in relation to land: the bantustans and apartheid cities,
 - the labour market legacies of pass laws and a historical reliance on unskilled cheap labour;
 - the monopoly structure of SA's core economy;
 - the highly skewed distribution of assets (land, capital and also human capital).
- ▶ The notion of 'two economies' resonates because of what we see: but it masks the fact that both ends of the spectrum are consequences of common sets of processes.
- ▶ You can't 'fix' the second economy 'in' the second economy: or by creating linkages and ladders: this assumes that the second economy is disconnected when in fact: the issue is about power and distribution.
 - The 1913 Land Act was not about keeping bantustans 'separate': it was about forcing black people off the land and into urban labour markets: it was about 'linking' them to the core economy. (And it worked).



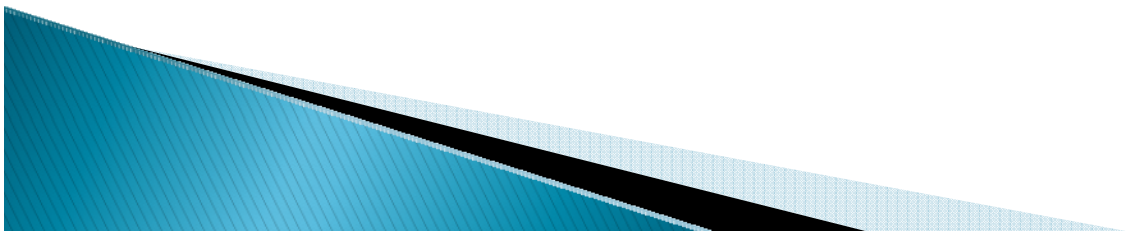
Inequality frames economic marginalisation



- Strategies to address inequality need to frame strategies to address economic marginalisation
- SA is not a poor country. Poverty is in large part an outcome of how political power was used to impact on distribution.
- Addressing poverty includes the same challenge.



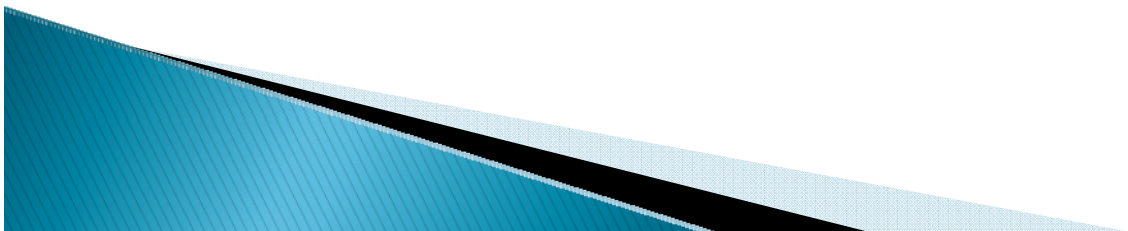
This presentation is focused on how the structure of the economy impacts on opportunities on the margins, and what that means for strategy.



Structures of production, distribution and demand

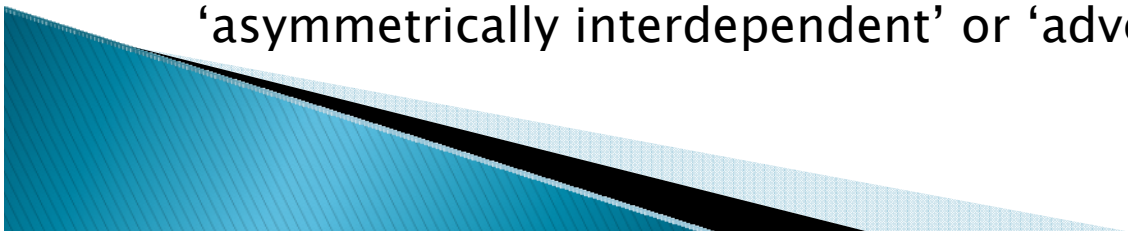
- ▶ Markets in marginal areas are 'thin'
- ▶ Poor people buy a limited basket of consumer goods.
- ▶ Most of these are (still) mass-produced in the core economy, at a scale that makes it hard to compete on price, even taking into account the cost of distance;
- ▶ Distribution systems are efficient enough to reach even remote areas;
- ▶ 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.....



What about agriculture?

- ▶ There are local markets for agricultural produce: but markets are thin and returns are low here too; ‘
- ▶ The traditional approach to rural development and improving farm incomes in poor countries is to assist farmers to go **up the value chain** by supporting forms of agro-processing.
- ▶ **But in SA: a highly-centralised, vertically-integrated agro-processing sector already exists in relation to every key staple you care to name:**
 - **Iwisa, Hulets, sunflower oil, tea, SASKO flour, Black Cat/ Yum Yum peanut butter, cigarettes, beer, bread, milk, cheese, mango/litchi/orange/ juice, canned goods etc.**
- ▶ These value chains tend to exclude small/new/black producers – but there is still no point setting up parallel agro-processing initiatives as if these giants aren’t already occupying this market space;
- ▶ Such strategies implicitly assume a ‘dualism’ in the economy that sees first and second economies existing in parallel, rather than ‘as asymmetrically interdependent’ or ‘adversely incorporated’.



A shift in focus to external markets

Many enterprise development strategies are trying to overcome the limits of local markets by targeting wider, external markets This is happening in two main ways (in rural areas):

- ▶ A focus on niche/artisan products targeting higher value but relatively low volume external markets:
 - Designer craft, goats milk cheese, rooibos tea, mushrooms, essential oils, etc
- ▶ Strategies to enter high-volume low value commodity markets:
 - Timber, sugar, sunflower oil, beans, maize.
- ▶ Access into external markets almost always entails participation in value chains....and has to confront the issues of how power and returns are centralised in such chains....



Accessing wider markets brings new challenges and is also hard:

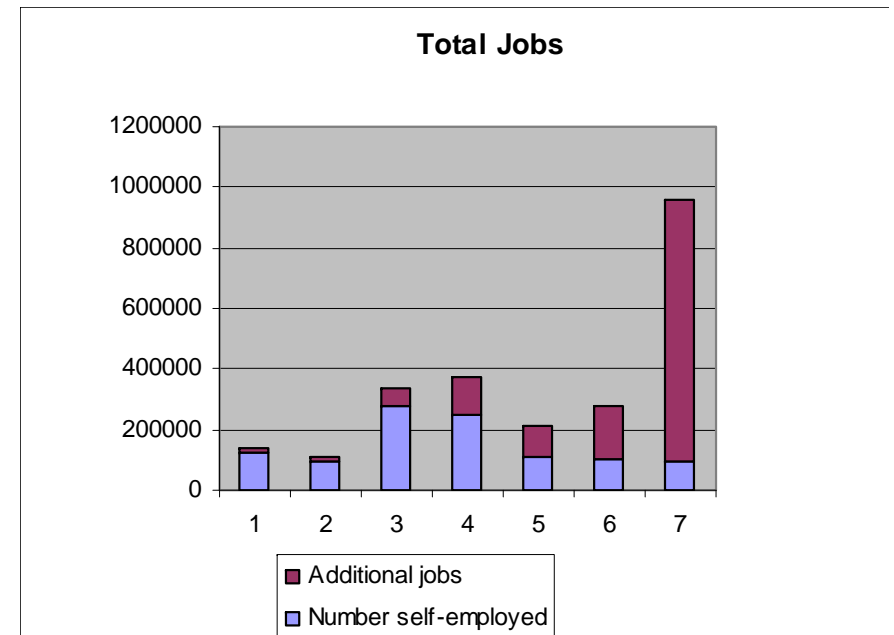
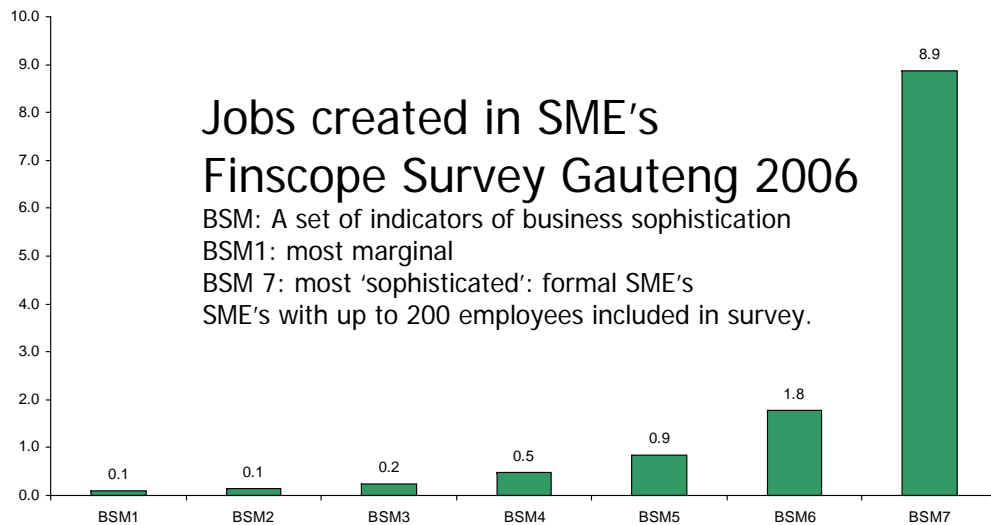
- ▶ Accessing wider markets not easily compatible with informality
- ▶ As soon as the transaction is no longer face to face: ie entails transacting across distance: 'anonymous exchange' – it requires an enforceable contract:
 - invoices, delivery notes, receipts, bank accounts, an address
 - Without these – formal business can't 'recognise' the transaction: because neither auditors nor SARS will do so.
- ▶ Participation in wider value chains requires greater quality assurance, quality consistency and compliance with standards; for links to export markets, this includes labour standards;
- ▶ Access into external markets can create massive increases in volume requirements:
 - 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 8,000 tons of beans from small farmers: could secure only 17.3 tons.

Entry into wider value chains and markets often needs intermediary forms of organisation and co-ordination.

Rather than 'cutting out the middle man': we need to transform this function:

What about urban areas?

Different opportunities – but similar problems



SME's = less than 200 employees

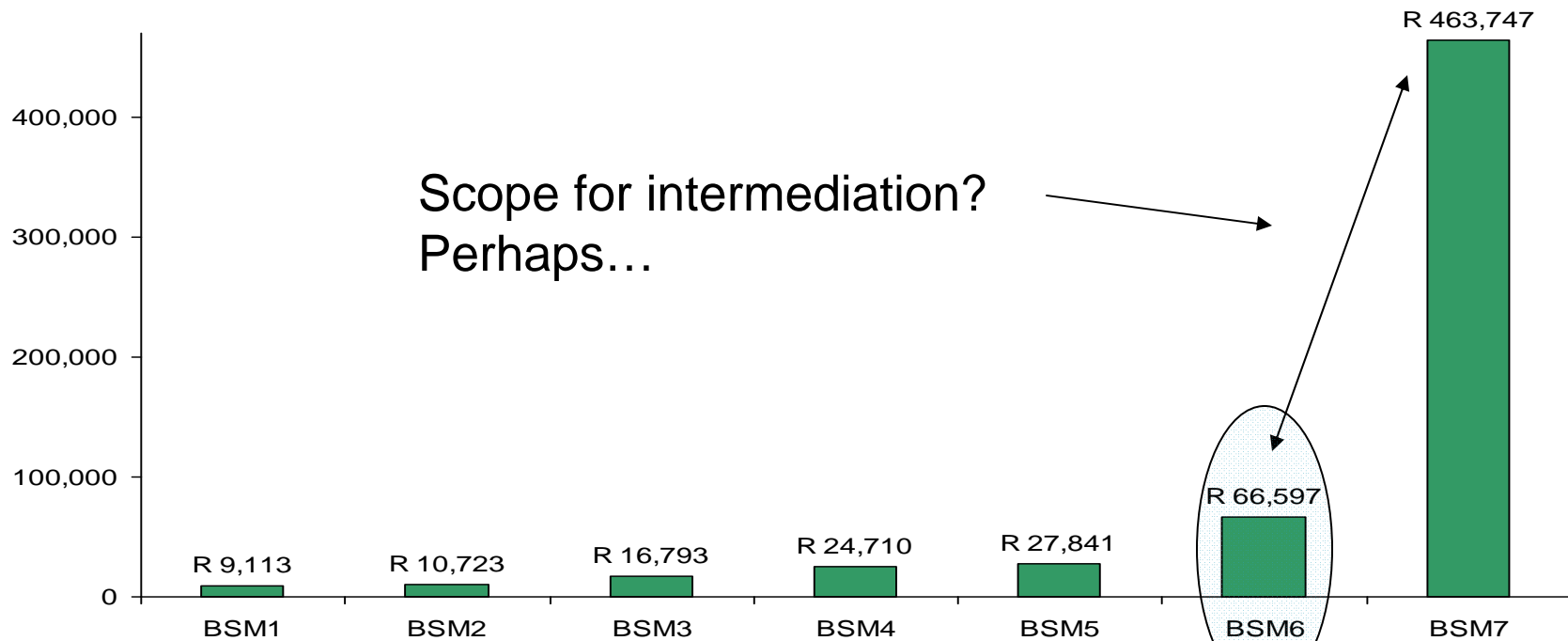
BSM 1 = no fixed spot, no cellphone.

The spectrum in-between

BSM 7 = own premises, VAT registered, fully compliant.

Average SME Turnover per annum....

Finscope Gauteng 2006



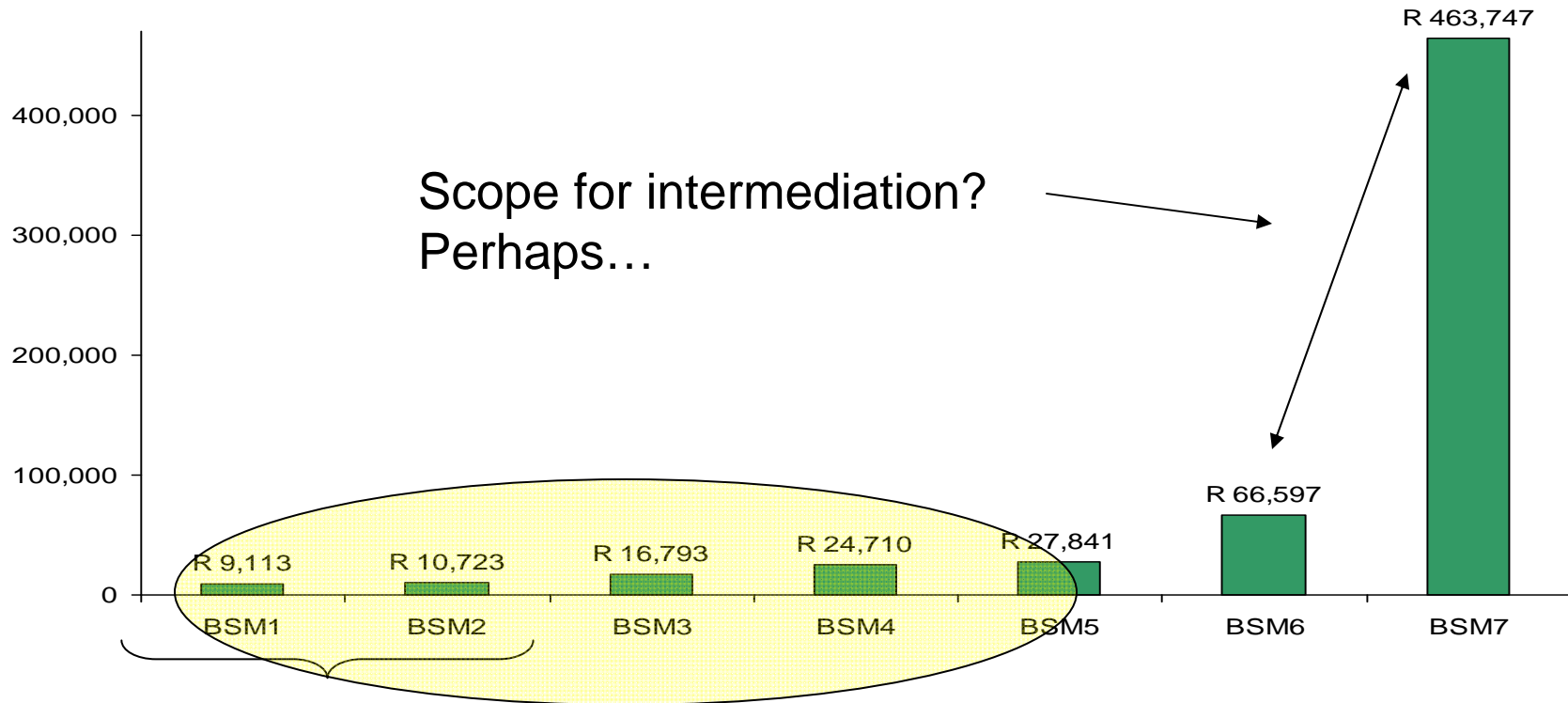
National Finscope: 79% of sme's are traders....

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

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

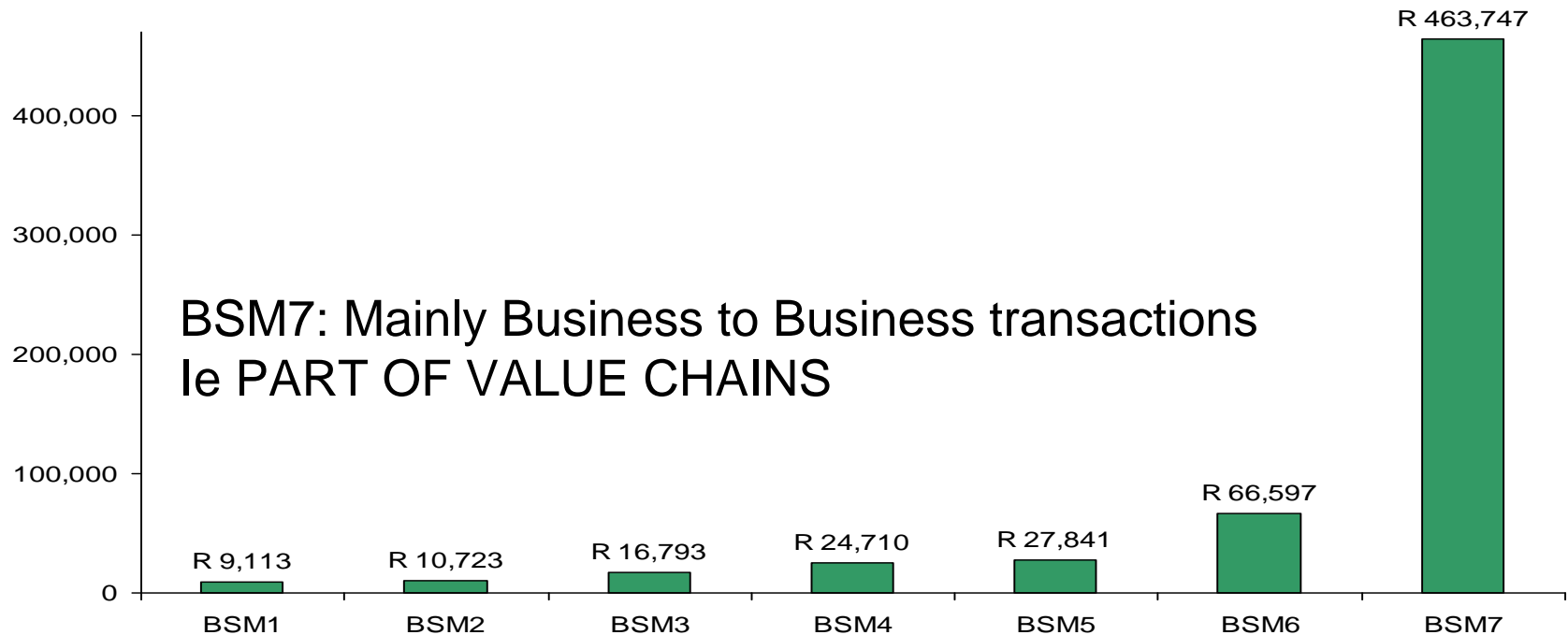
But significant increases in returns for BSM7.

But no necessary ladder upwards...



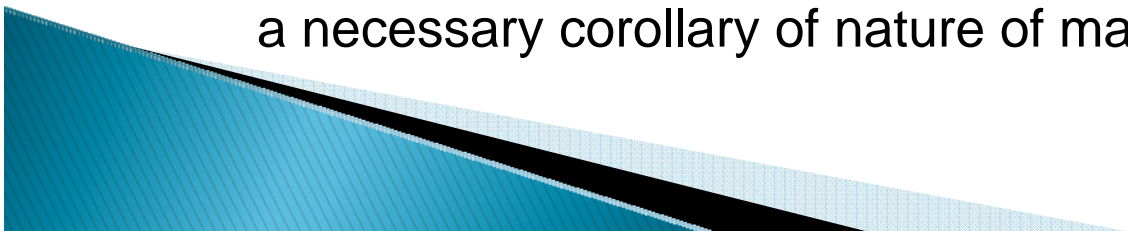
But BSM 1-5 are mainly in retail: and for retail, there's no ladder to climb up:
if anything, 'big retail' is coming down the ladder

Implications of nature of market insertion



BSM 7: limited direct sales: B2B, part of value chains

Issue of causality: assumption that increased employment and returns a function of regulatory compliance: but regulatory compliance may be a necessary corollary of nature of market insertion.



Some framework issues

Traditional strategies for developing countries usually assume:

- (1) that the informal sector has the capacity to create employment at scale and formalise
 - (2) that the small farming sector remains a dynamic part of rural local economies, also able to supplement food security and provide a safety net function.
- ▶ However, in SA:
- Employment creation ‘from below’ – through micro-enterprise or self employment – faces significant structural constraints and is a poverty trap for many;
 - SA’s rural/ex-bantustan areas are deeply de-agrarianised and are unable to act as a ‘shock-absorber’.

This leaves poor people in SA unusually dependent on wages, remittances and/or grants



Dependence is Structural

- ▶ This 'dependence' is deeply structural and is not primarily a function of 'bad attitudes' or 'too many social grants';
- ▶ **Nevertheless, it is true that long-term structural dependence influences peoples sense of economic 'agency'** – their scope to change their material conditions through their own actions.
- ▶ Strategies to address this have to avoid false dichotomies and recognise the following:
 - ▶ The structural constraints are real – unlocking 'economic agency' will take more than just exhorting people to be more entrepreneurial;
 - ▶ Dependence on wages and social transfers means the core economy – which is mainly urban – really matters;
 - ▶ 'Urban' and 'rural' are deeply interdependent – socially and economically – in ways that current strategies tend to ignore;
 - ▶ **Spaces** may be 'urban' or 'rural': **people** – and households – are not.
 - ▶ The employed, the unemployed and the self employed live in the same households. Dynamic transfers take place between them daily.



Requires segmented strategy

- ▶ No particular benefits to formalization for informal enterprise involved in direct sales to consumers;
- ▶ Nor major negative social impacts of informality:
 - Self-employment rather than exploitation of others;
 - They are below the tax threshold.
 - At most, there may be consumer protection/public health issues in some sectors: other solutions;
 - So why the big push on 'formalising'? Simple mechanisms to recognise, validate....
- ▶ But limited scope for growth without formalisation for sme's trying to break into wider markets, value chains (OR: scope for intermediation).
 - No escape from meeting basic standards, business practices, compliance: regulatory barriers are not the big issue: institutions of business.
 - Ability to comply unlocks opportunity: necessary condition for B2B transactions: where the growth potential is.



Some overall strategic implications

- ▶ Strategies that address these structural problems (aka NGP) are crucial – but will take time and will reach the most marginalised last; strategies that reach them first are also needed.
- ▶ There's also no time to lose in unlocking people's sense of **economic agency** – their ability change their material conditions through their own actions

This requires facilitating forms of economic participation even where markets fail to do so.

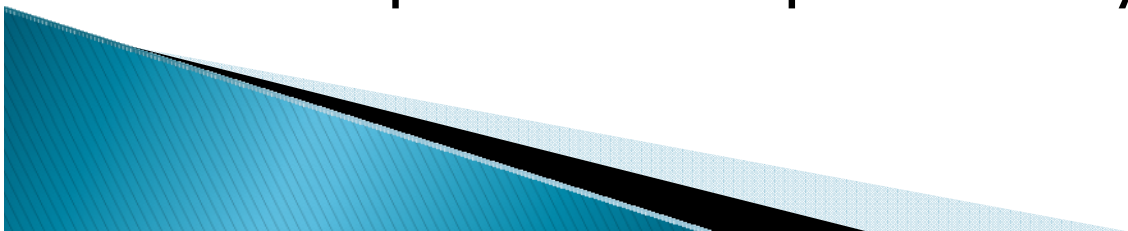
Another 'level' of economic strategy is required: that builds the incomes and assets of poor people in ways that do not depend on markets to achieve their intended outcomes: although they will have market effects – and should aim to work in synergy with macro changes. enhance market access.

How?



- ▶ Given that there is no evidence that markets are on any trajectory to create full employment: revisit the role of public employment.
 - India's employment guarantee
 - In SA: Community Work Programme:
 - 2 days of work per week
 - Regular and predictable access to a minimum level of work = earning floor: supplements other livelihood activities.
 - The 'work' is useful work – decided by communities.
- ▶ An EG as a redistributive instrument that invests in the local economy through people: and other effects trickle down' from there.

- ▶ An important complementary debate.



Questions and research agenda

- ▶ (Instruments to address structural inequality)
- ▶ Better understanding of issues of market insertion, how the nature of markets targeted impacts on options; scope for different forms of intermediation into wider markets; nature of the value chains in which 'informal sector' participates.
- ▶ Scope for complementarity between 'regular and predictable' access to a minimum level of work and other livelihood strategies;
- ▶ A big question. India: '93% is informal'. Well, that IS the economy.....how useful to call it informal? What institutions, rules, norms, govern it? Set standards? Quality norms?
 - An overemphasis on the state, regulation: but society governed by many institutional layers.....
- ▶ A concern: 'informal economy' easily falls into same trap as 'second economy' concept? Surely we need to understand it as one economy producing all these diverse effects - and how and why?

