



strategy
project

Addressing Inequality and Economic Marginalisation Where does PES fit in?

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



Introduction

- The Second Economy Strategy Project is an initiative of the Presidency;
- A Strategic Framework for Second Economy Strategy was approved by Cabinet, and forms part of the AsgiSA Report launched in April 2009.
- Work on PES was commissioned as part of the strategy process, and recommendations arising from this work form part of the Framework.

This presentation aims to do the following:

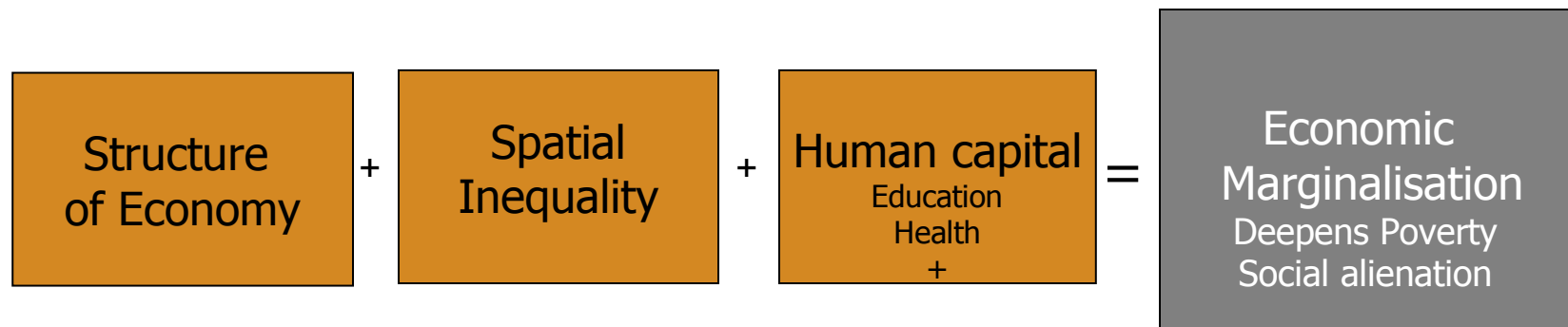
- Provide a summary of key aspects of the strategy
- Illustrate how PES has been positioned within it
- Identify policy opportunities in the current climate
- Raise a set of questions that need to be answered to translate policy possibilities into practice.

What is the ‘second economy’?

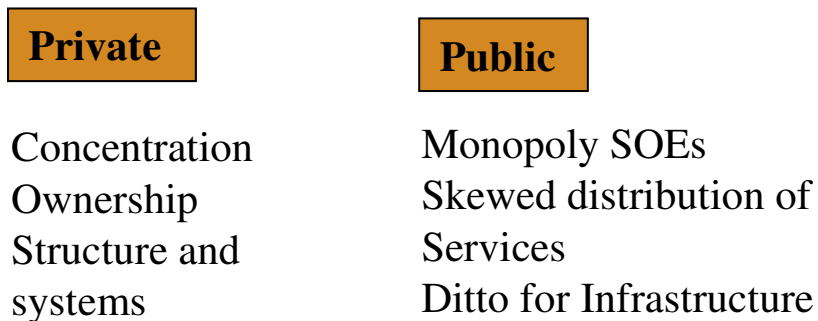
- We don’t have two economies in SA: we have one highly unequal economy.
- The terms ‘first’ and ‘second’ economy are most useful as a shorthand to describe the way this inequality manifests itself in the economy and society: with wealth and resources concentrated at one end – and poverty and disadvantage at the other.
- A range of connections and disconnections combine to reproduce this inequality; much political and academic analysis has sought to clarify these relationships:
 - ‘negative incorporation’; ‘asymmetrical interdependence’;
- Deepening our understanding of these relationships is key to changing them: and is at the heart of transformation – and of strategies for the second economy.
- Key legacies of apartheid make this inequality structural – in particular:
 - the spatial legacy of 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)
- Strategies that tackle inequality are therefore necessarily a part of the overarching framework for second economy strategies.

Inequality frames 2E

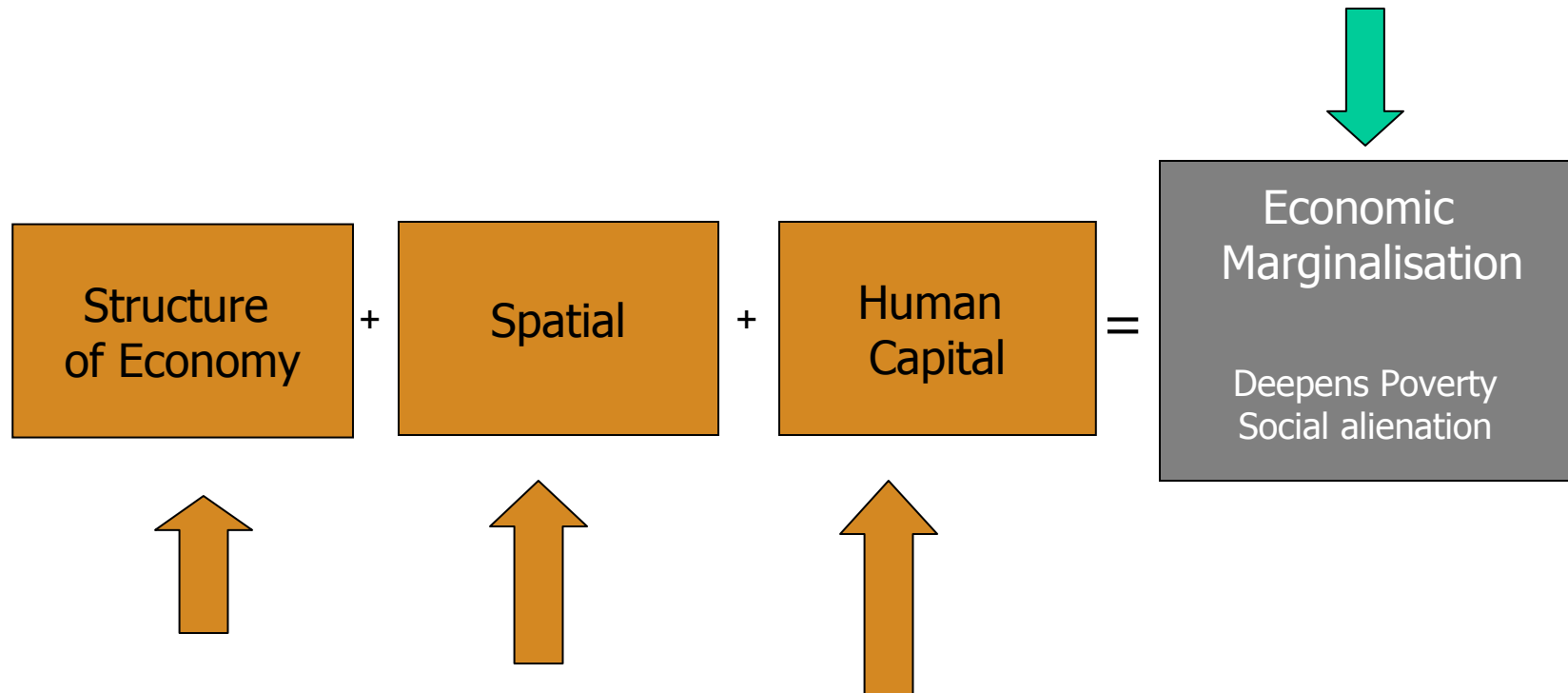
Key elements of structural inequality in South Africa



A mixed economy:



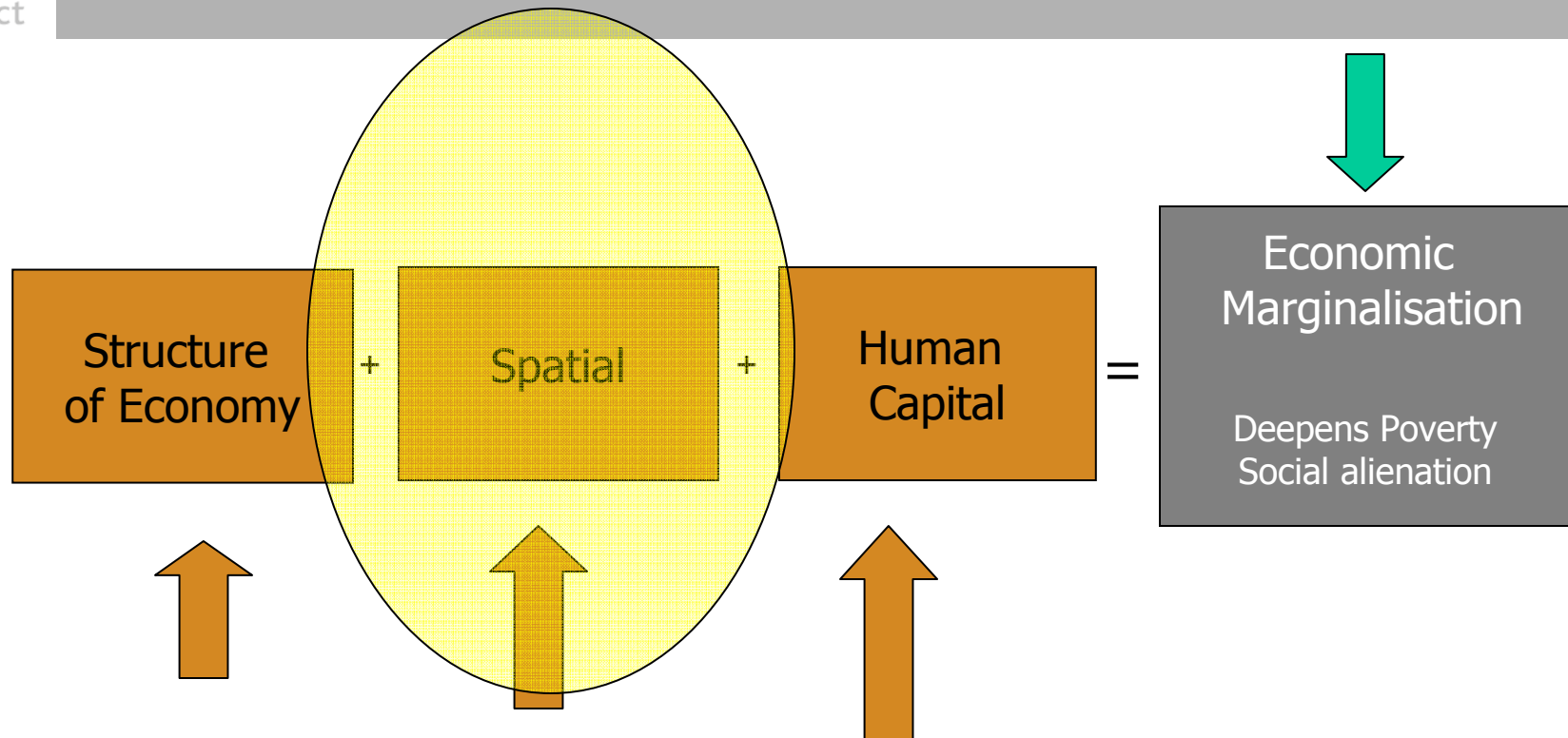
The 'second economy'



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

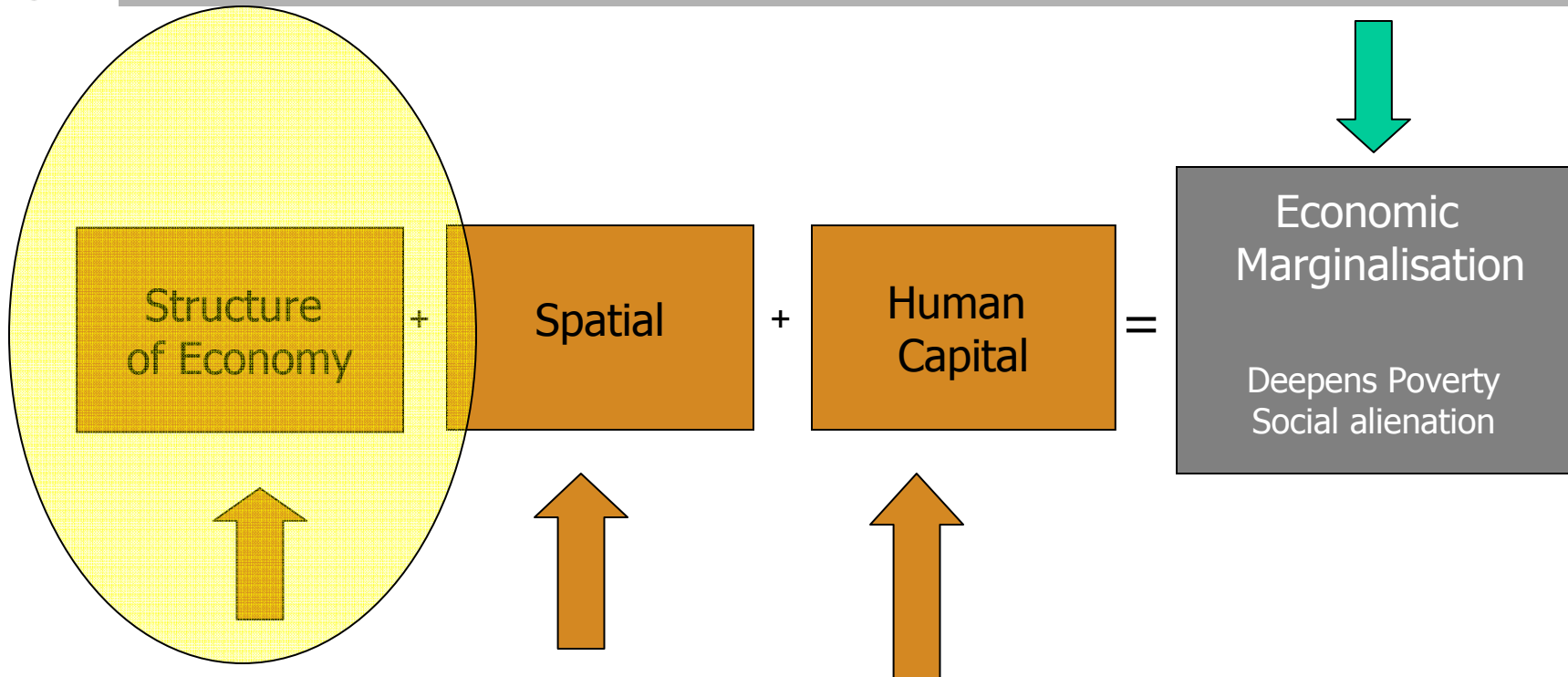
To break the cycle

The 'second economy'



There are many dimensions to spatial inequality in SA.
Part of this is the way in which the costs and benefits of SA's natural assets and ecosystems are shared between urban and rural contexts.

The 'second economy'



The ways in which the structure of the economy limits opportunities on the margins is key to the analysis in the second economy framework; Recognition of these limits forces us to look beyond traditional approaches, particularly in relation to rural development;

PES offers exciting potential in this regard.

How the structure of the economy limits opportunities on the margins

- In many developing countries, sme's and the informal sector 'mop up' unemployment. Not so in SA:
 - The South African economy is highly centralised, capital intensive and dominated by a set of monopoly industries;
 - 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 for agro-processing products where rural areas might be expected to have a comparative advantage:
 - 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.
 - Entry into these value chains as producers requires a level of formality and scale that is often absent: and raises issues of power and the distribution of value;
 - Distribution systems reach even remote areas;
 - Branded goods (and branded stores) provide quality assurance
 - Small scale producers have to compete in relation to price, quality and brand recognition.
- It's very hard. It's not always even possible.....

There are further limits on smallholder and subsistence farming

- In many developing countries the small farming sector is a dynamic part of food production and rural local economies
- In SA, the constraints are compounded by the following:
 - Coercive processes forced people off the land and into labour markets and lead to de-agrarianisation of former Bantustan areas;
 - Increasing reliance on labour markets coupled with land pressures, declining plot sizes lead to decline in participation in agricultural markets and even in subsistence agriculture;
 - By contrast, heavy investment in a ‘big farm’ model for white farmers means agricultural institutions favor the ‘big farm’ model; the institutions necessary for viable smallholder agriculture are absent;
 - Two agricultural development paths in uneasy co-existence limit both market opportunities and ‘safety-net’ functions of land and agriculture for poor people, and make access – and unified policymaking - difficult.

Some implications

- Poor people are unusually dependent on wages and or grants in SA; these in turn depend heavily on the performance of the core (urban) economy;
- This 'dependence' is structural and is not a function of 'good' or 'bad' attitudes; although structural dependence influences peoples sense of economic 'agency' - their scope to change their material conditions through their own actions.
- Urban and rural are interconnected in a range of complex ways and are deeply interdependent;
- Traditional development solutions (eg local production for local consumption/informal sector and SME development/ smallholder strategies) face particular challenges in SA, because of history, inequality and the structure of the economy.
- **The challenge is to innovate.**

Key Arguments in the Strategic Framework

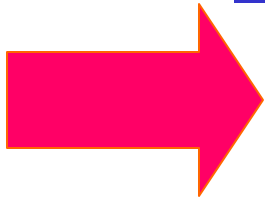
- A focus on structural inequality is needed as part of a focus on shared growth;
 - there's just no alternative but to address the challenge of restructuring the economy as a whole – not just 'fixing' the second economy...
- Employment creation 'from below' – through micro-enterprise or self employment - faces significant constraints and is a poverty trap for many;:
 - Our strategies cannot rely on the most economically marginalised 'self-employing' their way out of poverty:
 - important as it is to support those trying to do so
- Employment needs to be placed at the heart of economic policy
 - Of macro policy industrial policy trade policy SOE's
- New work, decent work is likely to come mainly from growth in the more developed/formal/urban/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;

Key Arguments in the Strategic Framework

- Addressing the rural development deficit and creating rural employment will require a more catalytic role from the state:
 - A necessary focus on the intractable issues of land, agriculture and smallholder agriculture:
 - Service delivery and human capital development create employment opportunities;
 - New value is being placed on natural resources: creating new opportunities for rural employment from payment for environmental services – encompassing water, energy, waste, and the scope to earn for carbon credits from all of these.
 - That rural local economies are as dynamic as the small towns that serve them....

This is where PES fits in

- Addressing the rural development deficit and creating rural employment will require a more catalytic role from the state, that takes the following into account:
 - A necessary focus on the intractable issues of land, agriculture and smallholder agriculture:
 - Service delivery and human capital development create employment opportunities;
 - Recognition that new value is being placed on natural resources: creating new opportunities for rural employment from payment for environmental services – encompassing water, energy, waste, and the scope to earn carbon credits from all of these.
 - That rural local economies are as dynamic as the small towns that serve them....



- The strategies that arise from this analysis focus on structural and systemic changes in the economy and on strategies intended to lead to changes in market outcomes...more jobs, better jobs, better returns to entrepreneurs....
- These will take time to impact, and will reach the most marginalised last....
- They need to be complemented by a set of strategies that reach the most marginalised first:
 - And that fast-track their economic participation and economic ‘agency’.

Strategies to target the most marginalised first

- For as long as the structure of the economy locks out access and centralises the returns from participation, we will rely heavily on the social wage to mitigate the impacts. This is necessary and important.
- **But we need to go further.** At present, we have social grants, complemented by support for economic activities that require poor people to navigate their way in highly circumscribed markets
- **The argument in the Second Economy Strategy Framework is for another level' of economic strategy that aims to build 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.
- It will take time to overcome the structural factors described, but there's no time to lose in building people's sense of economic agency – their ability change their material conditions through their own actions
- **This requires that we facilitate their economic participation even where markets fail to do so.**

A key challenge under discussion...

1. Significantly expand public employment
 - Adapt the concept of a minimum employment guarantee to South Africa,
 - Eg the Community Work Programme is part of EPWP 2
 - Upgrade informal settlements – for the biggest impact on urban poverty
1. Incentivise household food production.

These programmes are not dependant on markets to achieve their intended outcome – but:

- They all stimulate local demand and scope for local enterprise activity: ie help to ‘thicken’ local markets:
- They all engage people in economic activity that builds assets and/or incomes, networks and social capital;
- They need to be designed to strengthen rather than undermine local market development, to achieve the kinds of market outcomes that the next level of strategy entails.

Where does PES fit into this picture?

- PES has the potential to be a part of the solution in relation to a range of these agendas: which also align with current government priorities:
 - **Inequality and the need for strategies that shift patterns of distribution;**
 - **Jobs, decent work, decent livelihoods:**
 - Focus on jobs in industrial policy: the priority being given to ‘green’ jobs in the ‘crisis response;’
 - Scope for incentives that create/reshape markets in this area;
 - **The rural development and rural employment agenda**
 - The need for strategies that address the chronic development deficit in former bantustans: the overlap between priority watersheds, opportunities for carbon sequestration and poverty.
 - In a context of marginal viability of smallholder agriculture: scope for supplementary incomes
 - What role in agrarian reform?
 - **Strategies to target the most marginalised through public employment.**
- All of this is probably self-evident to many here.
- Yet it is not self-evident in the current discourses in most of these different areas
 - Although the Working for Water et al programmes mean the case iro public employment has been well made and well demonstrated.

Key Challenges and Questions

- How best can the PES agenda be aligned with and asserted in relation to policy priorities around rural development and employment creation?
- Within a wide and complex set of options, what PES priorities would best demonstrate these impacts? Where and how can these be operationalised and demonstrated? With what willing partners?
- Is PES just a different payment system that enables expanded employment with government as the ‘buyer’ (which is important in its own right) or is there also a private market?
- If so, what sectors in the economy have the greatest interest in PES, where do the potential partnerships lie, what forms of incentives or changes to regulation might enable such market development?
- What must government do to enable the development of public and private markets for PES? What are the ‘next steps’ and where in government must these steps be taken?
 - A checklist, please.
- What institutions are needed, what institutions do we have that might adapt to this purpose, and where are there institutional gaps that will have to be filled?
- How do we ensure that the benefits impact most on the lives of poor people?