MISTRA WORKING PAPER

LIFTING THE COLONY WHILE IMPROVING THE METROPOLIS – ADDRESSING DUALITY IN ECONOMIC DEVELOPMENT

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Introduction

This chapter deals with interventions that can help eliminate the parallel streams of lived economic experiences within the South African economy, referred to in this treatment as 'the colony' and 'the metropolis'. It starts off by briefly characterising these streams of development to illustrate some of the core features of the entrenched duality and then posits proposals to facilitate convergence of developmental outcomes through catalysing mass absorption into industrial activity, opportunities in agriculture, and support for micro-enterprises.

As elaborated in other chapters of this volume, the structure of the South African economy cannot be separated from its colonial origins. It evolved with two attributes, elements of which continue to define it in the post-apartheid period.

In the first instance, during the 20th century, monopolies with ubiquitous production and/or supply chains across the length and breadth of the country came to dominate the economic landscape. Combined with the suppression of entrepreneurship within the black community, a distorted structure emerged, with much of the 'product space' constituted by 'branded products that are mass produced by large, vertically integrated corporations' (Research Project on Employment, Income Distribution and Inclusive Growth, REDI, 2018).

Secondly, the economy was based on a hierarchical system of inclusion and exclusion, with Africans[i] at the lowest rung of the social ladder. Africans were considered as 'sojourners' in 'white' South Africa, largely meant to reside in labour reserves[ii]. Indian and Coloured communities were also confined to specific geographic areas as well as skills and economic activities. Some of these legal regimes were slightly relaxed as the needs of the economy grew; but the overall system was inherited largely intact with the attainment of democracy in 1994. Since then, sections of the black community have gradually been integrated into the upper levels of the advanced economy. But a large part of the population is alienated. The dual tracks of South Africa's economic journey have barely bent towards convergence some three decades into democracy.

Former President Thabo Mbeki (2003) characterised this as 'two parallel economies'. The duality suggested in this chapter draws partly from this observation, but it refers more to dynamic development in the political economy since 1994. In this sense, it differs from a static characterisation critiqued as suggesting that the rich and the poor are 'not just set apart by quantitative differences in wealth' but inhabit 'two separate and qualitatively distinct economies' (Callebert, 2014: 119). Indeed, individuals occupying this dual space and their socio-economic activities are linked in a multiplicity of ways; and their lives – within and across social strata, communities and families – do intersect. As such, the interventions proposed go beyond the conceptual binary of seeking to lift the 'second economy' to become part of the 'first economy' as is assumed to be the aim of the South African government (Masondo, 2007: 66–80) or delinking 'poor communities from the depredations of the capitalist labour market' (South African Communist Party, 2014: 28).

The interventions proposed in this chapter are aimed at contributing to the narrowing of the economic developmental chasm between the two economic streams. They straddle areas of policy, institutions, resource allocation and implementation mechanisms and they would need to be scaled up in a manner that ensures a catalytic and mass impact.

Attributes of dual economic development in the intersection of employment, education and skills

There are many attributes that characterise the dual development tracks, and in this section, attention is drawn to labour market dynamics.

Employment trends

As reflected in Table 1 below, the unemployment rate is highest among Africans. The hierarchy of exclusion is reflected in both the labour absorption ratio and the rate of labour force participation. While the unemployment rate declined significantly in the 2000s during the years of high growth, it has effectively been stagnant during the last decade. The Covid-19 pandemic has worsened the situation among all groups, with the devastation most keenly felt among Coloureds and Africans.

Table 1: Employment rates (narrow definition) by population groups

Population 15 – 64 yrs Rates (%)	**Q3 2002 %**	**Q3 2007 %**	**Q3 2014 %**	**Q3 20019 %**	**Q3 2021 %**
South Africa					
Unemployment rate	26.6	21.0	25.4	29.1	34.9
Employed/population ratio (Absorption)			42.6	42.4	35.9
Labour force participation rate			57.1	59.9	55.2
African					
Unemployment rate	31.0	23.9	28.6	32.8	38.6
Employed/population ratio (Absorption)			39.2	39.4	33.1
Labour force participation rate			54.9	58.6	54.0
Coloured					
Unemployment rate	24.9	23.4	24.1	23.5	30.3
Employed/population ratio (Absorption)			49.8	49.3	39.3
Labour force participation rate			65.5	64.5	56.4

Indian/Asian					
Unemployment rate	17.8	9.5	11.5	13.3	22.0
Employed/population ratio (Absorption)			52.5	52.8	43.2
Labour force participation rate			59.3	60.9	55.4
White					
Unemployment rate	6.0	4.1	7.3	7.4	9.2
Employed/population ratio (Absorption)			63.6	63.1	60.8
Labour force participation rate			68.5	68.2	67.0

Source: Statistics SA, Quarterly Labour Survey series (wwww.statssa.gov.za

The marginalisation also manifests at the level of gender, with rates for those Not in Employment, Education or Training (NEETs) in the 15-34 age group at 39.9 per cent and 42.5 per cent among males in Quarter 3 of 2020 and 2021 respectively and 46.1 per cent and 49.6 per cent among females (Stats SA, 2021).

Education and skills

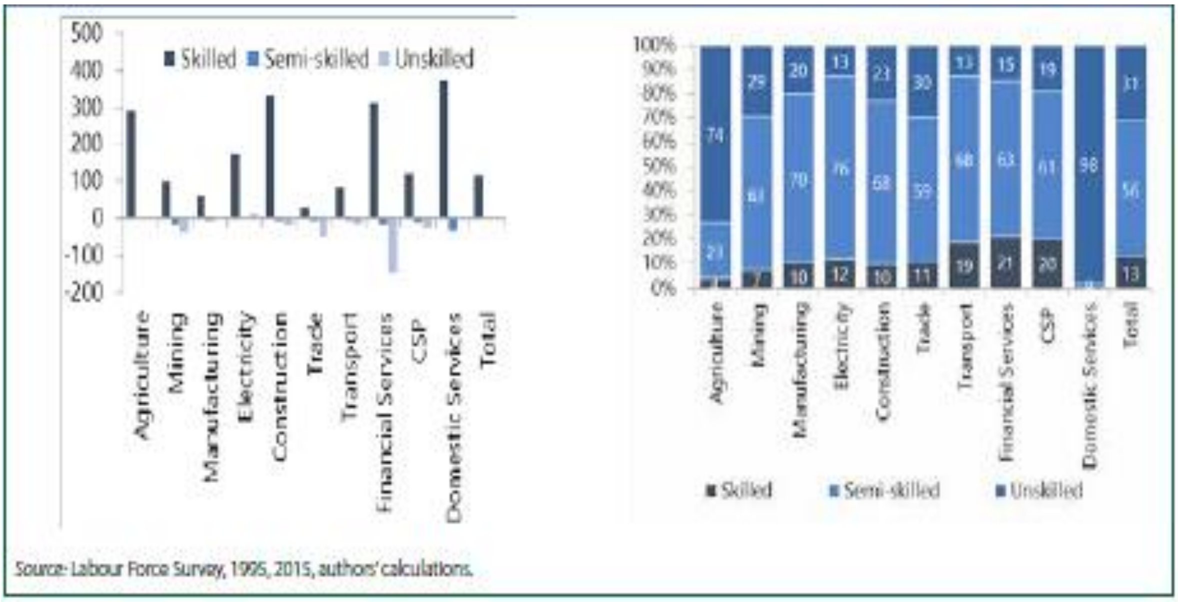
Prospects of employment and wage levels improve 'dramatically with earning a Matric Certificate or more' (van der Berg et al, 2011: 8); and educational attainment has been improving since 1994. This, however, is not equitably reflected among the population groups, with Africans and Coloureds still having a high proportion of individuals with less than Matric as a proportion of the expanded labour force (Stats SA, 2017), while largely also experiencing poor quality education.

The number of enrolled students in tertiary education has almost doubled since 1994. From less than half of the total, African students constituted about 71 per cent in 2018 (South African Institute of Race Relations, 2018: 15). However, the proportion of South Africa's population with tertiary qualifications is comparatively low: at 6 per cent for university degrees, compared to other middle-income countries such as Brazil (15.7 per cent) and Mexico (15.3 per cent) (Nkosi, 2021).

Sectoral skills intensity

How has the post-1994 skills intensity in the economic sectors evolved? As shown in Figure 1 below, between 1995 and 2015, 'every major sector' demonstrated growing skills-intensity and, except for agriculture, 'the share of semi-skilled work decreased' (World Bank, 2018: 81). At the same time, it is only retail; utilities; and community, social and personal services that have created employment at a rate higher than their rate of growth.

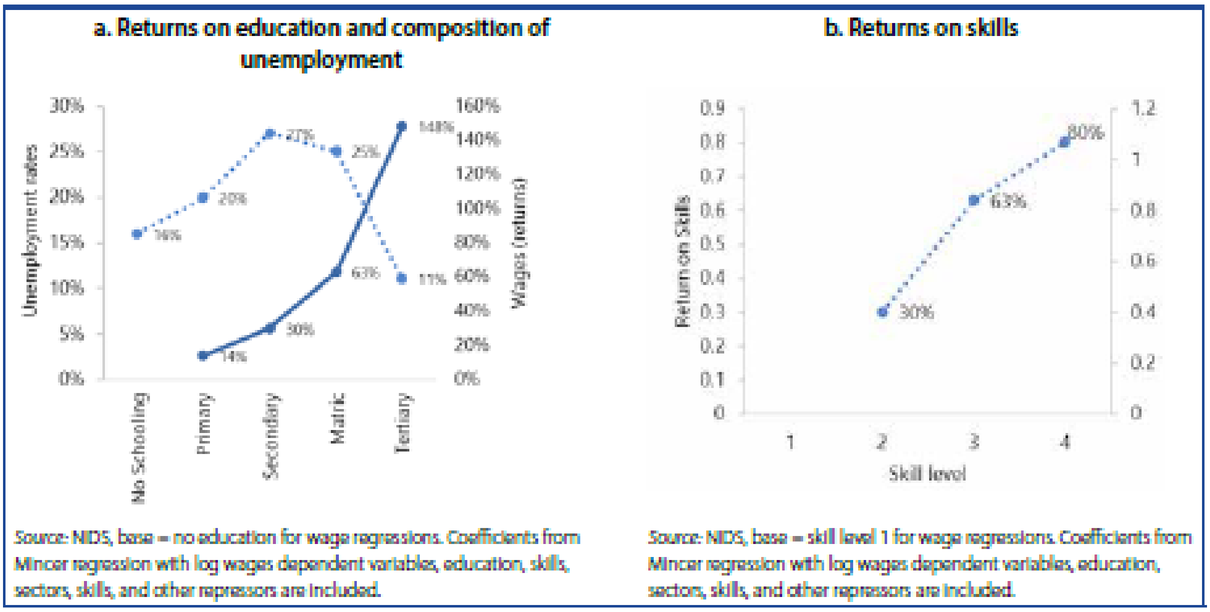
Figure 1: Growth of employment shares by sector and skills level, percentage share: 1995 – 2015 (left) and Composition of employment by sector and skills level, percentage share: 2015 (right)



Source: World Bank (2018: 80), Overcoming poverty and inequality in South Africa: An assessment of drivers, constraints and opportunities

As reflected in Figure 2 below, there are high returns for education and skills, with continuing marginalisation especially of the missing middle (World Bank, 2018), as well as wide variations in incomes. But, because the metropolis' economy is performing below par, skilled job opportunities are increasingly lagging behind the number of graduates coming out educational institutions.

Figure 2: Skills composition of the unemployed and income return on skills

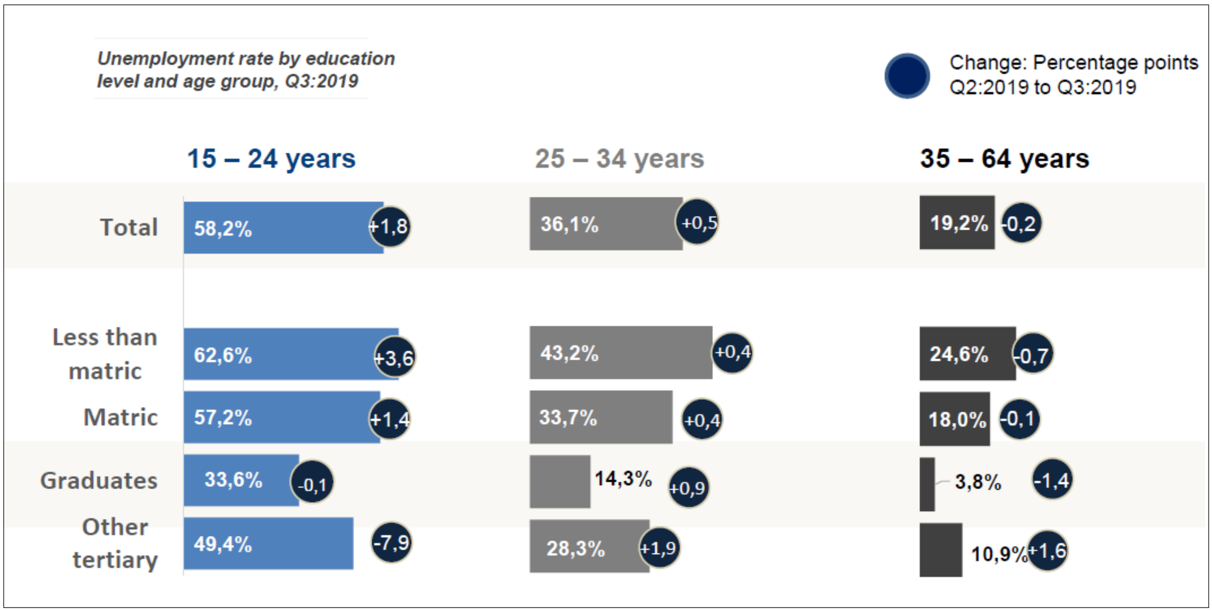


Source: World Bank (2018: 86), Overcoming poverty and inequality in South Africa: An assessment of drivers, constraints and opportunities

The youth dimension

Figure 3 shows that the unemployment rate among youth is higher irrespective of the level of education. Their share of the employed decreased between 1999 and 2019, with the absolute number also decreasing between 2009 and 2019. (Yu and Adams, 2021: 5). The rate of unemployment among those aged 25-34 years is more than twice those aged 45-54 years (Stats SA, 2019).

Figure 3: Unemployment rate by education level and age group



Statistics SA, Quarterly Labour Force Survey, Quarter 3, 2019 (wwww.statssa.gov.za)

While young people face onerous requirements for experience during hiring, the National Planning Commission (NPC's) Diagnostic Report chapter on the Economy also cites the issue of entry level wages as an important factor: 'the average starting salary is 60 per cent of the average' in South Africa, while it is 37 per cent in Organisation for Economic Co-operation and Development (OECD) countries (NPC, 2011: 16).

Attributes of duality in employment equity and inequality

Various data point to a gradual improvement in the position of black people in virtually all levels of the labour market of the metropolis. This is accompanied by hysteresis or stubborn persistence, a situation in which 'the underlying ''equilibrium unemployment rate'' may itself be high and possibly increasing' (Yu and Adams, 2021: 1). This is the nub of the contradictory development of the post-apartheid political economy, a duality that also manifests in relation to inequality.

Employment equity and income inequality

Since 1994, more and more black people have been breaking the apartheid 'glass ceiling' into skilled and other senior occupations, though at a slower pace in top management. Progress is particularly pronounced in the public sector. Blacks have, since 2010, been the majority in both professional and skilled technical occupational categories.

Table 2: Trends in Employment Equity at various occupational levels (%)
The figures do not include foreign nationals

Occupational level	**2006**		**2010**		**2013**		**2020**	
	Black	**White**	**Black**	**White**	**Black**	**White**	**Black**	**White**
Top management	22.2	74.9	24.1	73.1	33.3	62.7	32.1	64.7
Senior management	26.9	70.6	33.7	64.1	40.1	57.0	44.3	52.5
Professionally qualified	36.5	62.2	50.2	47.7	57.4	40.2	65.5	32.1
Skilled technical	58.4	40.4	70.2	28.5	76.4	22	80.7	17.6

Source: Calculated from Department of Labour – Commission for Employment Equity Annual Reports, 2007-2021

In terms of 'class sizes', the National Income Dynamics Study (NIDS) shows a decrease in chronic poverty from the first report in 2009 until the advent of Covid-19 (Gumede, 2021: 1–17); and a marginal increase in the middle strata and elite. While average income per person has improved, the functional distribution shows that South Africa has the highest income inequality in the world (World Bank, 2022: 1). Race continues to play a central role, but inequality within the black community has increased, as the 'coefficient of variation for wages of black South Africans has risen substantially … (from 3.83 to 6.37, a 66 per cent rise) …' (World Bank, 2018: 86).

Asset inequality

Wealth inequality is much larger than income inequality' (World Bank, 2018: 52). While there was an improvement in assets among Africans between 2009 and 2015, their 'asset scores…remained the lowest as compare[d] to other population groups, whereas whites had the highest scores' (Stats SA, 2020).

Black ownership of the Johannesburg Stock Exchange market capitalisation is estimated by National Treasury (2017: 27), using figures from Alternative Prosperity, at 10 per cent in terms of direct ownership and 23 per cent when institutional funds are taken into account. However, much of this is encumbered through debt; and the institutional managers of the pension funds are largely white. Over

150-thousand South African workers are share-owners through Employee Share-ownership Programmes (Esops), and their estimated market value is over R100-billion (Crozier, 2022). Most Esops have, however, not been successful (MISTRA, 2020: 45–46).

As with the income dimension, non-income inequality among blacks has increased, with ‘within-group’ inequality already contributing some 81.9 per cent of total non-income inequality by 2004 (Bhorat and van der Westhuizen, 2006).

Distilling the defining trends and identifying interventions to undercut duality

The data cited above starkly illustrate the coexistence of a metropolis and a colony within the integument of one nation-state. While there is some integration of sections of African, Coloured and Indian people that are able to take advantage of opportunities at upper levels of the economy, the broad patterns of exclusion continue to be reproduced.

The returns to education are clearly evident. However, the economy of the metropolis has difficulty in absorbing the middle cohort of semi-skilled workers (with secondary and Matric qualifications). At one extreme, the South African economy mimics attributes of advanced economies. At the other extreme, it exudes high levels of underdevelopment.

At the core of this duality is the tendency of the advanced economy to reproduce and regenerate with little regard to those who do not ‘belong’. Other chapters in this volume deal with these dynamics in greater depth.

The Covid-19 pandemic has had the effect of slowing down and even reversing some of the progress made in the first 25 years of democracy. As a consequence, the parallel tracks of dual economic development are diverging even further. However, the country’s regression started well before the pandemic. The irony is that it is precisely in the period after the adoption of the National Development Plan (NDP) in 2012, which outlined 2030 targets for inclusive growth and development, that there was an unfortunate confluence of state degradation, systemic venality and negative per capita GDP growth. Adelzadeh (2022) argues that fiscal austerity and tight monetary policy further undermined prospects for economic growth. At the current pace, even if the slow recovery projected by the OECD (2021) does prove somewhat pessimistic, convergence between the dual economic tracks will take scores of years to attain, if at all.

How to deal with the excluded mass, trapped in the colony, is the fundamental question of the South African political economy. This is not so much about eliminating duality in the economy altogether nor is it about 'dragging down' the metropolis in order to lift the colony. Rather, it is a complementary task to facilitate inclusivity: combining the lifting of the colony in terms of developmental outcomes while continuing to improve the metropolis.

The rest of this chapter deals with three interventions, selected for their potential to have a significant and catalytic effect, namely:

- mass absorption of semi-skilled and unskilled workers into industrial activity, with a focus on low-end manufacturing through Special Economic Zones (SEZs);
- land and agrarian reform to position agriculture as a terrain of intense economic activity, productive use of assets and employment; and
- focussed support for micro-enterprises, especially the informal sector, tapping energies already extant.

Mass absorption into industrial activity – a case for an improved SEZ programme

Two trends are playing out in global manufacturing: firstly, the persistence of off-shoring in the context of integrated value chains; and, secondly, growing automation and the Fourth Industrial Revolution (4IR) which are linked to some reshoring among developed economies. Added to this, and attached to the Covid-19 pandemic, are efforts towards the shortening of supply chains by producing in the main consumption hubs ('reshoring'), in neighbouring countries ('near-shoring') or among strategic partners ('friendshoring') – though still nascent. Neither of these trends is currently dominant and there are many other factors that come into play, including geopolitics.

The analysis in this section proceeds from the perspective that low-end manufacturing, interconnected global value chains and export-led growth have not diminished much in terms of their impact on economic growth and employment and they will continue to play a significant role.

Hai (2016) refers to a form of historical manufacturing relay race since the Second World War involving Japan immediately after the War, the 'East Asian Tigers in the 1960s' and 'China in the 1980s'. While 9.7-million manufacturing jobs relocated from Japan and later 2.3-million from South Korea, as these countries sequentially moved up the manufacturing sophistication ladder in the 1980s to the 1990s, Hai estimates that 85-million such jobs are now relocating from China. The manufactures from labour-intensive industries are still in high demand; and – besides countries such as Vietnam and Bangladesh

– African countries including Mauritius, Ethiopia and Rwanda are taking advantage of this. Can South Africa, in the context of its 'second economy', also benefit?

The African National Congress (ANC) recently pointed to opportunities in low-end manufacturing to absorb low- and semi-skilled workers in a massively expanded SEZ and industrial parks programme (ANC Economic Transformation Committee, 2020: 17). The precise number of jobs that can be created depends on the scale and effectiveness of execution.

While the ANC refers to scale, National Treasury deals with quality of the programme, questioning whether incentives such as lower tax rates are 'crowding in' the targeted investments and calling for 'a more nuanced understanding of the circumstances under which SEZs are most effective…and whether they are appropriate tools for clustering industrial activity and addressing unequal spatial development'. This would allow for processes 'to improve the design, functioning, and ultimately the impact of SEZs as a key industrial policy tool' (National Treasury, 2019: 49).

In a comprehensive study on South African SEZs, the Centre for Development and Enterprise (CDE) defines such a Zone as 'a geographically defined area in which government provides specific services or benefits to firms so that they are able to grow more rapidly' (CDE, 2021: 2). The government, through the Department of Trade and Industry[iii] defines such a Zone as 'a geographically designated area of a country set aside for specifically targeted economic activities, which are then supported through special arrangements … and support systems to promote industrial development' (the Dti, 2012).

This is aimed, among others, at addressing market failures in the rest of economy, creating low-cost manufacturing opportunities for export, aggregating supply chains and attracting high-level skills. Because such zones demand the commitment of state resources, there naturally has to be a cost-benefit analysis to make sure that activities attracted would otherwise not have been as commercially viable. The Zones should therefore provide clear 'additionality' (CDE, 2021: 9).

Currently, 11 SEZs are operational in South Africa; but, with some R25 billion spent on such programmes, 90 per cent of investments and jobs are generated in only three of these – Coega, East London and Dube Trade Port (CDE, 2021: 7).

South African policy-makers have baulked at far-reaching considerations to ensure that the Zones are indeed special. There has been hesitation, for instance, around a special rate of corporate tax along with the belief that clustering and subsidised infrastructure are largely sufficient. Consideration also has to be given to whether activities in such zones should be confined to exports with a provision for duty-free inputs. Further, weaknesses identified by the Dti (2012) such as ad hoc funding arrangements; poor targeting of investment promotion; weak coordination with stakeholders; inadequate governance arrangements; and design to some extent still plague the overall approach.

A critical deficit, however, is South Africa's approach to the issue of inserting the country into global value chains (Olasehinde-Williams and Oshodi, 2021); that is, adding value across one or more borders before consumption. From comparative studies of 30 developing and industrialised countries, South Africa and Cambodia were the only ones that, between 1995 and 2009 did not improve integration into global value chains. According to Olasehinde-Williams and Oshodi (2021: 2), 'South Africa has not fully exploited the advantage of global value chains to improve her export performance, although it has the potential of leveraging on its comparative advantages in mining, light manufacturing, agro-business, tourism and textile'. Rather than clamouring only for the production of finished products, the country can use SEZs to also produce 'less sophisticated goods or processes within the global value chain' (Olasehinde-Williams and Oshodi, 2021: 2). As elaborated in Chapter of the forthcoming MISTRA volume on the Evolution of the Structure of the South Economy, the African Continental Free Trade Area (ACFTA) presents major opportunities in the context of regional integration and division of labour.

In its programme on Special Economic Zones, South Africa has sought to meet another critical element of successful SEZs, which is location. There have been conscious attempts to escape the path dependency informed by the geography of mineral endowments and locate the SEZs in port cities and inland trade routes and development corridors. However, a mechanical spatial levelling-up as the objective of the SEZ programme – with scattered locations that have little value addition – should be avoided. While SEZs and industrial parks can contribute to reducing spatial inequality, the starting point should be comparative advantage and value-addition in the specific locations. The experience of China does demonstrate, though, that SEZs can be used to start new cities and upgrade an underdeveloped area (Ng, 2011: 638–642). In this context, consideration needs to be given to allocating SEZ status to some of the 'smart cities' that the South African government has proposed (Ramaphosa, 2019). Further, rust belts which already have some infrastructure could be revived through SEZs and industrial parks – if they do have economic potential.

While this section deals narrowly with manufacturing, it should be recognised that business process outsourcing (or global business services) also has potential to absorb unskilled and semi-skilled workers, especially young people (Mubajwa and Surianarain, 2022).

In as unequal a society as South Africa, and given the rights enjoyed by workers in the metropolis, including a living wage, it is natural that concern should arise on two fronts, namely, whether SEZs would result in undermining existing worker rights across the economy, and also lead to a dual labour market.

A number of principles need to be underlined in this regard. Firstly, given the extant parallel development paths described above, with profound levels of marginalisation of unskilled and low-skilled workers, using SEZs is a time-bound intervention for the inclusion of the excluded. The aim should be, over time to climb up the manufacturing sophistication ladder with corresponding improvement in working and living conditions. Secondly, no one in the country should earn below the minimum wage; and emphasis in the Zones should be on youth at the entry-level. This can be combined with the employment tax incentive, through which employers and government share the cost of employment by subsidising wages. Thirdly, if wages are set too low, the reservation wage[iv] phenomenon is bound to kick in – limiting the number of takers and resulting in unstable labour relations. Fourthly, Onaran and Stockhammer (2005: 65) argue that decreasing the wage share in most settings does not necessarily stimulate 'accumulation, growth, and employment'. Lastly, the aim and the praxis should preclude the undermining of the status of those already occupying decent jobs. The current labour relations regime, which is constitutionally and otherwise legally enshrined, should be maintained and even improved.

In addition, and critically, as the NDP correctly observes, other interventions should be used to ensure a decent standard of living for all. This includes reducing 'the cost of living in relation to food, transport, education, health and other basic services' (NPC, 2012: 114) as well as social infrastructure and other elements of the social wage. This is not merely a social imperative; it would also help create a virtuous circle on the demand side both in terms of infrastructure supplies and consumer demand.

Opportunities in agriculture

This section assesses the role agriculture can play in relation to marginalised sectors of society. Extensive reference is made to proposals in the NDP (2012: 218 –234), which posited the possibility of creating some 1-million jobs in the twenty years between 2012 and 2030. These proposals were based on the premise that increasing agricultural activity within the 'current structure of farming by merely expanding large-scale commercial farming' would limit the sector's job-creation potential (NPC, 2012: 225). Other issues pertaining to agriculture are dealt with in Chapter 8 of this upcoming volume.

According to Stats SA, in its 2019 General Household Survey, 15.3 per cent or 2.6 million of South African households were involved in agriculture. Of these, 'more than three-quarters … were involved in an attempt to secure an additional source of food' (Stats SA, 2019). Some 65 per cent of these households operate on less than half of a hectare (NPC, 2012: 220).

Three dimensions of reality have influenced the current structure of agriculture in South Africa. The first pertains to objective circumstances in respect of soils, with South Africa falling in the so-called 'third major soil region' and having only 13 per cent arable land and three per cent with high potential. Large parts of the country are characterised by 'shallow sandy soils' not conducive for agriculture (NPC, 2011: Economy 10). The second dimension is a consequence of historical policy, with subsistence and small-scale agriculture particularly among black people, largely destroyed under colonialism. The third is about the evolving structure of the broader economy: the proportion of agriculture has been declining, and it was estimated 'at just under three per cent' in 2021 (USB IFR, 2022: 9). Between 2001 and 2016, the sector grew by 1.9 per cent with employment contracting by two per cent (World Bank, 2018).

It is remarkable that those involved in subsistence agriculture evince better levels of food security, underlining the importance of these activities not only for employment, but also for general wellbeing. (World Bank, 2018).

The approach in the NDP proceeds from the perspective that agriculture can become a more vibrant contributor to employment and self-employment, beyond cyclical and weather-based dynamics. In this regard, it projects the potential to create jobs among various categories of farmers from the smallest categories to both large labour-intensive and labour-extensive subsectors (Table 3).

Table 3: The employment potential of South African agriculture

Target group	Primary jobs created	Secondary jobs created	Assumption
Subsistence farmers with <0.5 hectares	83 000	41 500	The livelihoods of one in 10 of the farmers in this category are improved.
Small-scale farmers with between 0.5 and 5 hectares of land	165 000	82 500	The livelihoods of half the farmers in this category are improved.
Small-scale farmers with >5 hectares of land	75 000	37 500	These farmers employ themselves and two others.
Better use of redistributed land	70 000	35 000	Redistribution beneficiaries employ themselves and two others; one in 10 restitution beneficiaries become self-sufficient.

Labour-intensive winners	200 000	100 000	Critically, this requires investment in irrigation, support to smallholder farmers and their ability to grow their businesses.
Labour-extensive field crops	10 000	5 000	This reflects a "high road" or optimistic scenario and assumes that the current decline in employment in commercial farming is halted.
Labour-extensive livestock	40 000	25 000	This reflects a "high road" or optimistic scenario and assumes that the current decline in employment in commercial farming is halted.
Total	**643 000**	**326 500**	**969 500**
Note: The employment multiplier between agriculture and its upstream and downstream industries has been taken at a conservative estimate of 0.5 for small-scale farmers.			

Source: NPC, National Development Plan (2012: 220)

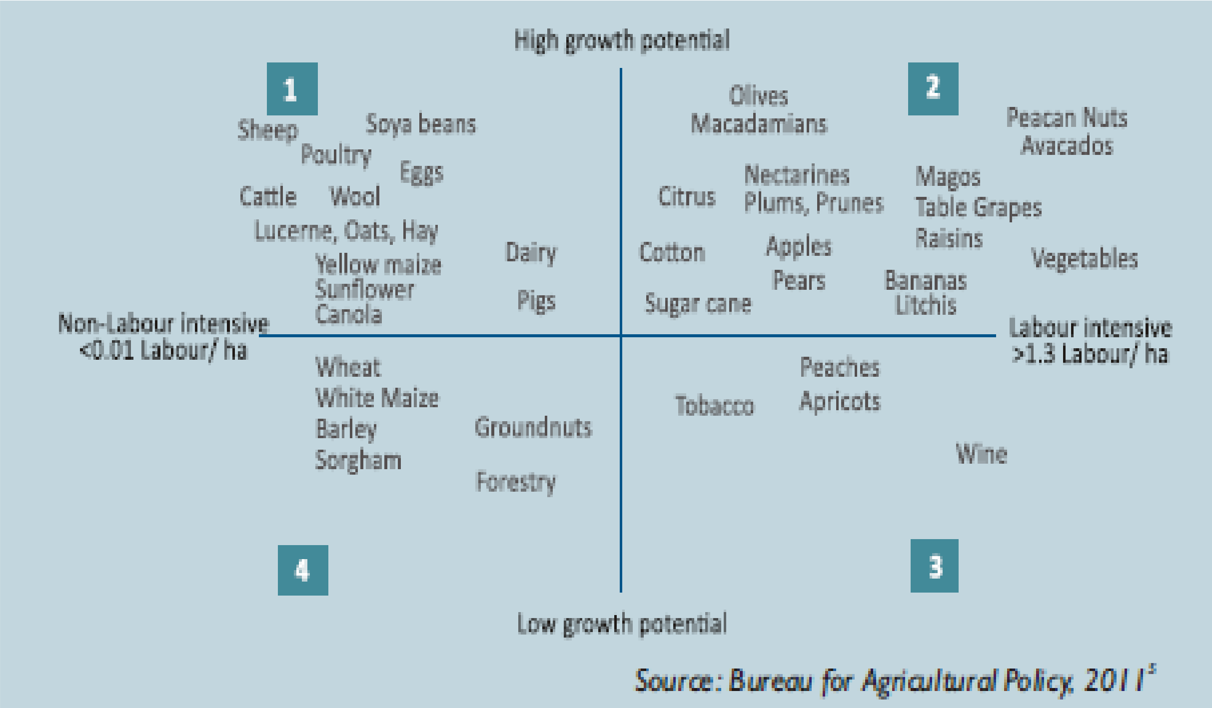
Each of the target groups identified in Table 3 requires specific interventions to ensure that its capabilities and employment potential are enhanced. This can be attained, among others, through (NPC, 2012: 219):

- identifying regions and sectors with high potential for faster growth and job-creation;
- expanding irrigated agriculture from 1.5 million to 2 million hectares through efficient use of water resources and new projects;
- ensuring access to product value chains by also linking small-scale farmers in communal areas to domestic and international markets;
- providing openings for underused land in communal areas for commercial production;
- promoting opportunities for upstream and downstream industrial activities; and
- utilising extensive opportunities in the 'food-away-from-home' platforms including hospitals, schools, correctional facilities and restaurants to give a leg up to small-scale farmers.

Systematic interventions such as these require effective support for those with potential: most importantly, to ensure the presence and effectiveness of agricultural extension officers across the length and breadth of the country. It is subject to debate whether the intentions of the Department of Agriculture, Land Reform and Rural Development (DALR&RD) announced in 2021 'to reduce the ratio of extension officers to farmers from 1:850 to 1:250' would be adequate. While it is commendable that close to R1-billion has been allocated from 2021 to 2024 for the recruitment of about 10-thousand extension officers (Erasmus, 2021), the deficit over the years has been so massive that this should rather be considered as the beginning.

These interventions should also be informed by an appreciation of the labour intensity of various agricultural activities as well as their growth potential, as illustrated in Figure 4 below. All the categories, located in the spectrum from large-scale commercial activity to small-scale labour-intensive subsectors, deserve appropriate and proportionate support to enhance job-creation and improve livelihoods. Growing domestic demand and export opportunities in the various markets need to be fully explored through economic diplomacy, efficient transport infrastructure, dexterity of the producers and other factors.

Figure 4: Agricultural growth and employment potential



Source: NPC, National Development Plan (2012: 223)

Large-scale labour-intensive opportunities exist in areas identified in quadrant 2 of Figure 4, and they include citrus, subtropical fruit and vegetables. For instance, according to DALR&RD, between 2008/09 and 2018/19 avocado production almost doubled and its gross value more than tripled (DALR&RD, 2020). Over and above the labour-intensive sectors, large industries that may be less so have value-chain linkages with immense potential.

The Agriculture and Agro-processing Master Plan, a draft of which was presented in 2020 – some eight years after the adoption of NDP – seems to have the potential to bring the NDP ideas to life (DALR&RD, 2020). The Plan acknowledges the 'dualistic agricultural economy'; it adopts a detailed district-based commodity value chain approach; it promotes implementation of infrastructure investments in priority districts and in relation to priority commodities; and it underlines the importance of comprehensive producer development that includes millions of farming/rural households. Implementation of the Master Plan will need to be monitored on the basis of the timeframes identified.

The Institute for Futures Research (USB IFR, 2022) argues that macro-planning for agriculture also needs to consider the long-term possible evolution of the sector at the upper end of the development spectrum. It projects even further adoption of technology and new types of jobs that would attract skilled youth, which entail soft skills such as communication and customer services; systems thinking skills that include project management and design thinking; 'natural sciences (soil, biology, plant, animal)'; technology integration including engineering and analysis; and data management in relation to storage, analysis, collection and security (USB IFR, 2022: 60).

The issue of ownership is fundamental to land reform. Redistribution and restitution – with or without compensation – are broadly acknowledged as part of the reform process. The NDP proposes a more systematic and comprehensive approach through envisaged District Lands Committees that would be 'responsible for identifying 20 per cent of the commercial agricultural land in the district and giving commercial farmers the option of assisting its transfer to black farmers' (NPC, 2012: 227). This entails a kind of compact with contributions and sacrifices by all partners (commercial farmers, government and the beneficiaries); and it does resonate with the government's recently-initiated District Development Model.[v] In the communal areas, there will be need for tenure security combined with a form of fungibility (ability to exchange or use as security) that, at the same time, does not result in land alienation against the poor. At the same time, the exercise of power by traditional leaders needs to be decisively addressed.

Using agriculture to 'lift the colony' also implies a conscious approach to three additional issues. Firstly, the magnitude of the minimum wage needs to ensure an improving standard of living for workers. Farmworkers' minimum wage in 2021 finally reached parity with the national determination (Nxesi, 2022); but the improvements should be consistent over time, while objectively balancing this against the imperative of job preservation. Secondly, land redistribution and tenure security should place high on the agenda ownership opportunities for workers, through such mechanisms as employee share-ownership schemes and appropriately regulated systems of labour tenancy and sharecropping. Thirdly, as argued by South African Reserve Bank Deputy Governor, Kuben Naidoo (Erasmus, 2022), there also has to be financial support on generous terms for emergent farmers in the former Bantustans, as was the case for white farmers in the six decades from the 1920s. Combined with transport infrastructure, water and storage, this would see to the emergence of thousands of farmers, increased output and expanded job creation. The Land Bank would be critical to such financial support; but it needs to be subsidised or attract long-term low interest rate deposits.

Supporting micro-enterprises with focus on the informal economy

A significant section of those trapped in the 'colonial' economic mode are involved in micro-enterprises, especially the informal economy. As indicated earlier, the evolution of the structure of the South African economy resulted in a comparatively small proportion of small enterprises. These historical circumstances have proved difficult to reverse, in spite of the many post-1994 government efforts (Altman, 2007: 3).

According to the Global Entrepreneurship Index (2018: 45), South Africa is behind other developing countries in terms of small business start-ups. Maduku and Kaseeram (2021: 664–665) cite the 2013 Global Entrepreneurship Monitor (GEM, 2014) as noting that 'the small business failure rate is very alarming in South Africa'. With regard to start-ups, 'South Africa ranks 41st out of 43 countries in the prevalence rate for established businesses'. Also critical to note in their study is the gender dimension: for instance, out of 390 Small, Medium and Micro Enterprises (SMMEs) surveyed, 48.46 per cent were owned by women (Maduku and Kaseeram, 2021). Total early-stage entrepreneurial activity among the youth (18-34 years) is also lower than the regional (African) average (MISTRA, 2021: 164), though there are encouraging initiatives in, and utilisation of, information and communication technologies.

Subjective factors responsible for this include perceptions of whether there are good opportunities and doubts about own capabilities and 'fear of failure' (Herrington and Kew, 2018: 7). Many enter the terrain because they identify an opportunity rather than merely out of necessity; and 52.5 per cent of early-stage entrepreneurs are in the wholesale/retail sector (Herrington and Kew, 2018: 8).

What about the informal economy in particular?

The definition of the informal economy has evolved over the years, from a rights-based approach in terms of working conditions to a characterisation of 'production units' (Bernabe, 2002: 33) with less than five paid employees, on average. A refined International Labour Organisation (ILO, 2015) definition identifies them as very small unregistered economic units of the self-employed, employers and employees and co-operatives in non-agricultural activities.

There are differing conceptual approaches to the informal sector: the "dualistic school" (that sees the sector as separate from the rest of the economy and believes it would ultimately disappear); the ”legalistic school” (which emphasises costs associated with formalisation); and the ”structuralist school” (that views it as part of 'continuum within the market' and linked to the formal sector (Altman, 2007: 5). The ‘structuralist school’ seems more apt, as ‘the underclass share resources and households and families combine both formal and informal sources of income in their livelihoods’ (Callebert, 2014: 125).

The sectors in which informal enterprises operate include housebuilding and maintenance, street food and non-food vendors, car repairs, hair care, cigarette sales, refuse collection, clothes as well as wholesale and retail trade. Some 73 per cent of informal sector jobs are in the ‘survivalist’ end of the spectrum while the rest are in ‘growth-oriented’ businesses (Fourie, 2018).

As shown in Table 4 below, the informal sector makes a significant contribution to economic activity. Its proportion of total employment had been increasing before the advent of Covid-19. It constitutes around 20 per cent of total employment. The experience during the pandemic – with a reduction of some 300-thousand jobs in this sector – and earlier during the global financial crisis some fifteen years ago, tends to disprove the belief that the informal sector serves as refuge during economic crises (Fourie, 2018).

Table 4: Informal sector proportion of total employment

Date	Percentage	Numbers
2009	17.65	2.1m
2019	21.13	3.0m
2021	18.9	2.7m

Source: Stats SA, Quarterly Labour Force Survey (Quarter 3, 2009, 2019 and 2021)

Two-thirds of the self-employed are found in the informal sector; and women in the informal sector are more likely to be self-employed (80 per cent) compared to males (55 per cent) (Essop and Yu, 2008).

Characterising the informal sector as incorporating unskilled operators as well as professionals ‘who are starting out on their own’, Louise Silver of the South African Informal Traders’ Alliance (Saita) argues that they deserve partnership with large companies beyond procurement. She says: ’They are hard-working self-starters who, with the appropriate training, skills development and business environment, can play a larger, more valuable role in the economy’ (Moodley, 2022).

Given all these characteristics, it would have been expected of government to pay focussed attention to this sector. But the entrepreneurial policy ecosystem does not allow for the potential of the sector to flourish.

REDI (2018) observes that, while the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) of the mid-2000s did identify this sector as an area of focussed intervention, subsequent programmes such as the 2010 New Growth Path hardly made any reference to the sector. The matter is also poorly treated in the economic chapter of the NDP except in the scenarios, where it is expected to create some 20 per cent of new jobs by 2030.

The 2014 National Informal Business Upliftment Strategy, NIBUS (the dti, 2014) was the first time since AsgiSA that government systematically identified the constraints facing the informal sector and the required interventions. However, there has not been much progress across the spheres of government in dealing with the regulatory burdens that include onerous municipal by-laws, and the programmes are in some instances clouded by anti-immigrant sentiments.

A multiplicity of agencies has been set up over the years to address challenges facing SMMEs, such as the Small Enterprises Development Agency (SEDA) for non-financial support, and the Small Enterprise Finance Agency (SEFA) for financial support. This culminated in the formation of a dedicated Ministry and Department of Small Business Development (DSBD) in 2014. However, there is low awareness of the state offerings among targeted groups. Some 73.8 per cent of SMMEs are not aware of DSBD and this is even worse among informal operators (Botha et al., 2020). There is also low awareness of SEDA and the National Youth Development Agency (NYDA) which is meant to focus on young people. Of great concern is that only a small proportion of those who are aware of these agencies actually use them – only 16.6 per cent for SEDA and 15 per cent for the NYDA (Herrington and Kew, 2017: 9). It is debatable whether government's intended incorporation of SEFA and another agency, the Co-operatives Banks Development Agency, (Government Communications, 2022) into SEDA will improve matters.

Critical interventions to improve the SMME ecosystem, particularly in relation to the informal sector, are briefly outlined hereunder (not necessarily in order of importance).

Refine strategies and enhance focus on informal business: As argued by Fourie (2018), '[i]f an employment-creation policy does not explicitly tackle the problems and disenabling environment faced by those outside the realms of the formal economy, it is unlikely to make the required impact on unemployment, poverty and inequality'. The approach should not conflate all of small business under one category; but rather seek out and assist those already involved or seriously interested in the informal sector (who demonstrate remarkable initiative and resilience). Given the low levels of awareness and take-up of state support, there is quite clearly a need for intensive mass communication. How the support institutions operate, and challenges of maladministration and inefficiency, need to be attended to.

Ensure a common approach to the informal sector across all spheres of government and institutionalise a comprehensive nationwide regulatory impact assessment of all statutes: The starting point in this regard should be to abandon the pretentious 'first economy' mindset in the approach to the informal economy, in terms of 'trade licensing procedures and charging of municipal rates' (TIPS, 2016: 25). In the context of the Covid-19 pandemic, there was a waiver of permit requirements until December 2022, recognising that permits and registration should not be used as blunt instruments.

Undertake a campaign of multifaceted and transdisciplinary education and skills development: The first level is about general education as this has proven to improve performance of informal sector operators. The second relates to artisanship which opens up many opportunities for small-scale entrepreneurship. The third is about economic know-how and appreciation of business fundamentals – which include planning and forecasting (Maduku and Kaseeram, 2021: 664–665), creative advertising, as well as such financial practices as 'institutional differentiation between the household and the emerging business enterprise' (REDI, 2018).

Improve the systems and institutions that offer financial assistance: According to Maduku and Kaseerman (2021), most small businesses rely on entrepreneurs' own savings (43.08 per cent) and assistance from family members (39.23 per cent). As indicated earlier, state institutions do not fare well in this regard; but the Support Plan of the DSBD (2019), and the Covid-19 lockdown support measures[vi] may go a long way in correcting this weakness. However, the requirements for 'registration', 'licensing', 'recording' and 'mainstreaming' do complicate matters – though the conceptual differentiation does introduce an interesting hierarchy (discussed below). The setting up of a specialised bank to support micro-enterprises and informal businesses (along the lines of the Grameen Bank[vii]) needs to be seriously considered.

Improve the infrastructure for and assets of informal businesses: The majority of those in the informal sector cannot afford assets and so they hire some of their tools of trade and use street spaces, homes or backyards for their operations (Maduku and Kaseeram, 2021). The problem of poor infrastructure including operational spaces, electricity and ablution facilities is widespread. These challenges need to be tackled with both the informal businesses and their patrons in mind – without detracting from health and other responsibilities of local government. The approach should be more facilitative than punitive.

Address the challenges of crime and community safety in a systematic manner: Many of the areas in which informal businesses operate, including townships, informal settlements and city centres experience high rates of crime. (South African Police Service, 2021). Added to these are all manner of protection rackets as well as police harassment (Hunter, 2018). This has a negative impact on the businesses and the patrons alike, though there are differing views on the degree to which it is a major hindrance to the initiation and survival of the enterprises. Altman (2007: 11) and Grabrucker and Grimm (2017: 413–435) place differing emphasis on the impact of crime on informal operators. But there is agreement that crime needs to be addressed both as a community and a business imperative.

Overall, government needs to abandon the 'dualistic' and 'legalistic' mindsets that seem to inform the orientation of policy in relation to the informal sector. Further, the policies and programmes should be directed at the sector as a whole, but also at specific industries (REDI, 2018).

The notions of 'recording', 'licensing', 'mainstreaming', 'registration' and 'formalisation' need to be fully elucidated. Contained within this hierarchy is a fundamental conceptual issue that requires serious reflection. The 'structuralist' approach – that the informal sector is part of a continuum in the market, from 'pure' informality all the way to formality – is best suited for effective facilitation. A requirement for some form of record of the operators is understandable, if only to ensure that they can be provided with the necessary support and observe health and other necessary obligations. Depending on the industry in which they operate and the size of the enterprise, licensing may be a requirement especially as the operator moves up the social ladder. However, while the growth and success of informal enterprises should be an objective of policy, it would be folly to expect all the informal enterprises to become part of the mainstream, to be registered with the relevant agencies (in this case the Companies and Intellectual Property Commission and the South African Revenue Service), and to disappear as they become formalised. In the vagaries of the marketplace, there will be both upward and downward mobility.

The matter of the nationality of informal operators is not dealt with in this chapter, partly because it is not of much relevance to the conceptual issues and also because the applicable statutes pertaining to (legal and illegal) migrants belong in a different category of regulation and this requires its own special treatment.

Conclusion

The evolution of the structure of the South African economy after the attainment of democracy has entailed both the integration of large sections of the Black community into the advanced economy and the reproduction of mass exclusion. Without deliberate interventions that are bold in both scale and focus, this trend will continue. An approach that takes into account the actual profile of South Africa's unemployed – to ensure mass absorption into industrial activity, expand opportunities in agriculture, and systematically support informal enterprises – can progressively improve economic inclusion.

The economy of the metropolis is going to continue chugging along (hopefully, with improvements as proposed in other chapters of this volume); and it would be disingenuous to put the brakes on the development of the productive forces it commands. The aim should be to attain a decent quality of life for all, both as participants in economic activity and as beneficiaries of the social wage and an affordable cost of living. This requires a developmental state that gives leadership to economic development, working in a social compact with all social partners.[viii] To exercise such leadership the state will need, systematically, to effect the necessary changes in policy, institutions, resource allocation and implementation mechanisms that each of the interventions proposed in this chapter requires. These interventions will need to be scaled up in a manner that ensures a catalytic and mass impact. The convergence of developmental outcomes between the metropolis and the colony and thus the gradual elimination of systemic duality in South Africa's political economy should be the strategic objective.

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[i] In this chapter, ‘African’ refers to those designated as ‘Black Africans’ in most official documents and statistical presentations; while ‘Indian’ is also referred to as ‘Indian/Asian’, and ‘Coloured’ is used to denote those classified as such in pre-democracy racial classification. Combined, Africans, Indians and Coloureds are referred to as ‘black’.

[ii] The 1923 Native (Urban Areas) Act, designated urban blacks as ‘temporary sojourners,’ accepted only to the extent that they ministered ‘to the wants of the white population’.

[iii] Currently known as the Department of Trade, Industry and Competition (DTIC).

[iv] A reservation wage is income below which even unemployed workers are not prepared to take up an available job.

[v] The government’s District Development Model entails the usage of districts as spatial units within which plans by all spheres of government find integrated expression.

[vi] Directions to assist SMMEs during Coronavirus COVID-19 lockdown, 7 April 2020; Small Business Development on uplifting informal fruit and vegetable traders, 20 November 2020; State of the Nation Address, 10 February 2022.
[vii] A community development bank and microfinance institution established in Bangladesh, now emulated in over 60 countries.
[viii] This refers to government, business, labour and other sectors of civil society (some of whom are not represented in the National Economic, Development and Labour Council, NEDLAC).