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THE POLITICAL ECONOMY OF GOVERNMENT SPENDING ON SMALL BUSINESS AND ENTREPRENEURSHIP IN SOUTH AFRICA

Ebrahim-Khalil Goolam Mahomed Hassen

A dissertation submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in fulfilment of the requirements for the degree of Master of Management by Research and Dissertation.

Date: July 2018

ABSTRACT

Can a highly unequal country – in this case, South Africa – resolve its distributional challenges through the proliferation of small businesses? This study discusses this question through the lens of a transversal budget analysis of government spending on small business and entrepreneurship. The National Development Plan (NDP) answers this question affirmatively arguing that small, medium and micro-enterprises (SMMEs) will contribute ninety (90) percent of all new jobs by 2030. This report argues that such an affirmative answer is questionable. This questioning of the NDP assumptions is derived from a method of doing transversal budget analysis and applies it to small business and entrepreneurship in South Africa. The report argues that South African government efforts to support small business can be described as the actions of a "reluctant tactical state". The paper identifies four rationales in governments attempts to support small business. These are (a) atomistic (b) enabling (c) relational and (d) holistic. In terms of recommendations, the paper argues that four possible pathways exist and argues for a pathway based on escaping current constraints. The paper motivates for a pathway called 'escape' which tackles distributional questions alongside market-based reforms. The value of the paper also derives from a new methodology of transversal budget analysis using methods from grounded theory and from critical realist inspired methodologies of real evaluation.

Declaration

I declare that this thesis/dissertation is my own, unaided work. It is submitted in fulfilment of the requirements of the degree of Master of Management (Research) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

_____

Ebrahim-Khalil Hassen

July 2018

Johannesburg

PLAGIARISM DECLARATION

I, Ebrahim-Khalil Goolam Mahomed Hassen (Student number: 9208479F) am a student registered for Master of Management (Research) in the year 2017. I hereby declare the following:

I confirm that the work I submit for all assessment for the above course is my own unaided work. I have followed the required conventions in referencing the thoughts and ideas of others. I am aware that the correct method for referencing material and a discussion on what plagiarism is have been discussed in class during the Orientation and Social Theory sessions, are explained in the PhD and MM by Dissertation Degree Guide and that there is extensive information available on the internet to assist students. I am aware that plagiarism (the use of someone else's work without their permission and/or without acknowledging the original source) is wrong. I understand that the University of the Witwatersrand may take disciplinary action against me if there is a belief that this is not my own unaided work or that I have failed to correctly acknowledge the source of the ideas or words in my writing.

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Date:_____ (assumed to be signed if submitted electronically)

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Dedication

For Mum and Dad

Best parents ever, who taught me to love books and ideas.

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LIST OF ABBREVIATIONS

AFS	Annual Financial Statements
ANC	African National Congress
APAP	Agricultural Policy Action Plan
APP	Annual Performance Plan
B-BBEE	Broad-Based Black Economic Empowerment
BOP	Bottom of the pyramid
CIBD	Construction Industry Development Board
CoGTA	Department of Cooperative Governance and Traditional Affairs
DAFF	Department of Agriculture, Forestry and Fisheries
DBE	Department of Basic Education
DHET	Department of Higher Education and Training
DoT	Department of Transport
DPE	Department of Public Enterprises
DPME	Department of Planning, Monitoring and Evaluation
DPRU	Development Policy Research Unit
DPSA	Department of Public Service and Administration
DSBD	Department of Small Business Development
DSD	Department of Social Development
DST	Department of Science and Technology
DTI	Department of Trade and Industry
ECD	Early Childhood Development
EDD	Department of Economic Development
FSB	Financial Services Board
GEAR	Growth, Employment and Redistribution: A Macroeconomic Strategy
GEPF	Government Employee Pension Fund
GEMS	Global Entrepreneurship Monitor
ICASA	Independent Communications Authority of South Africa
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
KIDS	KwaZulu-Natal Income Dynamics Study
KPI	Key Performance Indicator
LED	Local Economic Development
M4P	Making Markets Work for the Poor
M4U	Making Markets Work for the Unemployed
MDDA	Media Diversity and Development Agency
MEC	Minerals-Energy Complex
METR	Marginal Effective Tax Rate
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework 2014-2019
NACISA	National Academy for Cultural & Creative Industries of SA
NDP	National Development Plan
NEF	National Empowerment Fund
NER	National Energy Regulator
NGO	Non-governmental organisation
NIDS	National Income Dynamics Study
NSBA	National Small Business Act No. 102 of 1996

NT	National Treasury
NYDA	National Youth Development Agency
PER	Public Expenditure Reviews
PFMA	Public Finance Management Act
PIC	Public Investment Corporation
PSC	Public Service Commission
PSIRA	Private Security Industry Regulatory Authority
QLFS	Quarterly Labour Force Survey
RDP	Reconstruction and Development Programme
RET	Radical Economic Transformation
SABC	South African Broadcasting Corporation
SAFCOL	South African Forestry Company
SALGA	South African Local Government Association
SANTACO	South African National Taxi Council
SBCs	Small Business Corporations
SCM	Supply Chain Management
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SESE	Survey of Employers and the Self-Employed
SEZs	Special Economic Zones
SIC	Standard Industrial Classification
SMME	Small, medium and micro-enterprises
SOE	State-owned enterprises
SPV	Special Purpose Vehicle
TAA	Traditional Authority Areas
TEA	Total early-stage Entrepreneurial Activity
TIA	Technology Innovation Agency
TIPS	Trade and Industrial Policy Strategies
UIF	Unemployment Insurance Fund
VAT	Value-Added Tax
VCC	Venture Capital Company
VCT	Venture Capital Tax Incentive

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The People Shall Share in the Country's Wealth!

The national wealth of our country, the heritage of South Africans, shall be restored to the people;

The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industry and trade shall be controlled to assist the wellbeing of the people;

All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.

Freedom Charter, 1955

1 INTRODUCTION

Yearning for low unemployment, the *National Development Plan* (2011) (NDP) places small business at the core of a development strategy. By 2030, small business will create 90% of employment (or approximately 9.9 million jobs) supported by what the NDP calls a 'capable developmental state'. This report agrees with the NDP that small business and entrepreneurship development are foundational to a successful development strategy. This report however makes three criticisms of government policy. First, the NDP hope for greater employment through small business development is unlikely as the underlying economic structure will replicate current distributional patterns. Second, the analyses of government budget – ostensibly an operationalisation of the NDP – indicates a coordination challenge at a surface level, but also a deeper challenge on the innovative use of policy instruments to support small business and entrepreneurs. Third, the evidence presented in this paper indicates that better outcomes are not a matter of tweaking existing polices, but rather envisaging a set of policies that more directly addresses inequality, especially equalising the ownership and improving the utilisation of asset holdings. The disagreement is thus not simply about inadequate budgets or poor implementation, but rather a deeper disagreement on the development strategy appropriate in the context of high inequality and high unemployment. The report

argues that the NDP core failure is that rather than creating a version of a developmental state, the current practice in government creates a 'tactical reluctant state' incapable of tackling the traps that small business and entrepreneurs face. Consequently, the projected declines in employment and increase in economic growth because of the proliferation of small businesses are unlikely.

For this critique of the NDP to proceed on a solid basis an initial obstacle must be overcome. This obstacle is that no compilation or aggregation of national government's efforts to support small business and entrepreneurship is readily available from government. National government programmes and policies that support small business are present in many departments. The *Medium Term Strategic Framework 2014-2019* (2014) *(MTSF)* provides an important attempt to aggregate information. Outcome 4 of the MTSF which covers employment provides a starting point for understanding the range of interventions government intends to use to build the links between small business and employment creation. This aggregation is however a starting point, but many programmes are not accounted for under a coherent category called "small business" or a similar category. For this reason, the report starts with budget data which provides as comprehensive an account of government activities as is possible. Government budget documentation for the 2017/18 fiscal year is used in these analyses. To understand, evaluate and interpret this data, a method of transversal budget analysis is developed, asking the question – what works for whom, and in what context. This question is derived from evaluation perspective called 'real evaluation' (Pawson, 2013; Pawson & Tilley, 1997). The intent is thus explicitly to ask questions on the nature of reality that is South Africa, not just circa 2018, but circa 2030. This is an exciting endeavour as the report argues for configurational thinking to depict both *what is* and *what ought* to be. The relationship between understanding what exists and why, and the relationship to creating alternatives is a subject of extensive and lively debate (See de Souza, 2013; Fletcher, 2017; Forsyth, 2008; Harvey, 2002; Parr, 2015, 2017; Porter, 2015; Roberts, 2014; Yeung, 1997). This report contributes to this discussion by exploring the possibilities for using budget data to construct alternatives.

The core finding that emerges from the budget analysis is that a capable development state will not emerge, rather that a 'tactical reluctant state' will sit cheek-by-jowl with suasions to support the small business sector in South Africa. Ultimately this combination will not create the required jobs envisaged in the NDP. The outcome predicted is a devastating one arguing that current high levels of inequality and unemployment (Leibbrandt, Finn, & Woolard, 2012; See Tregenna & Tsela, 2012; Wittenberg & Leibbrandt, 2017) represent a steady state that is likely to continue . The report calls this steady state 'high inequality-high unemployment'. The report discusses a range of channels that will contribute to this devastating outcome. Specifically, the report explains and explores the disjuncture between the objectives of massive numbers of entrepreneurs experiencing upward social mobility on the one hand, and the inadequate and ineffective means to realise these objectives on the other hand.

Critiquing current practice and an imagined future state, however, does not lead mechanistically to better proposals and the creation of alternatives. The report breaks open the process of developing alternatives to explore a range of possible policy positions. In the end, the report argues that improved interactions between predistribution and redistribution policies are possible and desirable, and ultimately would support a future with a greater possibility for small businesses to succeed.

The interactions between predistribution and redistribution is a nascent feature in understanding American inequality and in politics loosely described as 'Third Way' (Hacker & Pierson, 2011) but has a conceptual application in South Africa. These interactions between incomes and assets derived from the market, and those supported through social security is a central feature of a literature debating options for universal basic income or stakeholder grants (Ackerman, Alstott, Parijs, Wright, & Real Utopias Project., 2006). This report draws on these sources extensively and utilises the analytical categories but locates these important insights within the context that is South Africa.

Specifically, the proposals argue that small business policies are inappropriate for the majority of survivalist or necessity driven entrepreneurs, and that for opportunity-based entrepreneurs, a clearer delineation of the traps they face would

support better policy. The policy alternative thus describes a wide-ranging set of proposals aimed at deconcentrating ownership in tandem with widening demand for products from small business.

This report is conscious of an agreement across society to support small business. The agreement to support the small business sector, however hides deep disagreement on the motivations and means to reach this end. The dominant view is that removing this or that restriction, increased credit, or improving intermediation services will create fairer markets. To be clear, these project level interventions are important, and in themselves offer important guidelines as to what works. The report however argues that a wider set of reforms focussed on reducing economic concentration would significantly improve the prospects for sectoral and spatial strategies aimed at small business and entrepreneurs.

In doing so, it does not make common cause with a variant of 'radical economic transformation' that seeks fast and immediate equalisation of asset holdings through expropriation or through nationalisation of industries. The objection is not simply that these policy options do not represent the optimal policy option available, but a deeper critique – policies perceived as "radical" are likely to replicate and reset existing distributional outcomes. This is especially true for asset holdings (a proxy for wealth) due not only to rent seeking, but more importantly that redistributed assets are unlikely to yield good, even egalitarian outcomes in a concentrated economy. This is pertinent as the beneficiary in whose name "radical" change is advocated is often the small business owner. This report however recognises that structural changes cannot in every instance be Pareto efficient, and this opens an avenue to imagine a more careful and deliberate reform programme that has a higher prospect for success.

This section starts by setting out the background and context for the report. Next, a justification for why the study was undertaken is provided. The problem statement and purpose statement are then presented. The section concludes with a roadmap for the remainder of the report.

1.1 BACKGROUND

This report asks the reader to imagine a future state, but with multiple possible outcomes in 2030. A thought exercise helps to visualise what possible outcomes comparing an optimistic and pessimistic scenario:

- **Optimistic scenario:** Cast your eye to 2030, to a society with no poverty and with unemployment below ten percent (10%). The 'massification of entrepreneurship' – envisaged in the National Development Plan - has led to these achievements. In this imagined future, small businesses contribute ninety percent (90%) of all new jobs. This is a future that the National Development Plan (NDP) invites us to imagine. The NDP is optimistic that mobility through small business, or what it calls the "proliferation of small business" is possible.
- **Pessimistic scenario:** Now cast your eye to a pessimistic scenario. Poverty rates and unemployment rates remain at levels in 2018. Over the next dozen years, despite effort, the market remains dominated by a few large companies. Colloquially, the term 'Cartel Country' is regularly used. A government evaluation nonetheless reaffirms the NDP goal of a 'proliferation of small business' and develops a programme to address implementation failures.

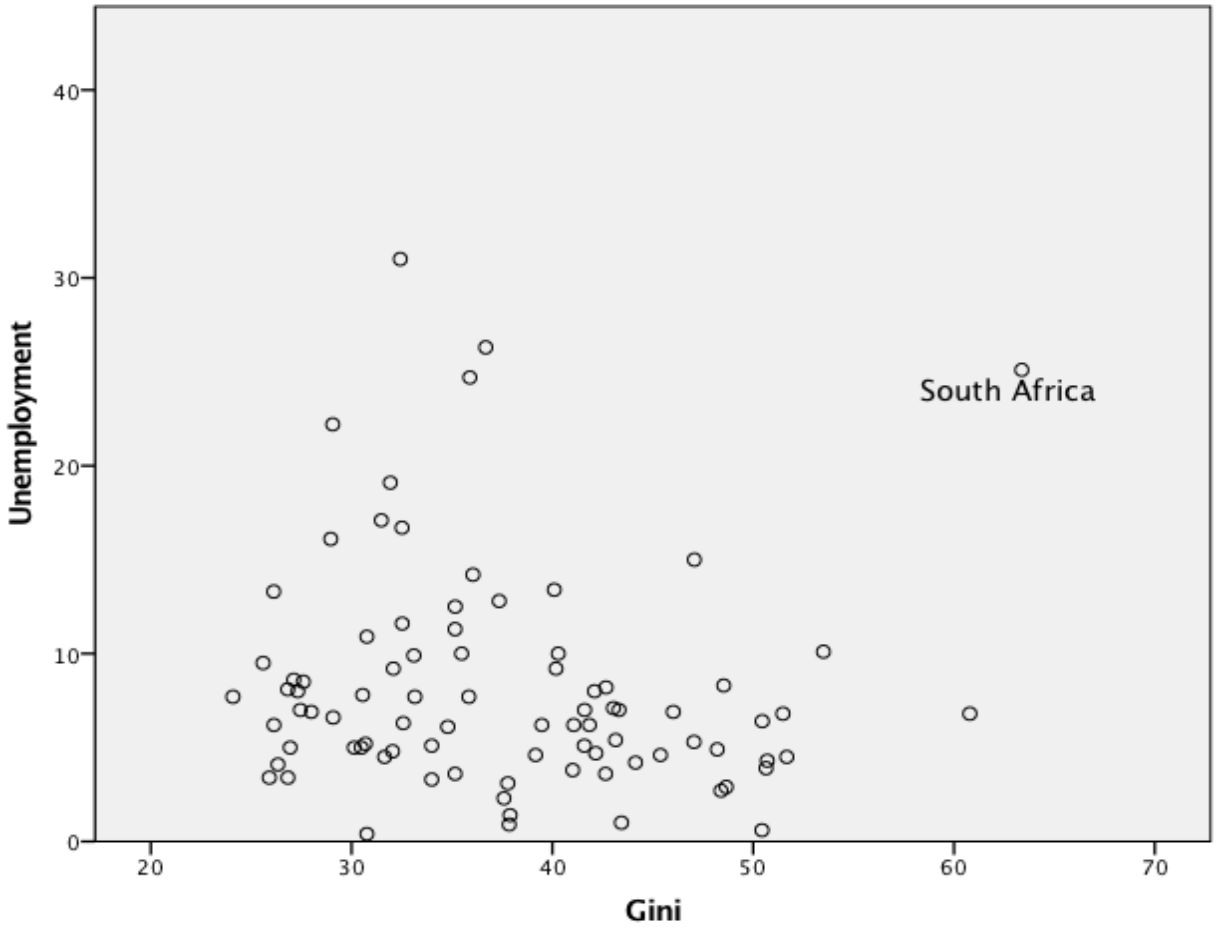
Which of these scenarios is more likely in 2030? A good place to start answering this question is to start with where we are in 2018, when this report is written. This section outlines trends on inequality, unemployment and business ownership to suggest a 'bad' starting point. Next, it provides a high-level summary of the NDP. The importance of small business and public spending are than located within this context.

1.1.1 A STEADY STATE?

To rephrase the question – is an optimistic scenario of rapid economic growth and employment creation spurred on massification of small business possible, or is a pessimistic scenario of continued high levels of unemployment and inequality our shared reality in 2030? The answer to this question depends on what impacts one envisages over a period of time, in our case just over a decade.

South Africa faces a perilous starting point as it confronts both high inequality and high unemployment. In a paper written by staff of the International Monetary Fund (IMF) South Africa is an outlier when inequality and unemployment are correlated (Rahul, Kothari Siddharth, & Naresh, 2016). South Africa is an outlier in that it experiences **both** high inequality and high employment. This finding is robust for a larger sample of countries. The figure below plots the Gini Coefficient and unemployment rates for 86 countries, showing that South Africa remains an outlier, experiencing both high unemployment and high inequality.

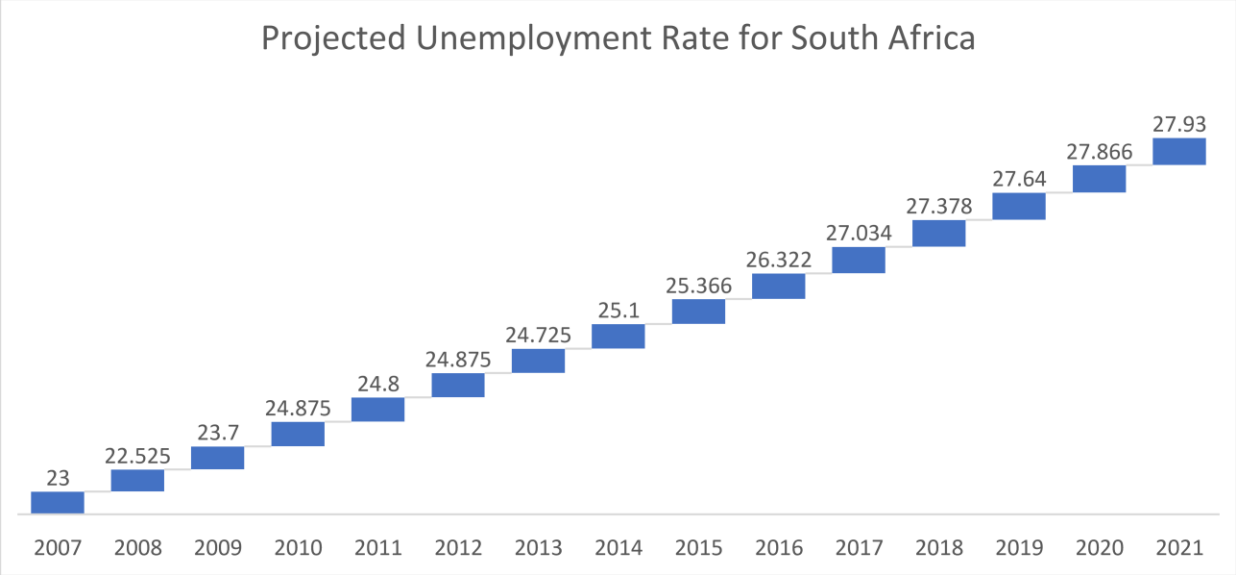
Figure 1-1: Comparing inequality and unemployment



Source: Authors Calculations Based on World Bank Data. Data included in an Appendix One to the paper. See (The World Bank, 2016)

In terms of unemployment projections, the picture is equally bleak. Figure 1-2. provides historical data and projections for unemployment in South Africa. The future projections are based on official (or narrow) definition of unemployment and understates the problem of unemployment in South Africa. The full dataset and calculations are reproduced in Appendix Six. When compared to the full sample the following countries unemployment is projected to grow above 2% in the following countries: Algeria, Ecuador, South Africa, Brazil, Belize and Venezuela.

Figure 1-2: Projected Unemployment Rate for South Africa



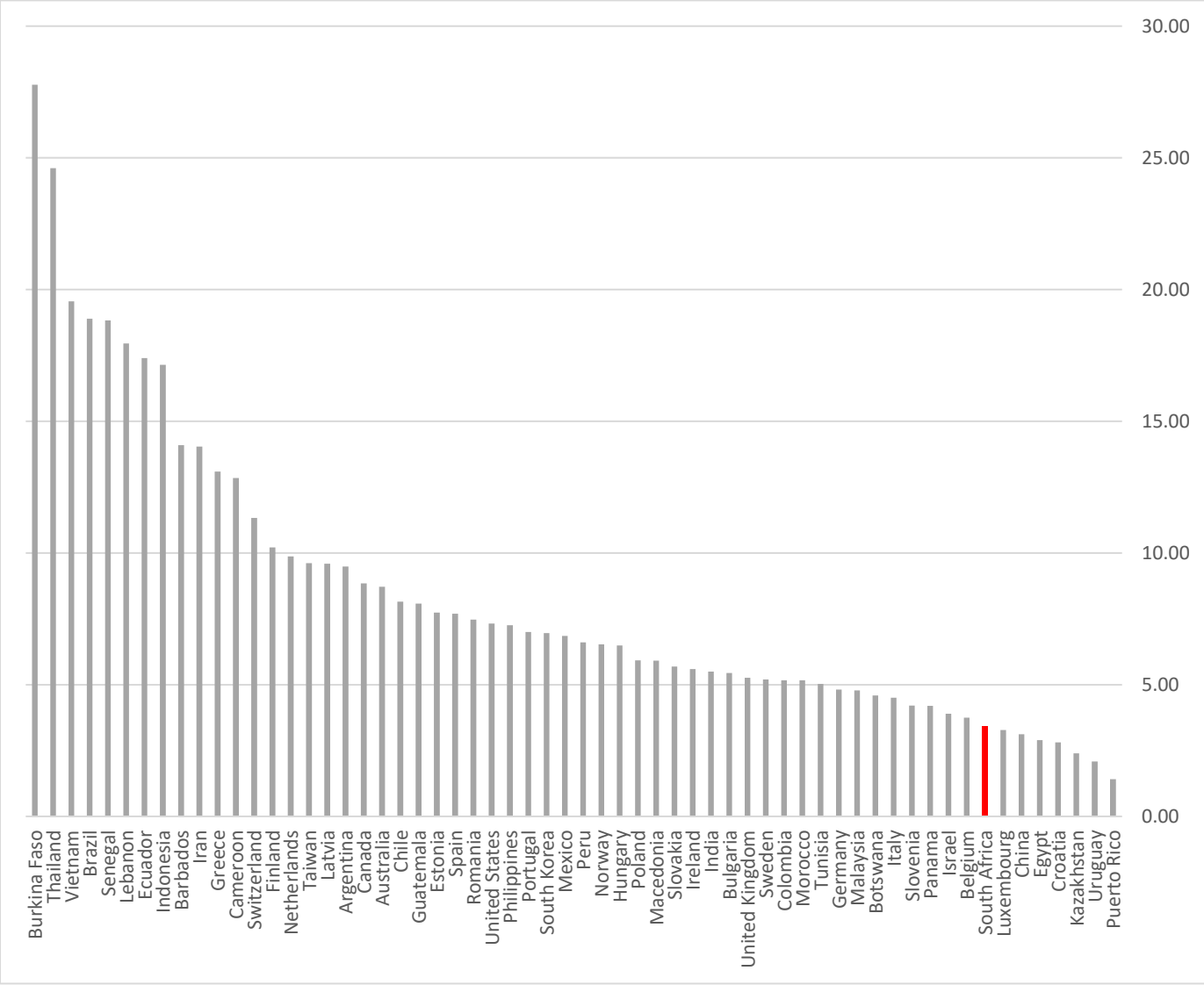
Source: IMF, http://www.imf.org/external/datamapper/

Even with such a 'bad' starting point one could imagine a process of rapid proliferation of small businesses. Data from the Global Entrepreneurship Monitor (GEMS) (2016) however casts doubt on such an imagining. After a review of the available data contained in the GEMS 2015 data (See Appendix Two), one measure stands out as particularly important to understand possible impacts on employment. This measure is the established business ownership rate, which is defined as:

Percentage of 18-64 population who are currently owner-managers of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months. (Global Entrepreneurship Monitor, 2016; Turton & Herrington, 2012)

The data for 2015 is presented in the graph below.

Figure 1-3: Established business ownership rate (2017)



Source: (Global Entrepreneurship Monitor, 2016)

In this sample South Africa has amongst the lowest rates of established businesses. This is striking because it is precisely these businesses that are more likely to create employment – especially formal sector employment – in the economy. The point is that South Africa starts with a very low number of established businesses in comparison to its peers.

A data challenge however remains in that contests over data for the sector remains. The NDP (2011) colourfully reminds us that:

> *State efforts to assist the sector (i.e. small business) have had limited success. Moreover, partly due to the lack of robust data, the debate around small and medium sized enterprises and their ability to assist in employment growth has become heavily weighted with ideology, assumptions and anecdotes. (Page 140-141)*

Recently, data for the sector has improved through linking labour force data to firm characteristics. The research institution, *Trade and Industrial Policy Strategies (TIPS)* (2017) has recently found that small formal businesses employ 4.3 million people, as opposed to 3.6 million employees in about 30 000 large formal businesses. The research provides a credible estimate on the contribution of small business to employment, which however remains an area of disagreement. A similar estimation of the size of small business, conducted by the Bureau for Economic Research (2016) government small business agency for the Small Enterprise Development Agency (SEDA), was criticised as being overly optimistic on the number of small businesses in South Africa. The table below summarises a range of estimates on the number of small businesses in South Africa.

Table 1-1: Estimates of the number of SMMEs in South Africa

Number of small businesses	Derived From	Year
1.6 million	QLFS	2010
1.8 million	GEMS	2010
5. 6 million	Finscope	2010
1 million	Unilver Institute	2013
1. 5 million	SESE	2013
1.5 - 4 million	GEMS	2014
2.25 million	SEDA, Bureau for Economic Research	2015
2.2 million	Trade and Industrial Policy Studies	2016

Sources: (Finmark Trust, 2010; Gasealahwe, 2013; Statistics South Africa, 2014; Timm, 2016; Trade and Industrial Policy Strategies (TIPS), 2017)

To sum, the background for interventions is thus characterised by:

- A highly unequal society with staggeringly elevated levels of unemployment;
- A low level of established businesses; and
- Both the inequality measure and the established business measure are similar over a lengthy period.

The intent in policy as outlined in the NDP, however suggests that over time these starting points can be overcome leading to a 'massification' and 'proliferation' of small business, to use the NDP parlance. In effect it argues that the starting points do not reflect a steady state, with a better outcome possible over two decades.

1.1.2 THE NDP PERSPECTIVE

The NDP has a set of projected outcomes in 2030 that include single digit unemployment and zero poverty. Clearly, the NDP is arguing that despite 'bad' starting points, or more precisely initial conditions, a pathway to significantly better outcomes are possible and plausible within one generation. Any assessment of the NDP needs to account for both the intended outcomes, but also that many aspects have not been implemented. This section is focussed on the underlying logic of the NDP as it places small business at the centre of employment creation efforts, not on the implementation of the NDP.

The following quote from the NDP, signals the policy intent of government:

> *A large percentage of jobs will be created in domestic-orientated activities and in the services sector. Some 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, the share of small-and medium-sized firms in output will grow substantially. Regulatory reforms and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy will be critical in boosting growth and employment, with small- and medium firms the main employment creators (National Planning Commission, 2011, page 119).*

As is evident, the NDP argues that a transition in capitalism in South Africa, from a highly-concentrated economy to a deconcentrated economy is possible by 2030. The superlatives are ample: "90 percent of jobs will be created", "the share of small-and-medium-sized firms will grow substantially" and "with small-and-medium firms the main employment creators". As jobs are increased, small business output will 'grow substantially' and the society will be characterised by 'mass entrepreneurship'.

The society envisaged in 2030 is thus one of ample market-based opportunities and thriving small businesses. In such a context, the household assets of business owners should increase, indicating a wider distributional impact – a fairer, more equal distribution of wealth and wealth creating opportunities. Small businesses in this reading of the NDP, play not merely an employment creating role, but are envisaged as a vehicle to a more equal society and higher and better distribution from economic growth.

The NDP (National Development Plan) states the wider objectives and notes the challenges as follows:

> *Aside from creating jobs, there are other advantages to broadening the base of new and expanding firms: reduced levels of economic concentration, higher levels of competition, and increased opportunities for BBBEE. However, there are real obstacles to creating such an environment, including distortions created by apartheid in ownership and access to land, capital and skills for the majority of the population; widespread crime; a policy environment that traditionally favours concentration and large corporations; and a global trade environment that encourages and rewards economies of scale and scope in both production and distribution* (National Planning Commission, 2011, p. 145)

The extracted quoted above is crucial to note, as the NDP does not simply ignore the concentrated nature of the economy nor does it imply that a simplistic solution to complex problems. These recognitions are important to note precisely because the intent here is to debate the NDP proposals with the seriousness they deserve.

This is especially true for the way the NDP which makes a crucial distinction between 'engine of growth' and 'sources of jobs. The role for small business is resolving this trap through being an employment creator. The NDP (2011) argues that this role arises from a distinction between tradable sectors and non-tradeable sectors. The NDP explains its stance as follows:

> *Recognise the importance of investing in the engine of growth (rising outputs from tradable sectors), the sources of jobs (often domestically oriented and services firms) and the linkages between the two.*(2011, p. 114)

The distinction between 'engines of growth' and 'sources of jobs' is an important one, as are the possible linkages, and are discussed later in this study. Of importance, here is the proposition that SMEs focussed on the domestic market and primarily in services, will be profitable and labour absorbing. The implication is important to note – small and medium business will have enough demand for product and services to sustain a business and grow employment primarily focussed on the domestic market. In effect, the NDP is arguing that the dual objectives of growth and source of employment are distinct, but linkages exist.

The NDP however goes even further, arguing that new businesses are needed to expand employment. In its own words, the NDP notes

> *Net new employment is not typically created on a significant scale in existing businesses. This is usually the preserve of newly established business entities, which tend to be smaller in size. We need to foster sustainable businesses with potential for job creation and competition. This will generally require significant access to supply chain opportunities and facilitative buyer–supplier relations.* (2011, p. 146)

The NDP concludes with a set of policy proposals that are reproduced in the box below. A fuller discussion on these proposals are included in the discussion chapter.

Box 1-1: Policy Proposals for Small Business contained in the National Development Plan

By 2030, South Africa will have created an economic environment that is conducive to the dynamic formation and expansion of new businesses. This will be reflected in significant increases in the number of new firms that are established, decreased levels of economic concentration in most sectors, more diversified economic activity, deeper supply chains with more intermediate inputs sourced from local s suppliers, and higher levels of innovation. Key proposals are discussed below.

- **Public and private procurement** will be an essential stimulator of demand for small and expanding firms. The Local Procurement Accord will be leveraged to promote stronger buyer–supplier relations and deeper localisation. Critically, both public and private sectors must implement commitments to 30 days payments to their small– and medium–sized suppliers.
- **Access to debt and equity finance** will be improved. The state's role in easing access to finance by emerging businesses needs to be examined. Part of the reluctance of credit providers to lend in this market arises from the high costs of additional monitoring, advisory and support services that are required to manage the risk of default. It may be preferable to establish a subsidy to existing banks that specifically targets these support service costs, rather than underwriting the principal debt. The role of venture capital requires exploration.
- Critically, urgent measures are needed to reform the mandates and operations of development finance institutions, in line with initiatives already being undertaken, and upgrade the skills of those providing business advice and services.
- Measures should also be taken to build research capacity to address the paucity of data currently available on small, medium and micro enterprises and scale up public communication on available opportunities.
- **The regulatory environment** will be simplified. An expert panel will be appointed to prepare a comprehensive regulatory review for small– and medium–sized firms to assess whether special conditions are required. This includes regulations in relation to business registration, tax, labour regulation, local government regulations. Regulatory impact assessments will be done on new regulations.
- **Small business support services will be consolidated and strengthened.** Action has already been taken to create a unified small business service delivery agency. Public– private partnership can be considered, where the private sector is incentivised to provide small businesses with support, with increased payment contingent on success.
- **Skills gaps will be addressed.** There is a need for early–stage entrepreneurship training to draw in younger people. Artisan training and practical experience often lead to the creation of new firms.
- We need to improve the system of identifying critical skills and instituting measures to address the deficit through joint action of government, state–owned enterprises, the private sector and further education and training institutions.
- As reflected in Chapter 9, the system of skills training should be reformed to provide for the needs of the economy (including the sectors and activities identified in the plan) and of society as a whole.
- **Black and gender economic empowerment will continue to be a priority.** As indicated in the diagnostic document, besides the fact that many of the empowerment transactions are debt–financed, the demographic distribution of economic assets remains skewed and the benefits of redistribution are shared by a small section of the previously disadvantaged. These and other weaknesses do not detract from the necessity for broad–based empowerment. In addition to intensifying pursuit of broad– based black economic empowerment objectives across the variety of its dimensions, among the actions proposed are:

- Conduct a comprehensive study to collate data on progress across all elements of broad–based black economic empowerment as well as an analysis of the macro–impact of the policy on the economy and case studies of models of empowerment.
- Strengthen accountability and enforcement mechanisms to ensure compliance.
- In addition to small enterprise development, promote black and women's involvement in emergent and expanding industries (referred to in this plan), as active hands–on entrepreneurs. Among others, this would imply for instance that procurement opportunities for black enterprises that rely on cheap imports would be discouraged in favour of building value–addition capacity in the economy.

Source: (National Planning Commission, 2011)

This exploration of the role of small business has focussed on inequality as a core construct to evaluate the NDP proposals and outcomes. In exploring inequality in wealth holdings and unequal opportunities due to market concentration, the intent has been to locate government spending on small business and entrepreneurs within a 'high-inequality, high-unemployment' context.

It is thus necessary to focus on the arithmetic of how many jobs will be needed to reach the goal of 11 million jobs, that the NDP envisages which will be needed to reduce unemployment to 6% by 2030. Existing studies cast doubt on the ability of small business to create the number of jobs needed to meet NDP targets (CPLO, 2014; O. Fatoki & Odeyemi, 2010; Kerr, Wittenberg, & Arrow, 2014; Rodrik, 2008; Urban & Naidoo, 2012).

These studies raise the question - How many new employers will be needed to create the 9,9 million jobs needed by 2030? To answer this question an arithmetic model was constructed. The arithmetic model uses two variables to assess the feasibility of the small businesses being the major job creators, and specifically to create 9,9 million jobs. These variables are:

- Number of jobs created by business; and
- Survival rate of businesses.

The arithmetic is straightforward, it takes the target of 9,9 million jobs and divides it by 15 years. Next, it assumes a 0%, 10%, 20% or 30% failure rate in each of these 15 years. These failure rates are conservative, as failure rates of around 40% are

regularly referenced in the South African economy. The results of these calculations are presented in Table 1.2.

Table 1-2: Estimated number of firms needed to create 9.9 million jobs at different failure rates

Number of jobs needed to reach NDP target					
Failure rate	1 Employee	2 Employees	3 Employees	4 Employees	5 Employees
0%	9,900,000	4,950,000	3,300,000	2,475,000	1,980,000
10%	10,890,000	5,445,000	3,630,000	2,722,500	2,178,000
20%	11,880,000	5,940,000	3,960,000	2,970,000	2,376,000
30%	12,870,000	6,435,000	4,290,000	3,217,500	2,574,000
40%	13,860,000	6,930,000	4,620,000	3,465,000	2,772,000
50%	14,850,000	7,425,000	4,950,000	3,712,500	2,970,000
60%	15,840,000	7,920,000	5,280,000	3,960,000	3,168,000
70%	16,830,000	8,415,000	5,610,000	4,207,500	3,366,000
80%	17,820,000	8,910,000	5,940,000	4,455,000	3,564,000
Additional Firms Needed					
0%	-	-	-	-	-
10%	990,000	495,000	330,000	247,500	198,000
20%	1,980,000	990,000	660,000	495,000	396,000
30%	2,970,000	1,485,000	990,000	742,500	594,000
40%	3,960,000	1,980,000	1,320,000	990,000	792,000
50%	4,950,000	2,475,000	1,650,000	1,237,500	990,000
60%	5,940,000	2,970,000	1,980,000	1,485,000	1,188,000
70%	6,930,000	3,465,000	2,310,000	1,732,500	1,386,000
80%	7,920,000	3,960,000	2,640,000	1,980,000	1,584,000

Source: Own calculations

This arithmetic is intended as a thought exercise that can assist in assessing the feasibility of the proposal. The data shows that somewhere between 1.9 million and 9.9 million new small businesses are needed between 2012 and 2030 to reach the target assuming no failure rates, dependent on the number of jobs created. However, as shown above assuming even a ten percent (10%) failure rate requires an additional 190 000 jobs. As one moves down the table and assumes higher failure rates, anywhere between 1.3 million and 7.9 million new enterprises are needed. Greater detail on this calculation is provided Appendix Three.

The Minister for Small Business Development (DSBD), Lindiwe Zulu, estimates the number of new businesses to be in the region of 250 000 per year to reach this target,

which is roughly 3.25 million new businesses until 2030 (Zulu, 2014). The arithmetic presented is merely illustrative in the sense that it included a business failure rate. Also, of importance is the assumption is that the businesses will be employment creating and formal.

The inference from the arithmetic model is that the NDP route of jobs via small business development is at best highly optimistic. The arithmetic model however raises the unrealistic role for small business envisaged in the NDP. The model in this regard, shows that the number of new businesses needed far outpaces the existing rate of small business creation, and shows that when factoring in a failure rate the number of new firms needed grows rapidly if the target is to be archived.

1.1.3 Implementation And Contestation

The distinction in the NDP between 'engines of growth' and 'sources of jobs' indicates distinct roles for different types of firms. The implications of such a distinction for the quality of economic growth is a question that is taken up in the discussion chapter. The other important issue of the sequencing of reforms to support 'engines of growth' or 'sources of jobs' is also discussed later. The intent here is to focus on implementation and contestation based on this distinction.

One of the major changes in economic policy making over the last decade has been splitting functions undertaken by the Department of Trade and Industry (DTI) into two additional departments. The Economic Development Department (EDD) was created in 2009, and the Department of Small Business Development (DBSD) was created in 2014. The responsibility for key institutions supporting small business, including the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA), shifts over time from the DTI, to EDD and finally to DBSD over this period of time. The intent from government was to focus attention and resources and to ensure clear accountability lines for areas of economic development through unpacking the mandate of DTI.

The broader reforms of departments occurred in the context of programmes aimed at small business development occurring in the core economic development departments, but also in departments aligned to specific sectors (e.g. tourism and

mining) and surprisingly also in social departments. As shown in the transversal budget analysis, the number of interventions is large, and we argue that this reflects a set of projects and programmes without much coherence. Nonetheless the number of activities being undertaken are encouraging in that they reflect a wide acceptance in government of the importance of small business development.

However, it raises the question about what exactly government is doing to support small business and entrepreneurs in South Africa. Small business policies, interventions and programmes are a smorgasbord, sitting in many departments, having complex accountability channels and different beneficiaries. This complicates matters immediately, as the scope for evaluation is not clearly defined.

Clarity on what programmes exist is, however, not merely an exercise in sorting programmes, it reflects a wider contestation over economic policy making. To illustrate, one of the major changes in government's industrial policy has been the introduction of a 'black industrialist' as a key intended beneficiary of state support (Department of Trade and Industry, 2017). The specification of 'black' as a beneficiary is common in South Africa, and unsurprising given our history. The changes in the policy, however, raise a tension as to whether 'black' is an appropriate descriptor, or whether 'small' needs to be added.

In the context of arguments that black economic empowerment (BEE) has benefited a small elite such debates are of significance(D Acemoglu, Gelb, & Robinson, 2007; Matthew Andrews, 2008; Cahan & Van Staden, 2009; Ntim & Soobaroyen, 2013; Southall, 2004; G. Williams, 2005) . Another illustration are the reforms in the telecommunications space (e.g. the introduction of set top box) with technological choices either favouring new entrants or broader access(Armstrong & Collins, 2011; Duncan, 2017). Yet another example is the introduction of national minimum wage, where arguments for a special dispensation for small businesses found no favour (H Bhorat, Kanbur, & Stanwix, 2014; Haroon Bhorat, Kanbur, & Mayet, 2012; Dinkelman & Ranchhod, 2012; Lilenstein, Woolard, & Leibbrandt, 2017). At the level of programmes and reforms there is thus contestation over the impacts of reforms on small businesses, considering other variables such as race and access to services.

However small business not only competes with other policy objectives, it is viewed as a solution to a myriad of problems. This includes policy and programmes that focus on youth unemployment (O. O. Fatoki & Chindoga, 2011; Gwija, Eresia-Eke, & Iwu, 2014b, 2014a; Kojo Oseifuah, 2010; Ranchhod & Finn, 2016), women empowerment (Derera, Chitakunye, & O'Neill, 2014; Grant, 2013; Ndziba-Whitehead, 1993b; Woodward, Rolfe, Ligthelm, & Guimaraes, 2011) , black economic empowerment (Matthew Andrews, 2008; Southall, 2004) and a nascent attempt to bring in small business as providers of services, including in areas such as energy, logistics and telecommunication usually delivered by the state.

Small business is thus very much part of the debate on economic policy, but as shown above it both competes with other policy objectives and is viewed as solving many other related problems.

The logic of the institutional changes thus seems to reflect a separation of responsibilities with the DTI focussed on 'engines of growth' and the DSBD focussed on 'sources of employment'. The EDD falls between the two and takes responsibility for coordinating economic infrastructure. At the same time, small business is not just a 'source of employment' but viewed as a viable mechanism for solving a variety of developmental problems.

1.2 JUSTIFICATION

Why undertake this study? This section argues for a justification under the rubric that 'inequality matters' – and specifically that social mobility via a massification of business ownership indicates that inequality as a constraint on development can be solved via 'massification' of small business. However, to assess this position in the NDP, one needs to understand exactly what government intends. The paper thus fills a methodological gap by developing a method of transversal budget analysis, which is a potentially replicable method. This section expands on the justification for the study, starting with a discussion on inequality, and the need for a transversal budget analyses of spending on small business. Finally, this section discusses the problem statement, purpose and raises aspects of methodology.

1.2.1 Inequality Matters, Mobility Matters

The role of state and markets in propelling social mobility via market mechanisms is an important question. This study and associated literature asks whether a process of social mobility through the proliferation of small and medium business is a plausible policy stance in South Africa (Adato, Carter, & May, 2006; Du Toit, A. Kruger, 2008; Holtz-Eakin, Rosen, & Weathers, 2000a; Inchauste, 2013). In this chapter differing rationales for small business and entrepreneurship development, derived from the data, are developed. The importance of this undertaking is that it improves the definition of the policy problem associated with social mobility via market mechanisms through locating it within an understanding of how government views the problem.

Importantly, this questioning occurs in a context of high unemployment, high inequality and low established business rates. As shown above, South Africa fairs badly on each of these measures. In fact, South Africa represents an outlier on each of these measures. The mere fact of South Africa being an outlier lends itself to policy relevant questions. Simply understanding what is going on and why, is not an insignificant question in South Africa. In turn, it allows us to ask questions on who benefits and why.

The most demanding question is whether a better outcome is possible through building alternatives. This study finds that there is policy relevance in building an alternative set of policy positions, and in making recommendations framed on the foundational question of inequality facing South Africa. The methodology designed for this study in fact is in response to the issue, probing whether structural change – defined here as mass upward mobility and greater equality via business ownership – is possible via public spending.

1.2.2 Building transversal budget analysis methodology

In searching to answer this question, the paper draws on previous work on thematic budget analyses. Specifically, experiences in understanding the impacts of public

spending on women(Budlender, 2000; Budlender & Buenaobra, 2008; Elson, 1995, 1998; Ndziba-Whitehead, 1993a; Nomani, 2016; Sharp & Broomhill, 1990), children (Barbarin, 2010; Proudlock, Dutschke, Jamieson, Monson, & Smith, 2011)and in various economic sectors provide a foundation on which this report builds upon.

Examples of transversal budget analysis of the impact of government budget analysis of government spending on small business are however limited. Three studies were found after an extensive literature search. The first study uses a grounded theory approach to assess impact of government subsidies on small business in Poland (Krupnik, 2012). A second study undertaken by the United Kingdom government provides a quantification of government spending. The third study – undertaken by the author in a consulting capacity in 2011 – provides the only known quantification of small business spending in South Africa. This report builds on these experiences and studies, and in so doing expand the knowledge on the theme of spending on small business, and at the same time contributes to the wider usage of transversal budget analysis.

The report also proceeds in two related methodological movements. The first is the movement from inductively creating a sample and cases to developing a theory to explain what exists (Danermark, Ekstrom, Jakobsen, & Karlsson, 2001). The second is a movement from a theory of what exist to a theory of alternatives (Adler et al., 2016) . The task is ultimately an ambitious one, starting from an inductive understanding of minutiae of budget documents and ending with alternatives at a national scale.

The author is however abundantly aware that adopting such an approach runs the risk of being unwieldly. Greater focus is thus further achieved through a process of theoretical sampling. Strands in economic sociology, heterodox economics and even traditional management studies have built techniques of theory building that provide advice and methods to handle issues related to theoretical sampling and to dealing with complexity (Archer, 2010, 2014; Elder-Vass, 2007; S Fleetwood, 2005; Steve Fleetwood, 2012, 2013; Fuchs, 1997; Healy, 1998; Himmelstrand & Archer, 2002; Walby, Armstrong, & Strid, 2012) .

1.2.3 PROBLEM STATEMENT

The 'proliferation' or 'massification' of small and expanding firms to realising the NDP objectives is that it plays a leading role in employment creation and solves a range of problems in doing so. An assessment of whether this is being achieved or not (and at the rate intended in the NDP) remains elusive. Programmes and policies are scattered across departments, across various policy documents and have complex reporting requirements. Unfortunately, government does not produce a standardised list of initiatives focused on small business.

The research thus faces a problem of defining what exactly the programme for small business development is, before assessing its potential impact. The problem is a significant one, in that tracking performance across departments becomes complicated. The resolution to this problem is presented in the method chapter, which develops a research method for transversal budget analysis. The method uses grounded theory methods with critical realist philosophical assumptions.

Once the data was coded, a problem of interpretation arose. The chapter which presents the data will show not merely a range of interpretations but raises a multitude of questions relevant to the development of theory and policy options. The approach taken can be described as interdisciplinary, requiring an integration from work in public finance, economic sociology and development economics. The resolution of the problem is covered in the conceptual framework in greater detail.

An introductory comment on the reasons for adopting an interdisciplinary approach is warranted here. The success of programmes in the small business sector is different from direct delivery of schools or even housing. In these programmes success is under the direct control of government, while small business development interacts with a wider environment, that of the market. A range of interactions – both virtuous and vicious – are possible and outcomes less certain than direct delivery programmes.

1.2.4 Purpose

The purpose of the study is to develop a theory of government spending on small business and entrepreneurship in South Africa, providing an understanding of who benefits, what works and whether better distributional outcomes are possible under alternative policy options. To fulfil this purpose, this paper has three aims.

First, the paper develops an understanding of what currently exists through a transversal budget analysis. This is a first step, before broader questions on who benefits or the feasibility of the strategy can be assessed. The study intends to research how the national budget in 2017/18 intends to reach the objective of supporting small businesses and entrepreneurs, and whether these programmes lead to the proliferation of small businesses envisaged in the NDP.

Second, the paper answers the 'realist question' - what works, and for whom, and in what context (Pawson & Tilley, 1997). The paper thus goes beyond quantifying the funds available for small business and entrepreneurship development and argues that the programmes make connections social mobility and small business development.

The third aim of the paper is a questioning of assumptions of progress via small business in a context of high unemployment and high inequality in South Africa. In doing so, the paper moves beyond criticism to developing policy more suited to small business in South Africa.

1.2.5 Methodology

This report a realist philosophical stance. The widely applicable realist question as defined by Pawson and Tilly (1997) is: What works, and for whom, and in what context? The question is however applied to clearly defined area of evaluation, usually a programme or project. In this report, there are, however, many cases. For this reason, the report uses coding techniques usually associated with qualitative research to understand the patterns in the budget documentation. This is one part of a process of 'inference to the best explanation' which is called abductive reasoning.

A crucial aspect of such a stance – either its central strength or weakness, dependent on one's perspective – is that explicit research questions are not entirely possible.

Nonetheless, the following research questions were developed at the start of the process to guide the work being undertaken.

1. What must exist to explain the current poor performance of entrepreneurs and small business in South Africa?
2. What must be done to improve the contribution of entrepreneurs and small businesses to reducing inequality and unemployment?
3. How and why does this work and/or not work, for whom, to what extent, in what respects, in what circumstances and over what duration?

These questions served as guiding questions for the work being undertaken, and in so doing raise questions on the dominant paradigm in policy studies.

The dominant paradigm in policy studies starts with a specific question that needs answering (Bardach, 2011). This is, however, only the dominant paradigm, and there is a rich set of alternative perspectives that start not with answering a specific question, but rather with stakeholders' understandings, understanding the possibilities that exist within a system, and even just muddling through what exists (Archer, 2010; Healy, 1998; Himmelstrand & Archer, 2002; Scheurich, 1994). Two factors in adopting such a stance are of importance to this report. First, policy questions are determined usually by those with power. Second, the scale of the challenge facing South Africa is unlikely to be resolved through conventional approaches to public policy analysis.

Despite this broad stance in favour of abductive reasoning, the paper does set boundaries to the analysis. These boundaries are:

- Budget data for 2017 / 18 fiscal year is utilised. This boundary is crucial to the management of the project.
- National budgets. The study does not include provincial and local government budgets. It does, however, include various agencies reporting to National departments.

The study is focussed on doing the work of public policy analysis and argues that research using critical realist assumptions can move without a specific research question. This sounds cavalier, but it is due to the complex and complicated nature of the intersections of markets, firms and government that a research question is not initially framed. The research question, essentially the policy problem, is derived from the data. This it is argued is better for the specificity of this study because of the need to establish a baseline information, and to build thematic categories.

1.3 STRUCTURE

In reaching these aims, the paper has the following sections:

1. **Introduction**: The current chapter introduces the problem being discussed and provides an orientation for the reader.
2. **Background:** Provides a review of policy development since advent of democracy in South Africa, and outlines data on small business in South Africa.
3. **Conceptual Framework:** Provides a way to understand and conceptualise the literature with the aim of developing a conceptual understanding of inequality at a context level, and inequality between firms.
4. **Methodology:** Discusses the philosophical assumptions and the analytical procedures for conducting a transversal budget analysis using critical grounded theory.
5. **Findings:** Presents all the figures, conglomerate tables and statistics created during the data evaluation.
6. **Discussion of themes:** Discusses the data focussing on themes of social mobility, and the persistence of institutions.
7. **Conclusion:** Sets out the limitations of the research and provides an overall conclusion for the research.

The data used for the data is presented as an appendix to the main report, as are details of the coding procedure.

Government is working to create a conducive environment for investment in efficient networks that enable the reduction of costs, enhance competition and remove barriers to entry by small businesses.

President Cyril Ramaphosa, State of the Nation 2018

2 BACKGROUND

Attitudes towards small business and entrepreneurship have shifted substantively since democratisation. This chapter asks why an imagining of the future with small business and entrepreneurship contributing to employment growth and asset equalisation is demanded today. This is pertinent because the entrepreneur and small business were absent as a major policy option for most of the democratic period. In addition, it sets out data and data limits on small business, with the aim of providing a succinct review of the state of small business in South Africa.

In introducing the topic, the reader was invited to consider two possible scenarios. The optimistic scenario imagines a successful pathway led by small business development to a lower unemployment, zero poverty and a more equal society. The pessimistic scenario paints a devastating picture of a failed development project with continued high levels of unemployment and high inequality, with continued optimism for small businesses to resolve these challenges. The reader would no doubt immediately recognise that the scenarios are stark, and in practice a continuum of outcomes is possible. This chapter traces the routes to this optimism for small business and entrepreneurship as the central developmental instrument for employment growth.

This section starts with a section headed “enter the entrepreneur” which outlines the emergence of small business and entrepreneurship as a major policy area in government. This includes a summation of major policy developments on small business. This chapter also provides an additional layer of context through a review of data on small business, providing an illustration of firms in South Africa.

2.1 ENTER THE ENTREPRENEUR

South Africa's history has been described by Sampie Terreblanche (2002) as a 'history of inequality'. This history of inequality is however minimised in the development of policies for small business and entrepreneurship in democratic South Africa. The parameters of the current debate on economic policy in South Africa are set in historical debates between the 'liberal modernisation' and school and a 'Marxist / neo-Marxist' perspective. For all the distinctiveness of these contending schools, they share an unintended complicity: the entrepreneur is exogenous in both schools of thought. This section starts by speaking to this silence in the 'bitter dispute' but alludes to several studies and issues that provide a basis for understanding small business under apartheid. Next, the rise of small business and entrepreneurship in South Africa is discussed, with reference to major policy initiatives. Finally, this section raises questions on the path dependent nature of the South African economy.

2.1.1 THE ABSENT ENTREPRENEUR

During the apartheid period, a bitter dispute ensued between the liberal modernisation school and Marxist school. Hugh Macmillan (2008) however cautions us on overestimating the importance of the debate between Liberals and Marxist. MacMillan argues:

> *It is doubtful whether this "bitter dispute" was ever much more than a storm in a teacup and it is now, if I may mix my metaphors, a very dead horse.*(2008, p. 301)

This assessment by MacMillan is correct, due to the debate largely ignoring the scholarship and debates around the 'dual economy' and developments within the liberation movement on the role of the bourgeoisie being ignored. This section starts with a summary of what has been described as a 'bitter dispute', before providing the start of a fuller history of the economic debate by referencing developments on the

dual economy and the position of the liberation movements concerning small business. Specific reference is made to the emergence of the concept of a 'minerals-energy complex' (MEC).

Traditionally, the South African economic debate pits liberals against Marxists. The debate has centred on the relationship between capitalism and race, with a liberal modernisation school squaring off against Marxist and neo-Marxists schools (Habib, 1995; Helliker & Vale, 2014). The liberal modernist view held that the racial character of class inequality was a product of white monopoly of political power, while the Marxist argued that racial inequality could only be explained through capitalism, and especially its exploitative nature. There are of course, caveats, extensions and refinements to this debate, that are outside the scope of this thesis. For present purposes, it is worth noting a silence from both perspectives.

That silence concerns the absence of the entrepreneur as a factor in economic development. The South African liberal modernist views which draws from neoclassical economics, does not include entrepreneur in its models (Rocha, 2012) . Similarly, Marxist analysis has been criticised as neglecting the role of the entrepreneur, with Taymans (1951, p. 88) arguing that the entrepreneur in the works of Karl Marx is "a passive agent of omnipotent Capital". However, in both traditions, there have been advances to place entrepreneurial activity within models developed, and they offer important possibilities for better understanding markets in unequal countries.

The South African debate was mostly concerned with big capitalist organisations, especially mining, and their interactions with the apartheid state. This focus given the context of apartheid, is legitimate, with intellectuals tackling the issues of the day. Small business and entrepreneurship were however largely peripheral to the debates being undertaken. An important omission given that apartheid limited business ownership by race and gender. The debate surfaces today because the policy focus on small business suggests a market-based route to resolving structural challenges. It suggests a provocative but often silent assumption: *that this 'history of inequality' can be resolved through mass entrepreneurship*. In turn, it displaces the primary analytical framework in South African political economy analysis, which

has been the relationship between organised workers and large business. This is as truer for the Marxist approaches, as it is for Liberal approaches.

Four factors related to entrepreneurs under apartheid are of importance for this report.

First, the limitations on ownership were racially defined, and institutionalised; but differentiation within racial groups is important to account for. Whilst the systematic dispossession of land and the limitations on business ownership of blacks is well documented, the significant point for this study is that even 'industrious' black business owners faced structural barriers. Entrepreneurship as a mass vehicle for social mobility was never an option for black South Africans, and Africans in particular, even if a minority of black entrepreneurs emerged. The oft quoted words of a successful black sharecropper Kas Maine describes this reality. He says

> *The seed is mine. The ploughshares are mine. The span of oxen is mine. Everything is mine. Only the land is their's.*(van Onselen, 1997, p. 1)

Van Onselen seemingly misses the point of ownership being a core requirement to be a capitalist when he interprets the life of Kas Maine as being '*too skilled and too wealthy to be a mere subsistence farmer, and too poor to become a capitalist - no one knew exactly where the boundaries lay' (page459)*. It is worth remembering that Kas Maine due to his race did not have the possibility to own land! To state the point clearly – the barriers facing black business owners under apartheid limited were substantial.

Second, black entrepreneurship under apartheid is described as both resistance and collaboration with apartheid. Nzimande (1990) argues that the black petty bourgeoisie by 1980, constituted different strata, with different relationships to capitalism under apartheid, and to the apartheid state itself. Of importance is that black traders under apartheid cannot be described as a single homogenous group, although sharing the characteristic of having limitations on their ability to own land, and to register businesses. A set of differences amplified once the homeland system was introduced. For purposes of this study, it is thus important to note that the

different starting points in 1994, are not simply between white and black, but that differentiation existed amongst the black South Africans at the start of democracy.

The differentiation exists spatially, with rural and urban dynamics very much at play. Banks (1994) argues for evidence of resistance against Bantustan administration by traders in QwaQwa. In urban townships, the apartheid government set up industrial parks, with Rogerson and Da Silva (1988) arguing that the motivation was to create a Black middle class sympathetic to the apartheid government. Understanding the differences and interconnections between rural and urban South Africa is particularly important, as it raises questions of dualism in the economy.

Third, the wider economy reinforced and reproduced patterns of inequality and exclusion. Fine and Rustomjee (1997) for instance trace the rise of Minerals-Energy Complex (MEC), which linked big business and government in an accumulation path that supported economic concentration. Freund (2010) locates these relationships between large companies and the apartheid state within a longer history of economic thought and thus places the concept of the MEC in a longer perspective. Aspects of the literature covered by Freund (2010) shows that small business – as a potential analytical lens – is ever present across this time but is never used. An area of dispute that is important regarding the MEC is whether the relationships between state and business retarded industrialisation or not, but even here there is an agreement on the concentrated nature of the economy (Bell & Farrell, 1997). The impact of a highly concentrated economy and a structure of accumulation is a compelling insight that begs another question - can smaller business thrive under conditions of oligopolistic market structures succeed?

Fourth, the last days of the apartheid government saw a commitment to 'de-regulation' that applied to the wider economy (Gelb & Miller, 1988). The Presidents Council report on small business provided recommendations on 'de-regulation' that included less regulation of wages, adhering to lower standards and reducing administrative and regulatory tasks for businesses. The approach of the apartheid government to increasingly advocating capitalism in the dying days of apartheid with a specific focus on deregulating street trading and labour laws with the aim of

supporting the growth and development of the small business sector (Booth, 1988; Inge Nesvag, 2000; C. M. Rogerson & Hart, 1989; Simon & Birch, 1992).

2.1.2 Transition And The Entrepreneur

The transition to democracy is an area of ample writing that cannot be covered adequately covered here(See H. Marais, 2011 for an accessible overview). A feature of this debate is that the transition was incomplete, and inadequate. The transition is thus roundly criticised as constituting two defeats for the liberation movement. The first defeat is that the constitutional transfer of power brought 'political but not economic power'. The core area that this is seen according to critics is that the constitution does not allow for land expropriation without compensation. Second, that once democracy was attained the South African government abandoned a state led process of transformation contained in the *Reconstruction and Development Programme: A Policy Framework* (1994) and adopted an overtly neoliberal strategy with the adoption of the *Growth, Employment and Redistribution: A Macroeconomic Strategy (GEAR)* (1996).

The first Minister responsible for small business in a democratic South Africa was Trevor Manuel. In a short period of two years he instituted several important reforms aimed at supporting small business, before being the politician responsible for the implementation of *GEAR*. The most important of these reforms was the publication of the *White Paper on the National Strategy for the Development and Promotion of Small Business* (Department of Trade and Industry, 1995). This policy framework would stand for the next 10 years as the policy of reference, but the broader strategy is arguably still with us today. Key hallmarks of this pioneering paper are:

- Making the linkage between small business and employment creation. The link might seem obvious in the fullness of time, but at the time made an important statement that small business had a role of play.
- Focussed government's efforts on removing red tape and streamlining the interactions between firms and government.
- Creating the conditions for an institutional support framework that separated "financial" and "non-financial" support.

- Argued for a coordinating role for the Department of Trade and Industry (DTI) and recognised the roles of national departments and spheres of government.

In 1996, parliament passed the *National Small Business Act, No. 102 of 1996*. This Act provided for the establishment of various institutions, including the National Small Business Council, Khula and the Ntsika Enterprise Promotion Agency. The council was to be an advisory council, constituted by eminent people from stakeholders in small business sectors to advise on strategy and implementation, and even support monitoring and evaluation. Khula would provide financial support, while Ntsika would provide non-financial support.

During this period, Trevor Manuel swopped places with Alec Erwin. Alec Erwin became the Minister of Trade and Industry and Trevor Manuel the Minister of Finance. The change in political leadership brought with it a different emphasis. Minister Erwin paid much closer attention to issues related to trade, as compared to the focus on small business provided by Trevor Manuel. Both departments would however play a crucial role in shaping future developments on small business.

These institutional and policy changes largely collapse the challenges facing small business, and in fact most development related challenges, into a macroeconomic problem. Specifically, government would seek to undertake a range of reforms to facilitate investment by large firms. At the core of *GEAR* is this relationship between government undertaking a series of reforms – mostly on managing debt – and an increase in private sector investment. The model is clear on this aspect, a structural change in fiscal management would reduce the so-called 'crowding out' of private investment by introducing conservative fiscal management, that saw not just low deficits but South Africa running a surplus in many years. The *GEAR* document itself makes several references to small business, and notes that a review of policy will be undertaken, and efforts to include small business in development finance schemes will be undertaken. The core strategy was however an export-led growth strategy supported by private sector investments, which in turn would be supported by 'getting the fundamentals correct'.

There is in effect not much place for small business in such a strategy. During the *GEAR* period, policy developments in the small business space were not significant. The practice of delivering support to small businesses was however unfolding and providing the framework for the next round of policy changes.

In 2005, the new Minister of Trade and Industry, Mandisi Mpahlwa, initiated process that lead to the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises* (Department of Trade and Industry, 2005) . The strategy was based on three strategic pillars. These are summarised in the box below:

Box 2-1: Strategic Pillars for Entrepreneurship and Small Enterprises (2005)

Strategic Pillars	Increase supply for financial and non-financial support	Creating demand for small enterprise products and services	Reduce small enterprise regulatory constraints
Overarching Aim	Collaborative Approaches	New Policy Directives	Enabling environment
Key Levers/ Actions	Streamline resources from the public sector and crowd-in private sector resources	Public sector procurement and BEE codes of conduct of good practice as a lever for increased demand	Establish a regulatory impact assessment framework and business environment monitoring mechanism.

Source: Department of Trade and Industry. #date. Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises. Page 4.

The strategy provided details on translating the strategy into practice, the establishment of structures to monitor performance and ways to improve coordination. Whilst several areas of the strategy have been implemented, there remain several more areas where implementation has not occurred. Key areas include:

- Regulatory impact assessment which would review regulatory burdens on small business;
- Strategies to support franchising;
- National youth entrepreneurship strategy; and

- Linkages between small business and government procurement, specifically the creation of the "National Procurement Programme".

Of importance, here is a widening of the role of small business in a few respects, that reflects a contradiction. On the one hand, the revised strategy recognises that demand for small business products is a central issue facing small business. On the other hand, the demand for small business to solve multiple developmental problems is a nascent feature. For example, the linkages between entrepreneurship as a solution to youth unemployment is a crucial emerging one, in addition to wide range of policy linkages related to gender and race exclusion from the economy.

At an institutional level, the separation between financial and non-financial support remains and is strengthened. By 2012, Khula, the South African Micro-Finance Apex Fund and the IDC's small business funding would be combined into a single financing institution, called the *Small Enterprise Finance Agency (SEFA)*. The establishment of the *Small Enterprise Development Agency (SEDA)* in 2004 reflected a similar process of consolidating agencies to provide support for small business.

2.1.3 BRINGING THE ENTREPRENEUR BACK IN

Over the last 22 years small business and entrepreneurship have become more and more prominent in public policy. The exact steps in policy making are not elaborated upon here. As noted above, it is so important that the NDP argues that it will be the major driver of job creation in South Africa, which is required to lower unemployment and reduce poverty. Small business - and creating a million small businesses - is proposed as a solution to South Africa's developmental challenges. It is a view shared across the ideological divide, with Economic Freedom Fighters (EFF) and Clem Sunter (a capitalist strategist and ex-CEO of Anglo American) adopting the same policy position.

Two developments signal the emergence of small business and the entrepreneur.

First, as discussed above small business is the core driver of employment growth in South Africa in the strategy developed by the NDP.

Second, at an institutional level, the establishment of the *Department of Small Business Development (DBSD)* in 2014, a means to provide focussed attention on the needs of small business.

The background sketched is one of the traditional divisions in South African political economy making the entrepreneur exogenous to explanations, resulting in an under theorisation of entrepreneur and small business. Under theorisation is not merely an academic problem because public policy takes as its assumption that small business will flourish under the reform programme undertaken by government. The assumption underlying the government's stance assumes a market system conducive to rapid entry by businesses, and the ability to sustain these enterprises. Or that a government will develop the capabilities to run a successful reform programme.

Government departments have different starting points, often determined by the resources at their disposal and/or the direction taken by administrative or political leadership. Arguably, this could be a strength with local, provincial and national governments initiating experiments that yield learning, that are in some instances scalable. However, the opposite may also be true: disperse efforts results in poor outcomes. The sharp question that arises: Can a pathway be created that significantly improves the performance of government programmes on small business in South Africa? Or will performance be constrained by historical factors?

2.2 Definitions And Statistical Review

If one is discussing the possibility of a path dependence, one measure of a steady state would be data showing that South Africa's small business has remained the same over a period of time. Such a task might be deemed mechanical, but nonetheless provides evidence on which to make an informed assessment of progress in creating new firms.

The task of reviewing statistics on small business is however complicated, as a dedicated survey of small business does not exist in South Africa. The *Survey of Employers and the Self-Employed* (SESE) (2014) for instance covers only firms not registered for VAT, and other surveys cover formal firms only. There are a multitude of data sources in South Africa as shown in the review of data below. The data

however, has three features that militate against easy comparisons. First, the data is not meant to focus on small business, but data on small business can be derived. The Quarterly Labour Force Survey (QLFS) for instance provides variables for "employer", and the Annual Financial Statements (AFS) have recently stated reporting on national account data by size of firms. Second, a common taxonomy or classification of small businesses is not available. This means that various definitions are operating, and often yield different results. Third, there is no panel data available on firms that are publicly accessible.

This section provides a review of core statistical trends covering small business in South Africa. The focus is to estimate number, employment levels and other indicators of performance, and to indicate trends were possible. As noted earlier, this is a difficult task as there is little agreement even on the number of small businesses in South Africa. For this reason, the most recent data produced by *Trade and Industrial Policy Strategies (TIPS)* (2017) and a separate paper produced by the *Development Policy Research Unit (DPRU)* are used, in combination with data from the *Global Entrepreneurship Monitor Survey (GEMS)*.

2.2.1 Definitions

This section outlines a slew of definitions that are used in the statistical review. It leads into how small business is defined in this paper.

The definition of small business itself is complicated due to a range of approaches across government. TIPS (2017) provides a review of definitions across various legislation, indicating the different basis for defining small business. (See overleaf).

Box 2-2: Definitions of small business under different legislation

Type of Legislation	Threshold/ exemption	Basis for defining SMMEs		
		Employees	Turn-over	NSBA Definition*
Companies Act No. 71 of 2008		-	-	-
Cooperatives Act No. 14 of 2005	Minimum 5 people to register a co-operative	-	-	-
Basic Conditions of Employment Act 75 of 1997	Applicable if more than 10 employees	Yes	-	-
Labour Relations Act 66 of 1995	-	-	-	-
Employment Equity Act 55 of 1998	Applicable if more than 50 employees	Yes	-	-
Skills Development Act 97 of 1998	R500 000 salary bill	-	Yes	-
Broad-Based Economic Empowerment Act 53 of 2003	Exempted Micro-Enterprise if less than R10 million turnover Qualifying Small Enterprise if R10 million but less than R50 million	-	Yes	-
Sector Charters (B-BBEE)		-	Yes	-
Income Tax Act 58 of 1962	R1 million turnover per annum for Turnover Tax R20 million turnover for a Small Business Corporation (SBC)	-	Yes	-
Value-Added Tax Act 89 of 1991	R1 million turnover threshold	-	Yes	-
National Credit Act 34 of 2005	NSBA definition	-	-	Yes
Preferential Procurement Policy Framework Act 5 of 2000	NSBA definition	-	-	Yes

Source: TIPS, 2017

The table above indicates that in some instances small businesses are defined in terms of the number of employees, or on the basis of turnover. The *National Small Business Act 102 of 1996* (referred to NSBA definition in the table above) uses a combination of both. The current thresholds for the NSBA is provided below:

Box 2-3: Definitions of small business in the NSBA

SIC classification	Sizeorclassof enterprise	Total full-time equivalent ofpaid employees	Total annual turnover	Total grossasset value(excluding fixed property)
Agriculture	Medium Small Very Small Micro	100 50 10 5	R5m R3m R0.5m R0.2m	R5m R3m R0.5m R0.1m
Mining and Quarrying	Medium Small Very Small Micro	200 50 20 5	R39 m R10 m R4m R0.2m	R23 m R6m R2m R0.1m
Manufacturing	Medium Small Very Small Micro	200 50 20 5	R51 m R13 m R5m R0.2m	R19 m R5m R2m R0.1m
Electricity, Gas and Water	Medium Small Very Small Micro	200 50 20 5	R51 m R13 m R5.1 m R0.2m	R19 m R5m R1.9 m R0.1m
Construction	Medium Small Very Small Micro	200 50 20 5	R26 m R6m R3m R0.2m	R5m R1m R0.5m R0.1m
Retail and Motor Trade and Repair Services	Medium Small Very Small Micro	200 50 20 5	R39 m R19 m R4m R0.2m	R6m R3m R0.6m R0.1m
Wholesale trade, Commercial Agents and Allied Services	Medium Small Very Small Micro	200 50 20 5	R64 m R32 m R6m R 2m	R10 m R5m R0.6m R0.1m
Catering, Accommodation and other Trade	Medium Small Very Small Micro	200 50 20 5	R13 m R6m R5.1m R0.2m	R3m R1m R1.9 m R0.1m
Transport, Storage and Communications	Medium Small Very Small Micro	200 50 20 5	R26 m R13 m R3m R0.2m	R6m R3m R0.6m R0.1m
Finance and Business Services	Medium Small Very Small Micro	200 50 20 5	R26 m R13 m R3m R0.2m	R5m R3m R0.5m R0.1m
Community, Social and Personal Services	Medium Small Very Small Micro	200 50 20 5	R13 m R 6 m R 1 m R 0.2 m	R 6 m R 3 m R 0.6 m R 0.1 m

Source: NSBA definitions derived from TIPS (2017)

The NSBA further differentiated SMMEs by Standard Industrial Classification (SIC) sector or sub-sector and by classifying SMMEs according to key indicators, including the total full-time equivalent of paid employees, the total turnover, and the total gross asset value (excluding fixed property).

To complicate matters further, the *Global Entrepreneurship Monitor (GEMS)* uses a set of definitions that are based largely on an attitudinal survey. There are a range of definitions used, but only a selection is used in this section. The definitions are listed below. In addition, Stats SA uses VAT registration as the primary distinction between formal and informal businesses.

Box 2-4: Definition of core concepts in GEMS and LMDS

Global Entrepreneurship Monitor Definitions	
Necessity-Driven Entrepreneurial Activity	Percentage of those involved in TEA who are involved in entrepreneurship because they had no other option for work
Improvement-Driven Opportunity Entrepreneurial Activity	Percentage of those involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income
Total Early-Stage Entrepreneurial Activity (TEA)	Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.
Entrepreneurial Intentions Rate	Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years
High Job Creation Expectation Rate in early-stage entrepreneurial activity	Percentage of those involved in total early-stage entrepreneurial activity who expect to create 6 or more jobs in 5 years
Established Business Ownership Rate	Percentage of 18-64 population who are currently owner-manager of an established business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.
Definitions based on Labour Force Data	
Formal Business	The LMD asks several questions around taxes, levies and registration to distinguish between formal and informal enterprises, but the main criterion is whether enterprises are registered for VAT. Formal businesses are thus those registered for VAT
Informal Business	Businesses not registered for VAT. In the SESE, the coverage are owners of non-VAT registered businesses derived from the Labour Force Survey.

Sources:(Global Entrepreneurship Monitor, 2015; Statistics South Africa, 2017)

The definitions of small business and entrepreneur are thus the subject of intense discussion, and dispute. South Africa is not alone in having this debate, as there seems to be little consistency in definitions across the globe.

There are two approaches to defining small business that are useful for this report. .

First, there is what the Bolton Commission in the United Kingdom called an "economic definition" of small business (Deakins & Freel, 2009). The Commission defined small firms as those which:

- Have a relatively small share of their marketplace;
- Are managed by owners or part-owners in a personalized way, and not through the medium of formalized management structure; and
- Are independent in the sense of not being part of a large enterprise.

Second, is to focus on ownership of the firm to denote an entrepreneur (Lazonick, 2015). The advantages of this approach are that the focus is squarely on ownership. This approach fits well with the study at hand, as the focus is on firms and their ability to reach developmental goals.

Care is taken throughout the report to specify what is meant when speaking of small, medium or micro businesses. This is especially important as departments have additional concepts such as "emerging miners", "smallholder farmers" and "small scale entrepreneurs", which complicates matters even further. In each of these instances, the definitions are exactly what the programme defines these terms to mean, which in many cases is nothing – no definition of many of these terms are specified.

For purposes of this paper, the defining characteristic of either small business, medium business and entrepreneur is that of owning a business at any stage of the business development cycle regardless of registration status. The analytical unit is thus one of ownership of a business. Understanding such ownership is of a "small business" will differ based on what is being reviewed. Broadly speaking, the following should be noted on budget expenditure as it relates to small business:

- On the **revenue or taxation side,** the allocations are defined by registration status.
- On the **expenditure side,** the allocations are defined in terms of the NSBA definition.

2.2.2 Types Of Small Businesses In South Africa

There is dispute over the number of small businesses in South Africa. This is because of the different sources from which data is derived, and different statistical techniques, yield different estimates. The data also divides business using different characteristics, which makes comparisons across data difficult.

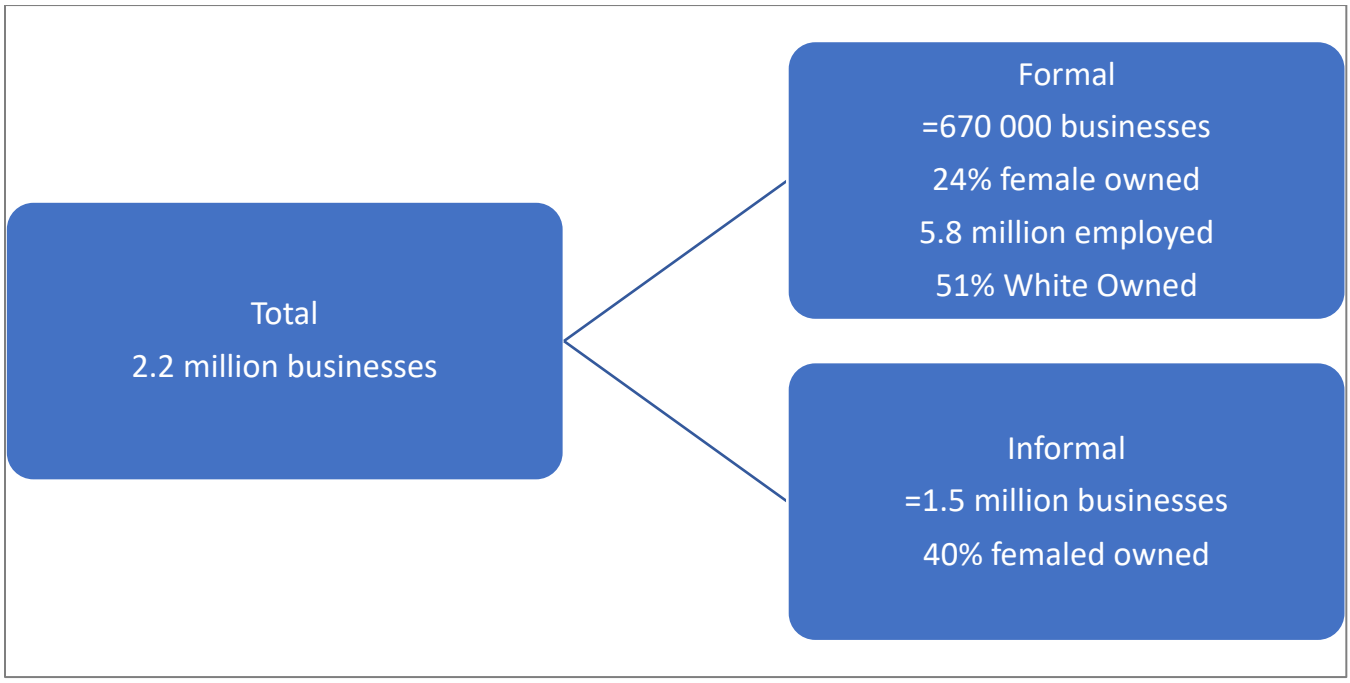
Studies based on government data divide businesses between those that are formal and those that are informal. Studies based on *GEMS* data divide businesses between those that are 'opportunity based' and those that are 'necessity driven' Some overlap exists between formal and opportunity-driven on the one hand, and informal and necessity-driven on the other hand. However, from a purely statistical perspective collapsing the categories would be wrong since they are derived from different surveys.

The ways of dividing small business are important in another sense. The government-based surveys require small business to be compliant (usually that they are registered for VAT), while the GEMS data distinction is based on intention of the entrepreneurs. These divisions in turn lead to claims on which types of businesses create jobs. The argument is that formal businesses, and opportunity-based businesses create jobs. This makes good intuitive sense, as some level of maturity and formality is required for employment creation.

The focus on businesses that create jobs may, however, unintentionally make informal and necessity-driven businesses less important as they are unlikely to create jobs. The informal sector however remains important. After all, most businesses in South Africa are informal, and in fact necessity-driven. Moreover, the ownership distributions in turn have racial and gendered impacts and point to a wider challenge in social and economic policy – the absence of comprehensive social security.

The graphic below provides an overview of data on small business derived from the recent TIPS survey, using *Labour Market Dynamics* data from Statistics South Africa. It breaks down the number of small businesses that are formal and informal.

Figure 2-1: Number of formal and informal businesses, 2016



Source: TIPS, 2017

Using data from various years, a time series was created that indicates that:

- Formal small business has declined from 707 000 in 2008 to 670 000 in 2015; and
- Informal small business has remained virtually unchanged since 2008, at around 1.5 million

Even here, a caveat is important to note. When one breaks down the data by formal and informal, and whether the job is for an own-account worker or for a business that employs additional people questions begin to emerge. This is shown in the table below. The data shows that own-account workers contribute 63.4% of the total businesses described as small business, and 79.9% of informal businesses.

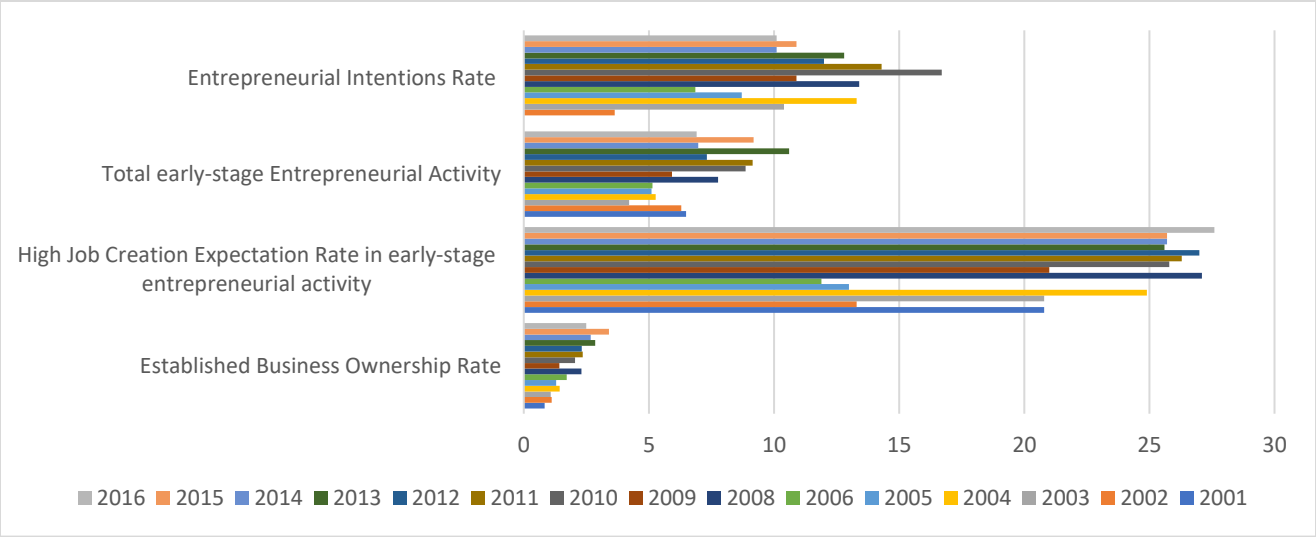
Table 2-1: Formal and informal business by size of business, 2017

	Informal	Formal	Total
Own-account	1203	194	1397
Micro (1-4)	266	233	499
Very Small (5-19)	32	193	225
Small (20-49)	3	51	54
Medium and Large (50 and over)	2	28	30
Total	1506	699	2205
Percentage of Total			
Own-account	79.9	27.8	63.4
Micro (1-4)	17.7	33.3	22.6
Very Small (5-19)	2.1	27.6	10.2
Small (20-49)	0.2	7.3	2.4
Medium and Large (50 and over)	0.1	4.0	1.4
Total	100	100	100

Source: TIPS, 2017

The GEMS data, which is based on an adult population survey, asks different questions from the labour force data. The GEMS data reinforces this picture of limited change in the profile of small businesses over a period of time. The graph below shows several measures from GEMS that are pertinent to the topic of this paper.

Figure 2-2: Comparing entrepreneurial intention, with job creation expectations and Total early-stage entrepreneurial activity (TEA),2016



Source: GEMS, 2015

The graph is at first dense, in the sense of having multiple measures across several years. The graph is however created to visually indicate that from 2001 to 2016, there have not been any significant changes in the four measures selected. Across all measures South Africa is in fact in the bottom quintile, except for job creation expectations. South Africa is ranked 16 out 63 countries on this measure, which is an indication that not only government, but entrepreneurs believe that over a period of time, they will create jobs. (Details for the GEMS data is provided in Appendix Two).

A crucial distinction is between "opportunity-based" and "necessity-driven" businesses. The distinction is used in the GEMS to distinguish between businesses created to pursue an opportunity, and businesses created as a means of survival. The formal definitions are included in the box above. Government policy has a similar understanding, distinguishing between various types of small businesses.

Box 2-5: Types of small and medium businesses

Type	Broad description
Survivalist enterprises	Survivalist enterprises are business activities by individuals who are unable to secure a paid job or enter the economic sector of their choice. No capital is invested, little to no skills training is required and these enterprises have very limited opportunities for growth into a viable, registered business. Poverty and the need to provide basic sustenance are the main drivers for establishing this category of enterprises. It was suggested that survivalist enterprises cannot be viewed as sustainable microenterprises, even though some may eventually achieve such a position.
Microenterprises	Microenterprises are very small businesses that often have only one owner, some family member involvement and a maximum of two paid employees. They usually lack in formality in terms of business licences, value-added tax (VAT) registration, business premises, operating permits and accounting systems. Most of them have a limited capital base and basic technical and business skills among those that operate the business. Nevertheless, a significant number of micro businesses are presumed viable enough to advance into small businesses. Due to the similarities in some of the business obstacles faced by survivalist and microenterprises, they are often combined by government support agencies.
Small enterprises	Small enterprises constitute the majority of established business, with employment levels ranging between five and 50 individuals. These businesses would usually be owner-managed or directly controlled by an owner- community (i.e. a cooperative). They are likely to conduct operations from a business or industrial premise, be tax registered, and fulfil other formal registration requirements. Classification of assets and liabilities varies, given the broad differences across business sectors such as construction, manufacturing, retailing and professional services.
Medium enterprises	Medium enterprises constitute a category of businesses between small and big business. They are significant enterprises with strong capabilities; they are viewed as owner/manager controlled, although there may be more complexity to the shareholding. Employment of 200 people and capital assets (excluding property) of about R5 million are perceived as the maximum thresholds.

Source: (Trade and Industrial Policy Strategies (TIPS), 2017)

2.2.3 Employment And Small Business

The justification of expenditure on small businesses and entrepreneurs is that they are major sources of job creation, innovation and competitiveness. The underlying logic is that more competitive markets with many small players contributing to

economic development have beneficial impacts for society. The reasoning harks back to Adam Smith who wrote of the merchant "By pursuing his own interest, he frequently promotes that of society more effectually than when he really intends to promote it"(Smith, 1776/2016) .

However, Smith raises a cautionary tale in saying that "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices" (Smith, 1776). Reconciling these seemingly competing perspectives on business activity and the public good is plausible in the context of the fullness of Adam Smith's thought, but the tensions that arise from these contradictory positions provide a means to think about the role of small business in job creation, or more broadly the public good.

South African data on the role of small business in employment creation is contested. An important aspect of this contestation is whether small businesses create jobs. On the one hand, it is estimated that 73 percent of workers are employed by firms with less than 50 employees; and that 45 percent of all employed people work in firms with less than 10 employees (Rankin, 2006). Similarly, the NDP approvingly quotes Finscope (Finmark Trust, 2010). According to the Finscope (2010) survey shows that 90 percent of jobs created between 1998 and 2005 were in small, medium and micro enterprises. On the other hand, more recent data challenges the idea that small businesses are net creators of jobs. Rankin(2013) in an updated dataset of his earlier work, shows that from the second quarter of 2008 to the second quarter of 2013, absolute employment numbers in firms with fewer than 50 employees dropped by 1.12 million. Of these, almost 750 000 jobs were lost in small firms in the formal non-agricultural sector. Similarly, Kerr, Wittenberg and Arrow (2013) show that in South Africa, larger firms had higher rates of net job creation than small firms between 2005 and 2011. In context, the data is not surprising given the nature of economy, and the direction of government support for s larger businesses.

More recent studies, which were reported on in the previous section, however, indicate that small businesses employ more people than large businesses. To sum, the data shows that formal small businesses employ 5.8 million people compared to

3.6 million in large businesses. Yet, the question whether small businesses are net job creators remains an important area of dispute.

2.2.4 Economic Concentration

The question of inequality raises issues on market concentration. This section covers two aspects of economic concentration, viz. (1.) Market structure and (2.) Ownership of small business.

2.2.4.1 Market Structure

An important finding is that levels of economic concentration have not reduced since democracy, and arguably may have increased. The table below provides recent data on concentration shares for the Top 5 firms in manufacturing sub-sectors.

Table 2-2: Share of sales for top 5 firms, 2001 to 2012

	2001	2010	2011	2012	Percentage change 2001-2012	Annualised change per year
Food and Food Products	65.93	75.63	73.51	79.72	20.90%	2%
Beverages	76.27	92.46	91.57	93.14	22.10%	2%
Textiles	36	60.77	60.26	62.79	74.40%	5%
Clothing, except Footwear	34.18	68.47	68.22	73.89	116.20%	7%
Leather and Leather Products	27.69	75.34	78	78.17	182.30%	10%
Footwear	39.99	54.56	55.48	54.1	35.30%	3%
Wood and Wood and Cork products	38.45	63.08	70.35	65.32	69.90%	5%
Furniture	56.68	62.28	63.98	64.69	14.10%	1%
Paper and Paper Products	78.13	85.55	85.22	85.17	9.00%	1%
Printing, Publishing and Allied Industries	48.9	71.28	70.45	73.46	50.20%	4%
Basic Chemicals	68.55	75.66	78.8	86.04	25.50%	2%
Rubber Products	40.33	77.44	75.7	72.46	79.70%	5%
Plastic Products	30.22	79.39	81.25	61.48	103.40%	7%
Glass and Glass Products	69.74	61.99	77.32	76.79	10.10%	1%
Other Non-metals	60.07	71.52	73.11	70.44	17.30%	1%
Basic Iron and Steel Industries	76	83.26	83.67	82.49	8.50%	1%
Non-ferrous Metal Basic Industries	70.6	88.45	89.23	87.55	24.00%	2%
Metal Products, except Machinery and Equipment	47.49	60.52	58.46	60.13	26.60%	2%
Machinery, except Electrical	38.41	69.86	75.01	82.47	114.70%	7%
Electrical Machinery Apparatus	51.6	78.76	77.84	75.36	46.00%	4%
Motor Vehicles, Parts and Accessories	78.87	84.01	84.97	87.19	10.50%	1%
Transport Equipment	58.99	70.6	76.29	75.97	28.80%	2%
Other Manufacturing Industries	50.66	61.88	76.6	79.44	56.80%	4%

Source: (Haroon Bhorat, Asmal, Lilenstein, & van der Zee, 2018)

The data indicates that for manufacturing sub-sectors the largest firms have gained market share between 2001 and 2012. These gains occur from a starting point where the top 5 firms already held large shares of the sub-sectors.

Economic concentration might not be a problem, as countries with high levels of economic concentration have experienced significant economic growth and employment creation. The experience in South Korea, Taiwan and Japan indicate

that large firms dominating in partnership with government are indicative of these development models (Amsden & Singh, 1993; Ferris, Kim, & Kitsabunnarat, 2003; Koo, 1984; S. S.-Y. Lee, 2016). In fact, in South Africa there is an argument that larger firms – especially in manufacturing – can lead to more employment at higher wages (Nel, 2017), or through new investments in new manufacturing sectors, like renewable energy (Swilling, Musango, & Wakeford, 2016).

Two factors however distinguish the South African case.

First, when compared to peer countries, South Africa's small business remains underdeveloped. TIPS argue the point as follows:

> *While small formal business in South Africa makes a significant contribution to employment, small business as a whole remains underdeveloped by international standards. In South Africa, less than 20% of all employed people are self-employed or employers. In contrast, the norm for upper middle-income economies, excluding China, is around 40%.*
>
> *The evidence suggests that the lower the share of self-employment, the lower the level of employment overall, measured in the ratio of employment to working age population. Only 40% of South African adults have income-generating work, compared to almost 60% in other upper-middle-income economies excluding China.*
> (Trade and Industrial Policy Strategies (TIPS), 2017)

Second, South Africa has experienced a large number of cases related to cartels and collusion. Between 2005 and 2015, the Competition Commission reports that it had detected more than 76 cartels (excluding cartels in the construction sector). The behaviour of large firms in establishing and maintaining market shares through unfair market practices is thus not unusual in South Africa. Several studies show that through the intervention of competition authorities new entrants have emerged in markets such as cement, banking and telecommunications sectors (S. Roberts, 2017; S. Roberts & Vilakazi, 2015).

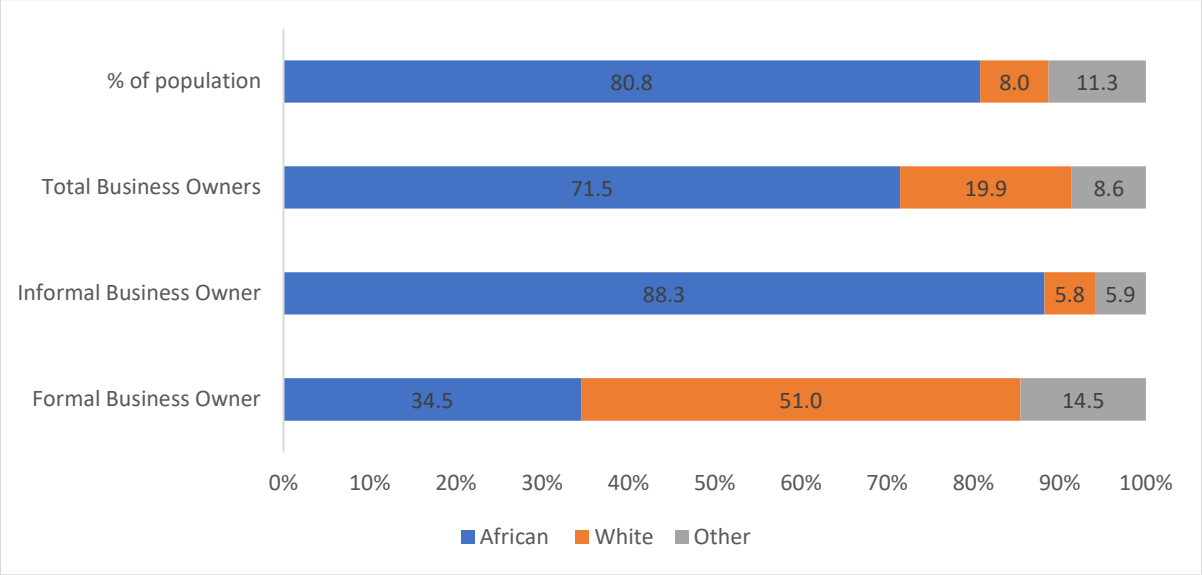
2.2.4.2 Ownership patterns in small business

At another level, economic concentration matters, perhaps even more. The ownership of formal businesses is still largely concentrated among men, and whites.

This can be seen in a series of graphs below and has significant distributional consequences.

The graph below shows business ownership by formal status and race. It also compares the ownership patterns to the racial breakdown in the population. The results are striking, formal business consists mostly of whites, and informal businesses consists almost entirely of Africans.

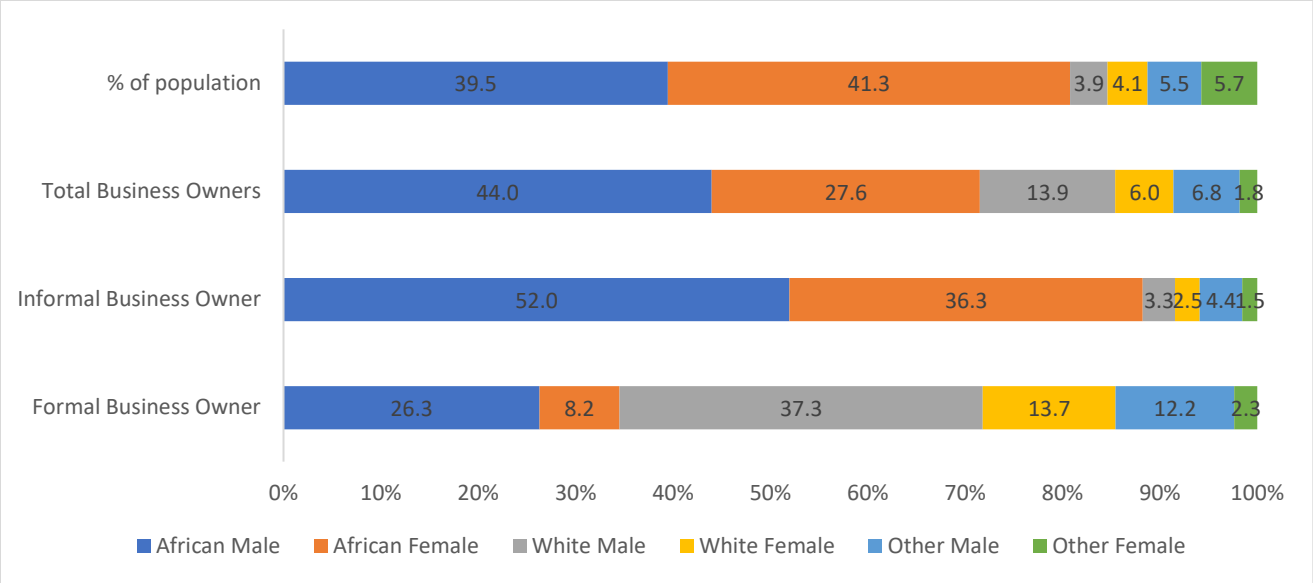
Figure 2-3: Business ownership by race and formality



Source: (Trade and Industrial Policy Strategies (TIPS), 2017)

The data is even more striking when ownership of formal business is broken down by race and gender. This is shown in the graph below. It shows that white males own 37.3% of all formal businesses but are only 3.9% of the population. Similarly, African females own 8.2% of formal businesses, but are 41.3% of the total population.

Figure 2-4: Business ownership by race and gender



Source: (Trade and Industrial Policy Strategies (TIPS), 2017)

A caution is warranted – the paper is not arguing that a strict correlation between race, gender and formal business ownership would result in a fairer outcome, as shares do not tell us anything about how viable these formal businesses are. It is entirely possible to have racially better distributed numbers of formal firms, but that firms do not make a profit or turn into viable assets. . However, what we do know is that formal firms provide a significantly better income for business owners. For example, median wages are almost two times higher in the formal sector than in the informal sector (Haroon Bhorat et al., 2018). Furthermore, as TIPS (2017) notes:

> *…in 2015 formal-sector earnings for employers and the self-employed ranged between R8 000 and R12 000 a month for micro and small enterprise. Informal employers had a median income of R4 000 a month, while the informal self-employed earned just over half as much.*

This is an important outcome in a society that seeks to raise living standards and reduce inequality. It leads directly (and perhaps too quickly) to this recommendation: *increase the number of formal businesses and raise income levels across the economy as jobs are created and employers are able to sustain businesses.*

2.2.5 Spatial Dimensions

One of the major analytical challenges is integrating spatial the dimension into a discussion on small business. This is taken up later in the paper, but an introduction to these issues is useful at this disjuncture. Mahmood Mamdani (1996) describes the colonial states in Africa as bifurcated. Mamdani argues that the colonial state in Africa was characterised by a duality. To quote:

> *Organised differently in rural and urban areas, the state was Janus-faced, bifurcated. It contained a duality: two forms of power under a single hegemonic authority. Urban power spoke the language of civil society and civil rights, rural power of community and culture' (page 18).*

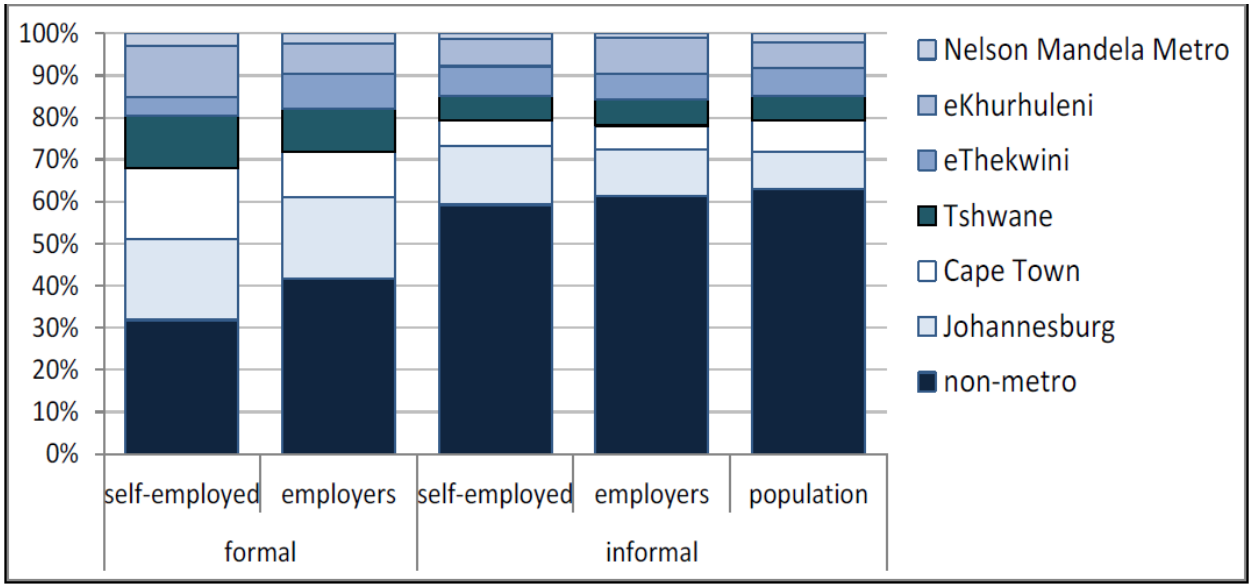
This duality is in South Africa is seen in the property rights systems in Traditional Authority Areas (TAA) in South Africa (Ntsebeza, 2005). The system of property rights is different from the rest of South Africa, in that property rights within TAA are not individualised or rest with legal personalities of corporations but are held by traditional authority (Bennett, Ainslie, & Davis, 2013; Rangan & Gilmartin, 2002).

Understanding how the budget either subverts this arrangement or reinforces these arrangements is an important, but neglected field of enquiry. This research seeks to understand if this insight into the bifurcated nature of the South African state can be derived from budget data on small business and entrepreneurship. A finding of allocations that support the bifurcated argument, would reveal continuity not only in the property system, but the democratic government reinforcing traditional authority power and having gendered impacts (Claassens, 2013; Claassens & Boyle, 2015). Importantly, TAA exhibit the highest concentrated of poverty and unemployment in South Africa.

This is an important area for small business development as a core demand from rural activists is for tenure reform to support small scale agricultural activities. Similar reforms in other countries, including South Korea and China, have supported broader economic participation. The Chinese experience provides an example of shifting from communal farming to individual farming(McMillan, 2003) . Data on business ownership patterns in TAA vs the rest of South Africa is however not available using the *Labour Market Dynamics* data(Statistics South Africa, 2018) .

The closest approximation is in comparing data for metro and non-metro areas, which is shown in the graph below:

Figure 2-5: Distribution of private formal and informal small business by metro and non-metro areas, 2015



Source: Calculated from Statistics South Africa. Labour Market Dynamics database 2015. Series on number of employees, main work, sector and metros. Downloaded from Nesstar facility at www.statssa.gov.za in February 2017.

The graph shows private formal employers and self-employed people were disproportionately located in the metro areas, particularly Johannesburg and Cape Town. As a group, the metros accounted for over two thirds of formal employers and the self- employed. In contrast, informal employment and self-employment was more proportional to the overall distribution of the population.

2.3 SUMMARY

This section has described the evolution of public policy on small business and entrepreneurship in South Africa and traced its emergence as a policy priority. The core inference is that the failure of macroeconomic reforms heightened and reinforced already high unemployment and inequality. In response to these failures,

one avenue emerged to resolve these challenges. This avenue was growing the small business sector and supporting entrepreneurship. However, the emergence of the policy priority for small businesses occurs in a context of high levels of economic concentration both in terms of firms dominating industries and that ownership amongst successful small businesses are still largely white and male owned.

In order to develop the Small, Medium and Micro Enterprise sector in South Africa, we need to take into account inherited obstacles. These include: low levels of education and training; barriers to markets; inaccessible finance and lack of support institutions.

Nelson Mandela, Second National Conference on Small Business, Durban, 1997

3 CONCEPTUAL FRAMEWORK

Reviewing the data on small business in South Africa raises a series of issues that are explored in this chapter. As shown in the background chapter, the following issues emerged in relation to inequality:

- Inequality in business ownership has a racial and gender dimensions;
- Inequality exists between small and large firms in terms of market share;
- Inequality exists spatially both at the urban-rural divide, and between two distinct property systems; and
- Resolving unemployment via small business is arithmetically improbable, and even if it were it is unclear if this would result in greater equality.

These findings are at odds, or at least provide a demanding starting point, for the narrative in the NDP that resolves distributional inequalities through a 'massification' of small and expanding firms. As noted above, this advocacy of small businesses as the primary driver of employment creation rest on three interrelated (and questionable) assumptions:

1. Social upward mobility via enterprise development can occur within South Africa, on a mass scale. Such social upward mobility will occur through widening ownership of private enterprises, and increased employment in these enterprises.
2. The structure of markets in South Africa would support the growth and proliferation of small businesses. Whilst the NDP acknowledges that changes in the structure of the economy will be required, the primary driver of a proliferation of small enterprises is long run economic growth. In other

words, current market conditions do not place a structural limit on the proliferation of small businesses.

3. Social upward mobility and the restructuring of markets to support small business development, would require a "capable developmental state". The state would intervene both to increase the agency of potential entrepreneurs and existing business owners, and simultaneously create conditions for changing the structure of markets to support new entrants and a multiplicity of enterprises. Importantly, the state would undertake these interventions whilst seeking to both grow the economy and redistribute incomes (and possibly assets) to the poor.

How than does one understand the chasm between initial conditions not conducive to rapid business development on the one hand, and the continued enthusiasm for proliferation of small business, on the other hand? In answering this question, the method employed did not seek to answer the question by reviewing theory at the start, but rather to let the "data speak" through an inductive process of discovery (Eisenhardt, 1989; Glaser, 1978).

This process of discovery shows that there are different and distinct approaches to understanding why and how mobility occurs through entrepreneurship. To be clear, no one approach to small business development emerges. This finding forms the bases for the development of a conceptual framework. This conceptual framework is based on the amount of "friction" that government programmes assume entrepreneurs will face. The report identifies that government departments seek to move people towards social mobility with four rationales. These are:

1. **Atomistic –** which assumes that economic growth and smaller changes would be sufficient for wide range mobility.
2. **Enabling –** which assumes that the market can function better and deliver better outcomes, the closer it moves to an idealized competitive market.
3. **Relational –** which assumes that social mobility will occur under conditions of government facilitating change in the economy.
4. **Holistic –** which argues for a wider structural intervention, usually located in land ownership. It argues for a redistributive start to more equal markets.

These are discussed once a conceptual clearing is undertaken on understanding poverty and inequality traps. The discussion here is on what the literature tells us about these transitions. In conclusion, the concept of an "inequality trap" is developed as a conceptual framework to be used in discussing alternatives.

3.1 POVERTY AND INEQUALITY TRAPS

The *World Development Report* (World Bank, 2006) popularised and mainstreamed the concept of 'inequality traps'. Since than a large literature has developed seeking conceptual clarity, definitional certainty, measurement methods and policy prescriptions. The literature on inequality traps however has scant references to the roles of entrepreneurship and small business in these processes. Fortunately, what exists provide important insights relevant to this study.

One of the defining features of the literature is distinguishing between 'poverty traps' and 'inequality traps'. Rao (2006) in an oft quoted passage makes the distinction as follows:

> *Inequality traps are similar to poverty traps in that they serve to keep people poor and destitute. But they differ from them in that they refer to a reinforcing system of economic, political and social structures to what social scientists have called 'durable inequality'. Poverty traps tell us about situations where people at the low end of the income distribution are stuck in a cycle of poverty because a lack of resources generates more resources constraints. Inequality traps, on the other hand, describe situations where the entire distribution is stable because the various dimensions of inequality (in wealth, power and social status) interact to protect the rich from downward mobility, and to prevent the poor from being upwardly mobile.*

The divisions and distinctions between 'poverty traps' and 'inequality traps' whilst important, both concepts offer important insights to support development of policies (Bourguignon, Ferreira, & Walton, 2007). This section discusses the approach that combines these concepts, under the rubric of 'asset poverty'.

A suite of poverty measurement techniques termed 'fourth generation' have emerged that define 'poverty traps' with reference to the wider income distribution, and

indicate the presence of multiple equilibria (Carter & Barrett, 2006). These poverty measures are primarily concerned with measuring 'chronic poverty' or 'structural poverty' or even 'intergenerational poverty'.

In this context, it is important to reflect on what these newer measures of poverty tell us about social mobility in South Africa. In a pioneering study, Adato, Carter and May (2006) use data from the *KwaZulu-Natal Income Dynamics Study (KIDS)* to provide evidence that significant numbers of the South African poor are in a structural poverty trap and lack the means to escape poverty over time. More recent data using the *National Income Dynamics Study (NIDS)* finds similar evidence of high levels of chronic poverty(Leibbrandt et al., 2012; Lilenstein et al., 2017) . Astonishingly the recent study finds that about half the population are chronically poor, having little prospects of moving into the middle class. Moreover, the research based on *NIDS* finds that staying in the middle class is difficult with many households not able to withstand a shock, and they call this grouping the 'vulnerable middle class' (Zizzamia, Schotte, Leibbrandt, & Ranchhod, 2016).

Movements into an out of poverty are thus determined in both these studies on the probability of households and individuals surviving a shock, and in particular whether one is able to hold on to a job, and the quality of education that children in households receive. These findings are significant for this study because recommendations based on these studies call for government spending in areas on education and social security, and for interventions to support access to insurance and other financial services (Burger, Bredenkamp, Grobler, & Berg, 2012b). Of even greater significance is the picture of movements into and out of poverty, not stability across time for everyone. The data indicates that the convergence of incomes over time is not observable in South Africa.

An important conceptualisation of such a situation is provided by Carter and Barrett (2006) who build a canonical model on asset poverty measurements. The model compares income poverty lines with asset poverty lines. A simplification of the model is presented below as a quadrant which plots income and assets in a simplified quadrant.

Box 3-1: Asset and Income Quadrant

Asset Rich, Income Poor	Asset Rich, Income Rich
Asset Poor, Income Poor	Asset Poor, Income Rich

Source: Adapted from (Carter & Barrett, 2006)

The model is simplified here to indicate not just the distinction between income and assets or wealth, but rather that it provides a way to understand possible transitions out of poverty. The argument developed by Carter and Barrett is that transitions out of poverty are often temporary, and sometimes more durable. Importantly, they include a category called "structural" via (1) higher returns and (2) via accumulation These transitions are 'structural' in that the in the position of the household chnages for the better, and that such a change in status is durable. Most small business policies assume this form of 'structural' movement out of poverty, whether measured by assets or income. These pathways make a return later in this report, when possible pathways for entrepreneurs are discussed.

Government programmes on small business and entrepreneurship assume that a 'structural' transition is possible. Various policies and programmes assume accumulation paths via business ownership is supported through government support. The level and rationales for such support is however different across the ranges of programmes, and these are know discussed.

3.2 ATOMISTIC RATIONALE

The programmes reviewed indicate a version of social mobility that requires what could be described as small tweaks to the system. The overall process is fairly simple – a tweak to the system would yield conditions for the emergence and flourishing of small business. Increasing the number of tweaks would support more and more businessowners. The tweaks envisaged are thus scalable and will be sufficient for autarkic process of mobility through business ownership.

Three examples of such tweaks are identified in the literature reviewed, and from the review of budget documentation. These are:

1. a process of following macroeconomic prescriptions loosely captured by the idea of the *Washington Consensus;*
2. a process of titling forcefully argued by Hernando de Soto; and
3. an enthusiastic embrace of the "fortune at the bottom of the pyramid" by CK Prahalad.

The first two examples are discussed in this section, whilst arguments on the 'fortune at the bottom of the bottom of the pyramid' are discussed in the next section.

3.2.1 Washington Consensus And The Entrepreneur

Historically, the term 'Washington Consensus' has played a significant role in development policy, even though the meaning of the term is disputed. John Williamson(2000; 2004) who originated the term, has warned that the term has experienced a conceptual stretching in that more things get added to it, and that it is taking as a synonym for neo-liberalism. The exactness of the term Washington Consensus is however less important here, than the overall approach being described (Birdsall, De La Torre, & Caicedo, 2012).

The approach being advocated in the original Washington Consensus however found resonance in South Africa's adoption of the *Growth, Employment and Redistribution: A Macroeconomic Strategy (GEAR)*. This approach argued that through 'getting the fundamentals correct' a process of long-run economic growth would ensure, and that even at a growth rate of 3% a substantial reduction in unemployment would ensure. These 'fundamentals' were reducing the deficit, crowding in private investment and public service reforms. In other words, the *GEAR* strategy was consistent with the overall approach advocated in the Washington Consensus.

In fairness, *GEAR* advocated for small business reforms related to regulation and calls for increased financial support. However, the overarching approach is one of government reducing deficits and expenditure to ensure fiscal stability, and through

that encourage fiscal sustainability. In turn, private sector investment by existing (and large) companies would increase a spur a process of economic growth.

The small business sector in *GEAR* is however absent in two senses. First, macroeconomic management hardly ever concerns itself with microeconomic conditions. The *GEAR* strategy for example makes a direct link between macroeconomic reforms and increased economic growth, with scant reference to industrial policies. In fact, most actors in the economy are secondary to meeting fiscal and monetary targets. Economic actors are secondary in the sense that they respond to conditions described as the having the 'fundamentals in place'.

Second, the strategy advocated in GEAR is not directly concerned with distribution of incomes and assets, even though the words 'redistribution' appears in the title for the strategy. Distributional challenges are addressed in GEAR as an outcome of the reforms being undertaken. Once reforms are successfully implemented, greater economic growth would lead to significant decrease in unemployment. It is for this reason that the *Washington Consensus* type approaches are described as 'tweaks' as they make a make a draw from the 'existing policy regime', to use parlance of Iyigun and Rodrik (2004).

By making a policy choice consistent with the existing context and enforcing Washington Consensus type policies, three features of the policy are prescient to this discussion.

First, a convergence of income will emerge over time, as more and more people are employed and move out of poverty. More precisely, the convergence of income will result in more and more people being above the poverty line, as they accrue the benefits of reforms that support better education and more employment. The international literature has seen a furious debate on the international impacts of *Washington Consensus* type reforms – usually conflated with the relationship between economic growth and poverty reduction – that shows at best, mixed evidence of such a convergence (Barro, 1998; Barro & Sala-i-Martin, 1992; Blomstrom, Lipsey, & Zejan, 1992; Quah, 1997; Sala-I-Martin, 1996). In the case of South Africa, the evidence is not ambiguous , strategies such as *GEAR* have failed to

reach the targets on economic growth, even if the reasons for such a failure are disputed (See Nattrass, 2000 for a counter argument). More importantly, targets for employment have not been realised. The period of *GEAR* ran for the five years after 1996, although authors such as Bond(2014), Marais(2011), and Adelzadeh (1996) argue that the broader suite of neoliberal policies will have long-term impacts, and in fact have continued. This wider debate is however beyond the scope of this paper. The finding that a convergence in income has not emerged is one that has ample and credible evidence in South Africa and is central to the argument developed in this report. The evidence is presented in the previous chapter which is described as a 'high inequality-high unemployment' context.

Second, GEAR was based on spurring investment by large business. The core idea is that the state would no longer 'crowd-out' the private sector by reducing deficits, improve revenue collection and reprioritise expenditure, and in such a circumstance the private sector would be incentivised to invest through a set of circumstances favourable to itself. Following from this, is that large business would drive investment and employment. Again, the data on investment levels in South Africa by large business indicates a disappointing result with several authors providing empirical evidence of an 'investment strike' and of high levels of capital flight (Ashman, Fine, & Newman, 2011) . This finding is however disputed by Keeton (2018). Keeton makes a series of arguments countering the argument for an 'investment strike' but does not link his criticism to the levels required to support economic and employment growth.

Third, the strategy assumes markets and market relations governed by individual property rights. This is simply not the case in South Africa where one third of the population are governed by forms of property rights in Traditional Authority Areas (TTA) that can be described as feudal.

The implications of these criticisms are startling - convergences in incomes are unlikely to occur, private sector investment will not flow despite the reforms, and a large section of society will be excluded from the reforms entirely. These criticism points not just to the continuation of a poverty trap but provides a linkage between investment (in)decisions by government and the continuation of poverty traps. In

such a context, the gap between the intent of programmes on the one hand, the outcomes of higher unemployment, on the other, have shown the ineffectiveness of Washington Consensus type reforms. It is this ineffectiveness that has supported a shift from macroeconomic management to small business development.

3.2.2 Dead Assets

But, what if poor development outcomes are not due to investment levels, but rather due to the ineffective usage by the poor of the assets that they already have? Can these assets be leveraged through a process of formalisation of existing assets? Hernando de Soto (2003) makes a forceful argument answering this question in the affirmative. "Dead assets" – This shorthand description of assets that have little market value without a formal registration process, has become an important descriptor to explain the reasons why despite a good delivery record, inequality remains so high.

The concept of "dead assets" is the foundation of the reforms that de Soto advocates. He argues that the poor have assets that are dead, because they have not been formalised. In other words, the modern capitalist economy requires formalisation of assets (and in fact various forms of registration) for effective participation in markets and the utilisation of assets. De Soto argues that these include areas as diverse as housing, enterprises, transport and land. The economy cannot work for the poor until these assets are included in the system, through a process of registration. Registration makes many things possible, as de Soto argues in an interview with Newsweek:

> *What makes a market economy possible is that people can find out facts about each other and about their enterprises in spite of the fact that they don't have direct physical contact. So the question is, how do you get to know things? How do you get facts? You will find out that most of the facts you want are in property papers. One of the things that developing countries miss is that close to 80 percent of their enterprises are actually not fully recorded as property.* (http://www.newsweek.com/2009/02/19/slumdogs-vs-millionaires.html)

In an immensely readable book, *The Mystery of Capital: Why capitalism triumphs in the West and fails everywhere else* de Soto (2003) applies the policy prescription of titling to a range of areas. Titling through providing title deeds for houses and land, registration numbers for businesses and operating licensing for informal public transport are all cited as examples for intervention, and such intervention supported by case studies.

The central proposition is seductive – if informal markets were formalised, the poor would participate in the economy, generate additional income, access credit and grow their asset base. Ultimately, this provides a path out of poverty, with titling being the starting point. This starting point provides the basis for a change from "dead assets" to assets that can be utilised.

The starkness and simplicity of the proposals developed by de Soto has obviously led to significant criticism, best captured by Jeffrey Sachs (2005) who calls it a silver bullet: a single, one-size-fits-all solution that ignores several important modalities, and fails to recognise contextual variations. The criticism is valid, especially in the South African context where the proposals would not cover the poorest, and not resolve challenges facing households in the gap between subsidised government housing, and traditional starting points for bank loans in the housing sector and with significant blockages is accessing and utilising title deeds (Barry & Roux, 2016; Barry & Whittal, 2016; Lemanski, Charlton, & Meth, 2017; L. Marais, Sefika, Ntema, Venter, & Cloete, 2014)

Titling however remains important, and might be described as "necessary, but not a sufficient condition" for addressing structural poverty. Simply stated, even alternatives forms of ownerships – such as cooperatives and community owned land – requires legal documents. Why then is there such a reluctance to simply register all the property of the poor?

The institute de Soto heads, The Institute of Liberty and Democracy, has written a document specific to the registration of property in Lima that provides an answer to this question. The title is *The War of the Notary Publics* (2007)and explores barriers to the registration of property, including the high cost of a private registration

system. It is instructive to quote from the document, to explain the role played by notaries in maintaining current forms of ownership patterns: as follows:

> *The high costs of public notary services, their overwhelming presence in all matters involving red tape procedures, the excessive professional qualifications in order to be admitted as a candidate to become a notary public, their number (limited and closed), their fees and collections, their lack of accountability for the truth of the contents of the facts that they bear witness to and certify, the finger pointing distribution of opportunities in the association of notaries itself, their hunting grounds in addition to a captive territorial market hampers the poor from using their assets in order to generate wealth.*

The description shows the challenges of the institution, but also the underlying power dynamics between legal compliance and people. De Soto is thus arguing for a system of formalisation that makes registration and compliance easier, and that disintermediates existing costly and administrative burdensome processes. The argument cannot be wished away in South Africa, where the costs for conveyancing and the process of conveyancing all contribute to slow delivery of title deeds.

De Soto has a project of much wider import: capitalism as the solution to developmental challenges. De Soto in *The Other Path: The invisible revolution in the Third World* (2002) provides his most political argument for titling, and points to the dangers of an ineffective capitalism. De Soto adopts a strategy that displaces the currently powerful and seeks to widen access to legal systems and financial markets. Importantly, de Soto argues that interest groups pressure policy-makers to make laws and regulations that favour them, without regard to the broader effects of these measures on society (de Soto 2002:190).

A core concept that he develops is what he calls “redistributive combines”. In *The Other Path* de Soto writes that:

> *There are of course differences between right-wing mercantilism and left-wing mercantilism; the former will govern to serve foreign investors or national business interests, while the latter will do so to redistribute wellbeing to the neediest groups. Both, however, will do so with bad laws which explicitly benefit some and harm others. Although their aims may seem to differ, the result is that in Peru one wins and losses by political decisions. Of course, there is a big difference between a fox and a wolf but, for the rabbit, it is the similarity that counts (2002:239).*

The concept of *"redistributive combines"* provides an important descriptor of why asset ownership exists in the patterns that are observed. For de Soto, this is the result of a system of political networks that make decisions and exclude many through a manipulation of the registration and other processes. These networks of the powerful are described as 'redistributive combines'. The reform of processes he argues would allow for more inclusive economics and warns that the alternative is violent revolution.

De Soto has extended these insights to small business formation and development. The pathway for small business development is fairly straightforward in this approach. A process of formalisation makes 'dead assets' alive, in the sense that they are legally owned and recognised as legally owned. These 'assets' could provide a foundation for:

- legal contracting, and in this case, ostensibly with every other legal entity in the economy.
- removing obstacles for accessing credit from private providers and incentives and subsidies from government.

In so doing, the business is able to enter the formal economy and enjoy the benefits of formalisation.

The idea elicits polarised views. In a society where title to land, business ownership, land, and even intellectual property were once determined by race, the proposal makes intuitive (and in fact, ethical) sense. In the South African context this is a

justifiable interpretation. Yet, de Soto is roundly criticised in the academic literature(Benjaminsen, Holden, & Lund, 2009; Ferguson, 2007; Gilbert, 2002; Goldfinch, 2015; Sjaastad & Cousins, 2009). The most pertinent criticism is that titling does not resolve all impediments to the utilisation of assets, that it confuses use and exchange value of these assets and that the assets do not have sufficient value to move individuals or households out of poverty. In sum, critiques of de Soto are making a distinction between stock and flow of assets and arguing that the stock (say a house or a business) is unable to generate sufficient income flows to support the idea that titling is a simple and successful intervention.

3.2.3 Hard work And Opportunity

The approaches discussed thus far, argues that all that is needed are tweaks and small businesses will flourish. This perspective finds support in attitudinal surveys that cover areas of hard work, and from a perspective from business leaders that markets are efficient and free. This section discusses these perceptions, noting that it creates the perception that all that is needed is hard work, and that such hard work would overcome all obstacles. These perceptions are an important area of reflection, as we proceed to deepen the argument that South African capitalism represents 'bad capitalism', to use the inelegant but accurate parlance of Baumol, Litan and Schramm (2009).

This section starts by locating the topic in a wider storyline of a rags to riches story, and this is followed by salient features of two surveys, and ultimately a discussion on the concept of the 'entrepreneur of the self'.

In South Africa the image of the successful entrepreneur who struggled, overcame obstacles through sheer pluck and emerged victorious has gained prominence. It harks back to the old and oft cited Horatio Alger Myth in the first instance. Named after the author, Horatio Alger, who has been described as the originator of the American dream (Sarachek, 1978; Sullivan, 2014). Alger wrote rag to riches stories after the civil war in the United States of America, with the most famous being *Ragged Dick* (Alger, 2009). His stories are of young men, who through hard work,

persistence, initiative and a dash of daring overcome all odds, and ultimately move up the social ladder.

Alger's stories always have as the hero a boy, a white boy (Moon, 1987). Girls of every colour, and boys other than white boys, are never cast as hero of the story. Moreover, there is doubt that the boys cast as heroes start out poor, but rather experience temporary setbacks before achieving financial success and as a consequence of financial success, a state of virtue. (R. Smith & Anderson, 2004). Alger ties the act of succeeding against all odds, with a process of learning to be virtuous.

In understanding entrepreneurship, this 'rags to riches' story takes on a sceptical and technical sense, asking whether social mobility via business ownership a myth is. A much cited paper is in fact titled *Horatio Alger Meets the Mobility Tables* (Holtz-Eakin, Rosen, & Weathers, 2000b). The wider public policy literature seeks answers to whether income mobility and other social goods find expression in the data, or whether the data shows that income mobility is not being achieved (Hundley, 2008; Nafziger, 1975; Noah, 2012). It is an optimistic, ever popular storyline (Booker, 2006) of rags to riches, that is tested empirically. In many instances, the data suggests the absence of massive social mobility through business ownership and questions whether hard work is all that is needed to succeed in business.

In turn, several important questions emerge:

- Can an optimistic storyline of entrepreneurial success a realistic and beneficial story in the context of an unequal society?
- Or, are policymakers encouraging entrepreneurship because tackling distributional challenges are too difficult and impossible for a range of political reasons?
- Is our national embrace of entrepreneurship – and in turn market-based solutions – merely an escalation of Horatio Alger myth to a national level?
- Or are those questioning the 'massification' of entrepreneurship not appreciative enough of the success stories?

South African's seeming to answer each of these questions to emphasise the importance of hard work, and the possible and feasible dream of social mobility

through business ownership. In fact, South African responses to the *World Values Survey* (Inglehart, R. et al., 2014) are described as 'astonishing', with 30% of respondents (higher than the United States) attributing hard work as the central determinant of success (Pellicer, Ranchhod, Sarr, & Wegner, 2011). In describing this finding as astonishing, Pellicer, Ranchhod, Sarr, & Wegner (2011), compare data from the United States, Sweden and South Africa. . They find that South African values on hard work are even above those of the United States of America. The finding in turn raises a question – why despite the oft cited high level of redistribution via the budget and an apartheid legacy do South African respondents attribute success mostly to hard work?

Business leaders hold a similar view of the economy. The table below provides data from the World Economic Forum annual review of country economies from 2015 and 2017. Business leaders were asked a series of questions, on competition related issues in South Africa. Under each of these questions, South Africa business leaders provide an arguably optimistic picture of South African economy, indicating a view that markets are relatively free and open.

Table 3-1: Responses to World Economic Forum Survey, 2015 and 2017

		South Africa - 2015		South Africa - 2017	
Measure	*Question*	Score	Ranking out of 140	Score	Ranking Out of 137
Intensity of local competition	*In your country, how intense is competition in the local markets? [1 = not intense at all; 7 = extremely intense] "*	5.5	36	4.5	44
Extent of market dominance	*In your country, how would you characterize corporate activity?* [*1 = dominated by a few business groups; 7 = spread among many firms] "*	4.0	48	3.9	52
Effectiveness of anti-monopoly policy:	The question asked was *In your country, to what extent does anti-monopoly policy promote competition? [1 = does not promote competition; 7 = effectively promotes competition].*	5,1	14	4.5	28

Source: (World Economic Forum, 2016, 2017)

The rankings show that South African business leaders rate the economy as being fair and open. South Africa's rating, however, show the rating falling in the direction of a less fair economy, which suggests that even business leaders are beginning to perceive a problem. The reasons for the respondent's views are at best speculative, but feeds into a narrative that the South African economy is one that supports opportunity, and arguably the translation of that opportunity into upward social mobility. In context, South Africa as we have shown above has low levels of established businesses, and cartel behaviour is prevalent across the economy making

the attitudes of South African's difficult to understand. In such a context, one has to wonder why South Africa ranks as highly as it does?

In an effort to understand the attitudes as reflected in these surveys, one concept made intuitive sense. Foucault (2008) refers to a process under neo-liberalism which he calls the 'entrepreneur of the self". There are a litany of interpretations of what Foucault actually means (Dilts, 2010) and a careful exploration is beyond the scope of this paper. However, what matters for this study is a process under neoliberalism that sees a movement of the state away from providing a range of services and goods, and that places individuals in positions where they need to act to achieve life goals. In this process, a process of internalisation of values happen, that leads to the idea of self-sufficiency and reliance on the self-becoming normal.

Entrepreneurship thus becomes a model of all social relations, not just in the economic sphere. For example, the choices of education by parents, or changes in social security are underpinned by the rationality of self-reliance. Furthermore, it takes on the idea of a moral dimension, even a virtuous process, as one is conditioned to see virtue in hard work and providing for oneself. This leads to a curious combination of risk calculations (e.g. starting a business), and the acceptance of reward and punishments as the outcome of these calculations. Foucault is arguing in turn, that agency is constructed without reference to a context, especially one that places limits on the entrepreneur.

Introducing the 'entrepreneur of the self' is to point to the process that Foucault sees as emerging under conditions of neo-liberalism in Western countries. The concept however provides one way to interpret why South Africans interpret the world as requiring just hard work and interpreting the environment as conducive to sustaining the link between hard work and success.

3.3 Enabling Rationale

Those explanations that we have classified as 'atomistic', argue that only smaller reforms are required to support the growth of small business and entrepreneurs. Even in these models, the need to make changes to improve a context for

entrepreneurship is a core feature. The distinguishing factor is that once these changes are made, the current configurations in markets will yield a better outcome. If for some reason, the reforms fail, they are explainable due to a lack of hard work. A closely related view is that inequities in markets require adjustments, specifically an enabling mechanism to support entrepreneurship.

The class of explanations grouped under the heading "enabling" is more explicit on removing barriers than atomistic explanations, and recognises that interactions between small and big players, and between firms and government are complex, situated in context and have power dynamics. Specifically, they do not have a vision of the entrepreneur as an isolated heroic figure but rather one embedded in market relations. Another distinguishing feature is that there is a very close interaction between ideas and practice, and arguments that such learning can scale (i.e. large-scale impact through market interventions).

The class of explanations seeks to resolve "market barriers" and has a more demanding role for the state than atomistic approaches. The literature covered here includes "Making Markets Work for the Poor" or M4P, microfinance and regulatory reforms. These promising features of these models, as we discuss later, face a significant challenge in scaling interventions, because the lens used excludes wider process of market developments and inequality.

3.3.1 Whose Fortune At The Bottom Of The Pyramid?

Whilst de Soto is roundly criticised in the academic literature and praised by many in government, he still remains primarily concerned with social mobility of the poor, and the poor participating in markets. The celebrated author CK Prahalad (2009) is concerned not so much with the poor participating in markets but with realising values from the spending of the poor. Prahalad calls these markets the "bottom of the pyramid", or BOP.

Prahalad's writings argue for a change in the approach of multinational corporations to the markets of the poor. The basic proposition is simple enough – there is an unserved market that provides an opportunity to make profit, and in fact a fortune.

Accessing this market requires changes in the practices of large companies, and specifically how they link up with smaller producers.

In this regard, Prahalad develops an argument for an 'ecosystem of wealth creation' that benefits both small and large producers. The ecosystem of wealth creation is a market-orientated ecosystem. It is worth quoting at length as to what this market-based ecosystem entails. Prahalad contends that:

> *The market-based ecosystem is a framework that allows private sector and social actors, often with different traditions and motivations, and of different sizes and areas of influence, to act together and* ***create wealth in a symbiotic relationship****, such an ecosystem consists of a wide variety of institutions coexisting and complementing each other. We use the concept of the ecosystem because each constituent in the system has a role to play. They are dependent on each other. The system adapts and can be resilient and flexible.*(emphasis added 2009, p. 65)

Prahalad proceeds to describe a range of conditions under which such a symbiotic relationship could emerge. He cites, the sanctity of contracts, building the capacity of the poor to enter into contracts and ensuring that multinationals do not have a significantly higher bargaining position. The thought process is fascinating to watch unfold as the process described is part philosophical and part operational manual. Prahalad, like de Soto, is as much concerned with the how question as the why question and makes for readable and easily understandable ideas.

Prahalad's book is a major and celebrated book and is of particular importance in a line of conservative thinking. In many respects and even though Prahalad does not mention Hayek, he seems to be extending a set of ideas developed by Hayek. Carden (2008) for instance notes, the ideas are similar in the sense of combining freedom and prosperity through markets, and that the market is ideally placed to combine freedom and prosperity. Hayek is in many respects quintessentially conservative, offering a demanding critique of state involvement in planning, and more broadly in life (Hayek, 2001). Hayek motivates for this lack of state involvement, on many grounds, including that the market generates greater and more reliable knowledge. In some sense, Prahalad argues the ways-and-means to capture this knowledge for useful even poverty reducing purposes (Prahalad & Hammond, 2002).

Yet, for all the ingenuity in the proposals developed by Prahalad, several challenges emerge, and criticisms are aplenty. One area deserves special attention, is how Prahalad solves what I would call a 'demand aggregation problem' for smaller businesses. This problem is simply that small businesses are usually unable to aggregate enough demand for product and services, when competing with larger companies. Prahalad solves this problem through linkages between bigger companies and smaller companies, with the aggregation problem being solved by making bigger companies the customers of smaller companies. It is an insight (which might be derived on a different basis) that finds policy resonance across contemporary policy in government (Kolk, Rivera-Santos, & Rufín, 2014). Through solving the aggregation problem in this way, does it open up another problem for small suppliers where buyers are few – in a sense a problem of monopsony? And if this is the case, does it not create conditions for a monopsonic buyer to be in unassailable bargaining position?

In South Africa, the book *New Markets, New Mindsets* provides a local application of Prahalad's thinking (Ismail, Ansell, & Kleyn, 2012). The book provides a set of case studies of the linkages between small and big business, and how these can function to the mutual benefit of both. The insight is important to note, for these examples exist in the context of a pattern of documented collusion and other forms of cartel behaviour in South Africa. It raises a further question, whether examples of symbiotic relationships can be extended across the economy?

The questions that arise from reading Prahalad are thus demanding ones (Karnani, 2007; Pitta, Guesalaga, & Marshall, 2008; Simanis, 2012). The most demanding is whether the strategy being proposed is simply about large companies expanding into underserviced markets and using their size to win markets and extract profits. In turn, smaller companies may receive some share of the spoils, but are equally likely to be wiped out by BOP strategies. Even if terms for small businesses participation yield good outcomes, are there different arrangements that could be viewed as optimal? Differently stated, can the 'demand aggregation' problem be solved in a way that is more beneficial to smaller companies?

3.3.2 MAKING MARKETS WORK FOR THE POOR

One answer, and the most influential one, to these questions are now discussed. An important development in entrepreneurship is the development of a set of ideas grouped under the banner of *Making Markets Work for the Poor* or M4P (Humphrey & Navas-Alemán, 2010). The ideas originated in aid organisations each with variations of the approach. Under the rubric of M4P sits a range of policies and programmes, and a range of methods. In addition, the term suffers from a conceptual overload, with comparisons between various private sector development models being undertaken, and comparisons between M4P and other development ideas, especially those associated with Sustainable Livelihoods models (M. van den Berg et al., 2006). Nonetheless, there is a family resemblance across the ideas and projects gathered behind the banner of M4P.

One description of M4P which provides a useful starting point is an article written by Elliot, Gibson and Hitchins (2008). They describe M4P as:

M4P has therefore emerged from hard-won experience, but it is not a precise science or rigid methodology. Its key features include:

- *A starting point which recognises that the poor exist within wider market systems and that the objective of development interventions is to stimulate those market systems to work more equitably for disadvantaged groups.*
- *A sound understanding of market systems as the basis for all interventions; why they don't currently work for the poor and how they might work more effectively in the future. Market systems are understood as a more realistic and nuanced picture of markets than that of classical economics' emphasis on spot transactions between private actors.*
- *An explicit commitment to sustainability, which focuses on stimulating and aligning the incentives and capacity of local institutions so that they play more effective roles in market systems.*
- *An explicitly temporary, finite role for development agencies, where they do not perform market roles directly, but try to facilitate indigenous market actors to play more effective roles in market systems.*
- *Intervention approaches, which are sensitive to local, market conditions and appropriate for objectives of sustainability.*

The authors continue to describe the M4P as consisting of (1)A worldview or rationale for thinking about poverty reduction; (2) a framework for understanding the market systems in which the poor exist; and (3) Guidance for intervention practices.

Conceptual clarity on the meaning of M4P is however difficult due to the perpetual emergence of terms to describe market development processes and various interventions. Furthermore, there are a slew of 'new' approaches, which mimic M4P but add something or the other. The field is thus characterised by high number of conceptual shifts, which unfortunately do not signal significant changes. Instead, a process of labelling and renaming fairly similar processes and activities makes conceptual clarity tricky.

Even with these unnecessary additions of complexities, the M4P approach raises several important issues for the development of small business and entrepreneurship.

First, the core intervention mechanism is the market itself, and finding ways for the market to work better. The intervention channels run both ways:

- From market to people; and
- From people to markets.

By placing the market at the centre of interventions, the operational lens and interventions are thus made explicit. The market is used as means to solve a diverse range of problems, ranging from gender (Sahan & Fischer-Mackey, 2011) to land (Mutambara, Darkoh, & Atlhopheng, 2015).

The idiom *if all you have is a hammer, everything looks like a nail* might however apply here. If all your toolbox has is a set of market-based interventions, everything might look like a market related problem. At first blush, this criticism may seem too generalised and in fact unfair. However, the M4P explicitly justifies its approach on the basis of integrating poverty reduction into market reforms. Yet, poverty is multidimensional and poverty traps may exist, that cannot be resolved by market based strategies envisaged in the M4P approach (Meyer-Stamer, 2006).

Second, the M4P approach takes a range of private sector development approaches and seeks ways to extend and recalibrate them to focus on poverty reduction. In doing so, it may inadvertently shift attention away from the full income or wealth distribution, to only those under the poverty line. Bringing poverty into the analysis, may reframe structural problems of a lack of something, without understanding the reasons for the existence and intergenerational transmission of poverty.

Proponents of M4P would not take such a criticism lightly, as they argue that their approach brings local context into the planning and development of approaches. There is indeed evidence of a range of tools that seek to precisely do this, and in participatory ways. The criticism however stands in that M4P could reframe problems more accurately described as ‘inequality traps’ not even as ‘poverty traps’, but as market opportunities.

An illustrative example is a review of the FinMark Trust in South Africa work on improving access to financial services. The review describes an important approach to working with stakeholders, and a case study on undertaking advocacy and evidence-based policy making in context of disagreements. However, they define the problem as:

> *concerned about the weak sustainability and limited scale of impact of conventional approaches - for example, building a new organisation focused on finance for the poor (the poverty banking approach) – FinMark's rationale grew from the belief that the fundamental problem was the disconnect between the supply-side (formal, large-scale) and the demand-sides of the market (informal, low-income). Their task was about understanding and addressing the reasons for this disconnect – the systemic issues underpinning the market's existing situation (Gibson, 2006).*

This may in fact be an accurate description of the problem, but would connecting service providers to the underserviced be described as 'systematic' or about extending markets for current providers? The literature on entrepreneurship for instance, has a slew of models focussed on different access to credit based on initial wealth holdings – that are discussed in the next section – which would define this problem in different terms, as a type of inequality trap. If indeed it were an inequality trap based on credit rationing, an attempt to link one side of the market with the other (however underserviced) would in fact extend services, but replicate not only market power and dynamics, but reasons why some have been excluded from finance for their businesses.

Third, in South Africa an important concept is that of the "access frontier'. Porteus (2005) provides a description of the basic idea, which is to extend the usage and access to services and products. The quote below is from a paper offering guidance on the usage of the concept, and is quoted at length:

> *The access frontier approach segments the market for a particular product into five groups: those who now use it, those who could have it but don't want it, those who are within reach of the market now and in the foreseeable future, and finally, those outside of the reach of the market because of their low income.*
>
> *More specifically, the access frontier approach focuses on how to increase the proportion of the eligible population who can access a product. This requires understanding the reasons for non-usage and defining effective access carefully. In particular, the approach seeks to identify those potential users in the 'supra-market zone', who are not able to use the product because of insufficient income and are therefore beyond the reach of direct market solutions in the medium term.*
>
> *Based on the segmentation of current users and non-users, three market policy zones are identified: the 'market enablement zone', between the current usage level and current access frontier; the 'market development zone' between the current and future access frontier and future access frontier; and 'redistribution zone' of people in the supra-market group. This distinction enables policies for state intervention to promote or accelerate usage to be correctly matched with the state of market development, and in particular, not to crowd it out. Private providers should also adjust their long term strategies based on the market development trajectory.*

The reason for quoting is to raise the issues of inequality in markets, and the potential for new entrants to build successful businesses. As a concept it includes the entire distribution of users, and as such at least tackles the entire income distribution, specifically the income available for different users. However, it never tackles the nature of the industry providing the services in terms of concentration ratios, and as such focusses almost exclusively on how existing companies can serve poorer customers. This gap is a significant one, from a market development perspective, as surely ownership matters in a process described as 'market development'. It matters for a related reason – using a tool such as the access frontier creates a measure of success based on usage of this or that good or service and may deem the project a success. It can do so without exploring impacts on employment, ownership and a range of other important indicators. At the extreme, extending

services to the poor may run in tandem with rising concentration levels, as large companies increase market shares.

3.3.3 Survivalists And Thin Markets

An important feature of the NDP proposals is that job creation would be driven primarily through small business thriving in local markets. This section starts by questioning whether survivalist businesses would be able to grow significantly to a point where employment occurs.

South Africa has a large number of informal businesses, and the majority of these earn low incomes from these businesses. Banerjee and Duflo (2011) provide an important model to understand why survivalist businesses remain small. They describe situations where additional investments in a business do not make sense.

Banerjee and Duflo make a distinction between marginal return and the overall return. The marginal return describes the return on each Rand invested in the business, while the overall return is total revenue net operating expenses. The returns when measured in marginal terms are high, partly because the size of the business is small. However, this does not translate into a significantly larger profit, certainly not enough to invest larger amounts in the business. The implication here is that markets for survivalist businesses are often small and assuming that increasing investments will yield enough for households to exit poverty. Increasing investments in such a circumstance increases risk, and often requires the payment of loans and interest on these loans.

The reasons for such a situation might however not be related only to the accounting calculation, and Banerjee and Duflo (2011) discuss a range of additional issues. One issue that is of significance is the nature of the markets that survivalist businesses operate in. The South African literature on survivalist businesses emphasises the lack of demand for products provided (Ladzani & van Vuuren, 2002; Neves & Du Toit, 2012; Philip, 2018; Woodward et al., 2011) . The reasons for the lack of demand could be markets with many sellers (often of undifferentiated products) to markets where only a few transactions are possible, which is the case in many rural areas. The parlance in South Africa is to describe these markets as ‘thin markets’. The usage of

the term denotes low demand for a variety of reasons, including too many sellers and too few buyers. The more formal definition of 'thin markets' focusses only on fewer transactions. An operational guide for 'Making Markets Work for the Poor' or M4P defines "thin market":

> *"where limited numbers of investors and entrepreneurial firms within the economy have difficulty finding and transacting with each other at reasonable costs."*

Thin markets – in the parlance that is used in South Africa – thus represents a challenge to growing businesses to an extent that assets of the business owner are increased to an extent that employment is possible. As described by Banerjee and Duflo (2011) it also represents a trap – whether due to accounting calculation, a behavioural response or even just reading market conditions – where small business remains small over a period of time and are unable to grow significantly.

Empirically, the argument has strong backing as a survey of businesses not registered for VAT provides a rich set of data. This data for instance shows that in 2013:

> *Almost 70% of people who start an informal business do so because they are unemployed and have no alternative source of income.* (Statistics South Africa, 2014)

This finding relates directly to the idea of thin markets because these business owners were not seeking out an opportunity, but nonetheless work hard to earn often meagre returns. In 2013 more than 50% had a turnover of R1500 or less in the month prior to the survey, and less than 10% of businesses made net profits of more than R6000. In turn, low returns in survivalist businesses translate into low levels of purchasing, this creating conditions for reinforcement not only for the business owner, but the market and communities they function in.

An important set of experiments aimed at making markets work for the poor, were the proliferation of microcredit projects. Based on the apparent success of the Grameen Bank in Bangladesh (Yunus, Moingeon, & Lehmann-Ortega, 2010) a proliferation of projects providing small amounts of credit often on reasonable terms emerged across the globe (Roodman & Morduch, 2014). For a while, the enthusiasm around microcredit programmes could be described as irrational in that they were

vaunted as the most effective solution without substantial evidence to support such a conclusion (Banerjee, Chandrasekhar, Duflo, & Jackson, 2013; Hermes & Lensink, 2011; Morduch, 1999). More recent evidence suggests that an asset transfer – akin to a bequest, but a small bequest – has greater success in supporting entrepreneurial development(Cagetti & De Nardi, 2006; Holtz-Eakin, Joulfaian, & Rosen, 1994; Masson & Pestieau, 1997).

Survivalist businesses will be unable to either (a) grow rapidly and provide the owner with a way to trade out of poverty and (b) create new employment opportunities, is the overarching impression from this review. Yet, despite this understanding, survivalist businesses remain high on the policy agenda.

3.4 Relational Rationale

The set of approaches describes as "Enabling" sought to remove barriers but does not yet seem to have a consistent view on how more democratic forms of ownership are developed. In terms of policy prescriptions, an emerging insight is micro asset transfers trump microcredit. In terms of outcomes, it has further been shown that approaches seeking to extend markets can occur with incumbent firms, often at the expense of new entrants and smaller businesses. This raises the question, is it possible to focus not so much on supporting the agency of entrepreneurs, but rather changing the overall context? The approach we discuss next, called 'relational' offers one answer to this question.

The relational rationale tackles a contradiction. On the one hand, there are several policy instruments; from industrial policy to addressing credit constraints; that promise much and have delivered good outcomes in other contexts . On the other hand, there are doubts that the entrepreneur matters as a unit of analysis, and that the possibility to support development may lie in other areas, including a social compact between big business and government. In a sense, it is all 'relational', but as we discuss the themes we find a rich literature that argues for deeper changes in the economy.

This approach is called relational because it is explicitly concerned with the relationship between small business and a variety of developmental outcomes,

specifically economic growth, employment creation and asset building. The literature in this approach is vast. This section starts with two approaches that cast doubt on whether entrepreneurship is as central as some make it out to be. These criticisms problematise the purported virtuous link between growth of business ownership and a range of good social outcomes. This is followed by a discussion of a major area of work on occupational choice and credit rationing, which locates entrepreneurship within an explanation of why inequality persists. Finally, this section discusses sectoral industrial policies .

3.4.1 Binding Constraints And Sigma Society

This section discusses two seemingly distinct contributions to the literature. The first is the argument developed by Wim Naude (Zlotan Acs & Naude, 2012; Naude, 2010) that entrepreneurship cannot be viewed as a binding constraint to growth. The second is pathfinding contribution by Adolfo Figueroa (2015), that provides a model and understanding of why inequality persists, and an understanding of self-employment.

Naude provides a review of development thinking on entrepreneurship. In so doing he argues that in the management literature the view that the entrepreneur is central to economic growth is based on weak evidence. Specifically, he suggests that the work has been largely derived by the insight by Schumpeter (Schumpeter, 1968, 2010) that the entrepreneur plays the role of an innovator, and creates progress through this innovation, which ultimately replaces old technologies, often called 'creative destruction'. Schumpeter in later writings indicates that big corporations and not small startup businesses are more likely to contribute to innovation (Ise, 1995; Malerba & Orsenigo, 1996). Naude argues that the research in this vein is important, but does place the entrepreneur as a binding constraint, and by extension as a driver of entrepreneurship.

The reason for this line of argument is that entrepreneurs operate in a specific institutional context. Naude argues that the binding constraints are to be found in understanding the reasons for institutional weakness in these contexts (Daron Acemoglu & Robinson, 2013). The argument that it is institutional weakness that

stymies efforts for economic growth rather than a lack of entrepreneurship is substantiated through various evidence from management and development economics literature. The most pertinent is that developing countries have high levels of entrepreneurship – even if most are self-employed and/or survivalist – and that outcomes like growth and jobs are the result of many factors, not just entrepreneurship. Naude cautions that:

> *By seeing these as the outcome of individual 'entrepreneurship' may obscure the many rich organizational forms through which human societies in different places and times have solved the provision of these goods.*

It is this advice, that is applied in this paper. Nonetheless, Naude argues that recent advances in development economics, and specifically those dealing with institutions, would benefit from including the entrepreneur. At the risk of over-simplification, Naude argues that by studying the entrepreneur, evidence of institutional weakness can be uncovered. To be clear, in other writings Naude develops a set of useful roles that entrepreneurs play, so his proposals for focussing on institutional weakness could be interpreted as understanding under which conditions are entrepreneurs able to play these roles (Gries & Naudé, 2009; Naude, Amorós, & Cristi, 2013; Naudé, Gries, Wood, & Meintjies, 2008).

Adolfo Figueroa (2015) tackles a related question by developing a model of why inequality persists. Figueroa discusses three types of societies, with what he calls a 'sigma society' representing a case of inequality that is durable. Figueroa describes sigma society as compromising capitalists, government, skilled workers (called y-workers) and unskilled workers (z-workers). In this grouping, three groups of business owners are observable: Capitalists, self-employed y-workers and self-employed z-workers. These business owners are, however, unequal in both political, cultural and economic capital. Moreover, these outcomes are a result of colonial rule, which created stark differences in asset holdings for these three class of business owners.

The model proceeds to argue that the preference of both y-workers and z-workers is for employment by the capitalist. For y-workers that wage rate is a premium to z-workers. A second preference is to be self-employed for both y-workers and z-workers. The third option, unemployment, is the least preferred option. The model thus far reads as common sense. Figueroa however then starts to integrate aspects of various types of capital, access to insurance and credit markets and educational outcomes into an integrated whole, that creates a multiplicity of channels for capitalists, z-workers and y-workers not only retaining their positions in the wealth distribution, but a process of concentration of wealth. Figueroa thus argues that a process of self-reinforcing social and economic exclusion plays out, with the implications that routes to development are limited. The closure of these routes to development play out at multiple levels, including unequal access to education and financial services and unequal power due to alliances between governments and capitalists (or in fact between government and y-workers). The reading is pessimistic of many interventions and suggests that the resolution is not in this or that policy option, but rather in political struggle. Figueroa does advocate several policies proposals but argues that these proposals require a context that supports distributional change.

So like Naude, Figueroa is arguing that institutional context and making changes are more important than the investment decisions of business owners, whether they be capitalists, y-workers or z-workers. The channel that Figueroa describes is however much more demanding and pessimistic than anything Naude develops, and it is so for a reason. Initial conditions shape future outcomes, making the entrepreneur a weak conduit for individual mobility for y-workers and z-workers, let alone resolving wider economy wide problems.

In sum, the writings in this section suggest that:

- the entrepreneur may not be able to contribute significantly to economic growth; and
- entrepreneurial activity fails to break unfair and unjust initial conditions.

3.4.2 Occupational Choice And Credit Rationing

Here our focus turns to the theme of occupational choice, which raises questions as to why some become entrepreneurs. The literature focusses on the interactions between current wealth holdings and the possibility of becoming an entrepreneur. Unlike the lens adopted by Naude and Figueroa which is concerned with wider developmental outcomes of growth and inequality, this line of research is focussed on interactions between financial institutions and entrepreneurs. A set of interactions is explored below and asks why some become entrepreneurs and others do not. In the parlance of the studies examined below, under what conditions is entrepreneurship seen as occupational choice?

The literature is focussed on understanding how entrepreneurs bundle resources together to start a business, specifically whether they are able to access a loan. One reason why an entrepreneur may not get credit to start a business, is that the bank does not know enough about the entrepreneur and the business. Stiglitz and Weiss (1981) argue that banks do not possess the information needed to determine the risks of the projects, resulting in banks borrowing less. The bank's strategy is to keep interest rates below the market clearing level but to be selective in giving out loans. This is described as credit rationing. It makes sense from the banks perspective, as it offers favourable terms to projects that have a high possibility of success. This argument has been highly influential to support more credit support to entrepreneurs from government, as it is arguing that many potentially viable projects are not funded. In a sense, banks under-invest in entrepreneurship relative to what would be a good outcome for society.

Banks resolve its inability to fully understand risk through several means. The literature indicates that the provision of collateral (Gutiérrez-Nieto, Serrano-Cinca, & Camón-Cala, 2016; Herkenhoff, Phillips, & Cohen-Cole, 2016; Sannikov, 2007; Sanyal & Mann, 2010), evidence of contracts with suppliers; especially larger suppliers (Fabbri & Menichini, 2016; Moro, Fink, & Kautonen, 2014), and even psychometric testing are used to understand risk (Laher & Cockcroft, 2013). Importantly for this study, in resolving a problem of risk identification, banks seek ways to reduce risk, often in terms of financial surety.

However, informational asymmetries may yield a different result. De Meza and Webb over a series of articles start by arguing that the ablest entrepreneurs are not accurately identified by banks (de Meza & Webb, 2000; Meza & Webb, 1999, 1990, 1987). As banks cannot discriminate between able and not-so-able entrepreneurs, the ablest entrepreneurs subsidise not-so-able entrepreneurs, as the bank's loan portfolio is treated as a pool of projects. The effect is that projects unlikely to succeed are included in the portfolio of debt issued by banks. In fact, banks will tend to overinvest in that too many projects are undertaken, with the hope that more good bets have been made than bad bets. This has the outcome of attracting the not-so-able to apply for credit. De Meza and Webb in fact argue for deposit tax as a way to discourage the least able to apply for loans, and in so doing provide a way to resolve the challenge of identifying the ablest entrepreneur. The policy implication is counter intuitive, better entrepreneurial outcomes are possible and probable through providing less credit. Unfortunately, De Meza and Webb never adequately unpack what or who is an able entrepreneur.

The models of informational asymmetries do not at first resemble arguments for an inequality trap, but a wide literature on bias in bank loans suggests that resolving informational asymmetries have distributional outcomes. The literature shows that successful loan applications are often correlated with geographic areas (Frame & Woosley, 2004)),race (Blanchard, Zhao, & Yinger, 2008; Blanchflower, Levine, & Zimmerman, 2003; Cavalluzzo & Wolken, 2005) or gender (Bellucci, Borisov, & Zazzaro, 2010; Blake, 2006; Fay & Williams, 1993) of the applicant.

Evans and Jovanovic (1989) are more explicit in making the link between wealth of applicants and the availability and size of the loan. The channel is that entrepreneurs applying for a loan already have a financial constraint, but banks often require collateral. Poorer entrepreneurs would thus face a liquidity constraint as they are unlikely to have the assets available to satisfy collateral requirements. In such circumstances, richer entrepreneurs would have a higher prospect of getting a loan as they would be more likely to satisfy collateral requirements. The channel is simple enough to understand, but this has not stopped economists from criticising the

model as not explaining why the results are obtained. The criticism is overstated, as the logic makes sense, and several extensions to the model provide further support for the hypothesis and extensions (Cressy, 2000; Fairlie & Krashinsky, 2012; Xu, 1998).

Galor and Zeira (1993)and Banerjee and Newman (1993) tackle the links between occupational choices and credit availability. While these papers have different approaches, they reach a similar conclusion. Due to credit market imperfections, the choice of switching from employment to starting a business is limited. Here again, imperfections are those listed above, including and especially collateral. The decision to provide or not provide credit to start a business, or maybe even a student loan, has potentially intergenerational consequences. In a more recent paper, Ghatak and Jiang (2002) review and simplify this approach, and indicate that initial conditions affect which equilibrium the economy converges to.

Thus far, the banking sector assumes interest. In Islamic economics, interest is forbidden, but loans are permitted. Islamic scholarship on the approach is focussed on a contrast between interest-based economics – often termed Western – and Islamic economics, with Islamic economic systems being regarded as socially more just. Hasan (2008) however indicates that credit provision remains an unresolved issue in Islamic economics and has suggestions on how to proceed. The evidence across the literature in respect of banking system providing opportunities to switch to entrepreneurship or undertake an investment under Islamic banking provides some indicators of the possibilities. Scholars argue that non-interest credit extension is possible, even desirable, and argues the point from a distributional perspective, arguing for risk sharing enterprise formation as a solution to support a range of developmental outcomes, including widening opportunities to start a business(Elgari, 2003; Kabir, Worthington, & Gupta, 2015; Siddiqi, 1983; Wajdi Dusuki, 2008).

The implications of access to credit as an impediment or a catalyst for growing a business is important. In a sense, the South African government programmes reviewed tend to identify credit provision as a viable resolution to the problems facing entrepreneurs. The literature suggests credit rationing as a plausible

instrument for hindering the convergence of incomes and assets. In other words, access to credit matters for who becomes an entrepreneur.

3.4.3 Sectoral Industrial Policy

The argument that credit is a major impediment to selection of entrepreneurship is a theme taken up in South Africa's approaches to industrial policy. The usage of the term 'industrial policy' in South Africa is somewhat confusing as it does not only refer to manufacturing, but rather value chains. The usage is somewhat confusing, as it is common to hear people argue for example for a 'tourism industrial strategy' when what they are arguing are for is a sectoral economic strategy. Nonetheless, the conceptual widening of term industrial policy is in itself important.

The idea of industrialisation being central to economic development has a long history in development economics. Starting from Rosentein-Rodan (1943, 1961)who makes a good argument for state role in economy from the perspective of improved coordination.

In contemporary South African usage, the term industrialisation is viewed as a response to a process of deindustrialisation. The argument is significant because the bases for industrial policy, is located in the past. Once upon a time, South Africa had greater industrial capacity and today that capacity is less. In response, government needs to introduce policies that respond to the reasons for this decline. The approach has a linear take on time, and an optimism that government can support a process of reversing to a period where industrial capacity was more.

Why would one want to look backwards given the rate of technological advancement? The shift from primary production to manufacturing or more widely secondary production is viewed as a developmental process that is a requirement for reaching wider economic goals. Specifically, the underlying argument is that countries must go through a process of industrialisation to reap the benefits of higher employment at relatively high wages. The decline in employment in manufacturing is thus concerning because jobs are lost, and the reduction in output of factories worrying because they are the impetus for rapid economic growth. Deindustrialisation matters

in this sense because the proverbial engine in the economy is being ripped out and new sources of growth and employment growth are not being created.

Amongst those arguing that industrialisation is a major developmental problem three distinct policy options emerge. First, the dominant perspective is that the process can be reversed in the sense of rebuilding industrial capacity. Such an argument occurs in many and diverse contexts. Hersh and Weller, (2003) for example develop these arguments in the context of the United States of America, and Palma(1984, 2000), makes the argument Chile. The policy prescriptions hinges on government interventions, usually policy instruments associated with trade and tariff policies. The intent here is however not to replicate what once was, but rather to rebuild industrial capacity in areas in which the country has a competitive advantage. This argument brings in the state, which would need to provide the coordination, financing mechanisms, manage tariffs and seek to reduce input costs. The aim is to create competitive and productive industries in sectors that are deemed competitive and create employment. The Industrial Policy Action Plan (IPAP) in fact is premised on the understanding that restoring industrial capacity is a good developmental outcome in South Africa.

Second, deindustrialisation cannot be reversed in an employment generating manner. This is arguably the case in the NDP suggestions that of the 90% of jobs created by small business the majority will be created in the services sector. The NDP obviously supports efforts to reverse deindustrialisation and support investment in manufacturing. However, the NDP sees such investments as supporting economic growth, not as a source of employment growth. The logic implicit in this reasoning is that services would be labour intensive, while manufacturing would be capital intensive.

Third, new technologies offer policy options rather than focussing on traditional industrial activities. The new ways of creating products and services reduce the advantages of scale, and thus support running profitable smaller factories. In turn, the proliferation of smaller factories would support large scale employment growth. The potential to create jobs using new technologies should however not be overstated, as technological change comes with job destruction. Even if one is

circumspect about the net job creation potential of new technologies, the cost reductions in prototyping and new supply chains make this an important area for further enquiry.

Technologies such as 3D printing have reduced the cost of prototyping parts, components and even new products significantly (Bai, Liu, Wang, & Wen, 2017; Bogue, 2013). Coupled with a move towards more open sourced designs, the potential to respond to deindustrialisation might not be trying to create large factories, but rather smaller ones that undertake business on technologies called Web 2.0 (Avgerou, Li, & Poulymenakou, 2011), or under the umbrella term Fourth Industrial Revolution (Maynard, 2015; Schwab, 2016).

However, others argue that deindustrialisation is in fact not a problem. It is rather simply a reflection of a process of development that reflects the maturing of the economy. In some senses, it is viewed as progress, as a transition from secondary to tertiary sectors of the economy. This perspective is however mostly applied to developed countries (Kutscher & Personick, 1986; Rowthorn & Ramaswamy, 1999).

An issue that remains is whether industrial policy has any relationship with small business and entrepreneurship. Here again the literature draws linkages between small business and industrial policy that are context specific. One strand in the literature argues that scale of production is needed to support economic growth, and this requires large firms. This is the case in South Korea where large conglomerates control large sections of the economy (Connolly & Yi, 2009; Kim, 2014; C. H. Lee, 1992; Rodrik, 1994). However, in South Korea and other East Asian countries the supply chains into these conglomerates provide opportunities for smaller companies to participate in value chains (Amsden, 1992; Chu, 2016; Jacobs, 2000) . The examples of South Korea indicate a set of relationships that both reinforce concentration but provide opportunities for smaller companies.

Another stand of literature argues that small businesses can and should be included in industrial policy. The literature highlights a context of changing technologies and incubation support (Masutha & Rogerson, 2014), and the importance of diversity in value chains (Freguin-Gresh & Anseeuw, 2012) , and the potential for employment

growth (Kesper, 2001). A South African variant is that of the concept of "little black industrialist" to quote a popular phrase. The term signifies a beneficiary of industrial policy on the bases of race, but also based on the size of the firm. The intent being to ensure that policies do not benefit large companies with passive BEE holdings (Freund, 2007), but rather that this involves productive investment, by blacked owned companies, that are small.

One way to achieve industrial production by small companies is the so-called Emilian model, named after the Emilia-Romagna region in Italy. The model is described in the following terms by Rinaldi (2002) as:

> *In the early 1980s the development of Emilia-Romagna drew wide attention as a case of successful industrialisation based on small and medium-sized firm clustered in industrial districts intermingled with social cohesion and integration assured by the hegemonic role played by the Italian Communist Party (PCI) in the region.*

The intent was a production process that was largely collaborative with different companies responsible for different aspects of the product. A collaboration in an artistic sense to produce goods, might be the idyllic reading of this approach. Doubly so as the products are produced not just through collaboration, but often as part of cooperatives. The model seems idyllic, however, empirical work in the region suggests good developmental outcomes. Firms in industrial districts across the globe are as likely to export as small firms outside these districts (Markusen, 1996), show resilience to external shocks and are able to continue production (Guerrieri & Pietrobelli, 2004), unemployment remains low in these areas and a that there is a high standard of living. However, doubts remain on whether these models are replicable (Camuffo & Grandinetti, 2011) or whether workers benefit (Murray, 1987).

This model of organising industrial production finds resonance in ideas around the creation of agri-parks and Special Economic Zones (SEZ). The intent is to cluster small companies together in ways that support production and support a transition towards agro-processing and greater coordination in industrial production.

3.5 HOLISTIC RATIONALE

The links between entrepreneurship and economic growth and entrepreneurship and employment creation described above are thus not on as firm a footing as suggested in the NDP. The perspective we have described as relational raises a range of challenges facing entrepreneurs, and that success and mobility is related to a wider context. And even in such a context, it is not always small business that is viewed as being the best route to employment growth and technological advances. The policy suite is much wider, with the instruments of industrial policy being advocated.

The challenge in a context like South Africa is that even a well-resourced industrial policy would come up against a process of historical reinforcement of wealth. In such a context, wider structural changes are needed. In South Africa, this has led to a series of calls under the banner of "radical economic transformation" (RET). The policies argued for in the RET version are mostly covered in what we have categorised as "relational". However, polices such as nationalisation and expropriation without compensation are included under the banner of RET, which are more radical proposals. The proposals deemed radical however often have an explicit ethical motivation of redress, but lack rigorous motivations rooted in improving developmental outcomes. In sum, the RET perspective raises a conundrum between redress of the past, and the challenges of creating wealth and employment creation. An adding to doubts of RET, is that many of the leading advocates have been implicated in grand corruption, that we call state capture.

This section explores three types of arguments that can be considered holistic or structural in nature. These policies argue for wider systemic changes in the economy. The first set of arguments concerns those described as institutionalist explanations, before looking at the role of state as an entrepreneur and arguments around state capture. The next set of arguments concern those emphasising the importance of redistribution as a precursor for development. A final note is provided that describes a set of policies that are described as predistribution.

3.5.1 INSTITUTIONAL EXPLANATIONS

Contemporary institutionalist explanations counterpoise 'good institutions' against 'bad institutions'. Importantly, most explanations adopt this binary system of 'good institutions' and 'bad institutions' as an explanatory tool. Examples include Baumol, Litan and Schramm (2009) making a distinction between 'good capitalism' and 'bad capitalism'. In another example, Acemoglu and Robinson (2013, 2009)create a categorisation of 'extractive /inclusive' institutions. The comparative nature of these binary positions is important to note, because they provide alternatives and policy recommendations. This section starts by discussing what is meant by an institution, before discussing Baumol, Litan and Schramm description of four types of capitalism, as well as the popular approach taken by Acemglou and Robinson . Finally, some major criticisms of institutionalist approach as it relates to small business are discussed.

The most widely cited definition of institutions is by Douglass North (1990, p. 3) who writes:

> *Institutions are the rules of the game of a society, or, more formally, are the humanly devised constraints that structure human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic.*

This definition has however been augmented. Hodgson (2001)in a discussion on what institutions are draws on older works by Veblen and Commons. Hodgson defines institutions as follows:

> *Essentially, institutions are durable systems of established and embedded social rules and conventions that structure social interactions' (page 295)*

One of the most important, and yet neglected, insights in the literature on institutions and economic development is that rules occur at different levels. Polski and Ostrom (1999)) argue that:

> *Whenever we address questions about policy change, we must distinguish three levels of rules that cumulatively affect the actions taken and outcomes obtained in any policy situation (Kiser and Ostrom, 1982). The first level is the operating level. Operating rules affect participants' day-to-day decision making in specific political and economic settings. The second level is the collective choice level. Collective-choice rules determine who is eligible to participate in activity affecting the operating level and how operating rules may be changed. Similarly, constitutional rules determine who is eligible to participate in crafting collective-choice rules and how these rules may be changed.*

At the risk of gross simplification, institutions resemble the 'rules of the game' and can either serve developmental purposes or not. The intervention by Polski and Ostrom however provides a lens through which policies can be better understood and evaluated. This insight is for instance used later in the discussion chapter to describe the 'reluctant tactical state'. Here our focus is on exploring the implications of major institutional approaches and the implications for small business.

The most prominent argument in an institutional vein is that developed by Acemglou and Robinson (2012) who create a distinction between 'inclusive and extractive institutions'. Acemglou and Robinson define inclusive institutions as:

> *Those that allow and encourage the participation by a great mass of people in economic activities that make the best use of their talents and skills and that enable individuals to make the choices that they wish.*

Extractive institutions on the other hand, are

> *designed to extract incomes and wealth from subset of society (the masses) to benefit a different subset (the governing elite).*

They continue to develop the analysis through a set of typologies, where inclusive institutions resemble liberal democracy, and extractive institutions other forms of governance. For instance, Acemglou and Robinson (2013) argue for property rights as central to inclusive institutions, yet countries like China and even India do not have Western style property rights but have prospered and experienced high levels

of economic growth. The approach taken by Acemglou and Robinson thus seems less applicable to a South African context at first reading. However, the usage of concepts such a *credible commitment* (to indicate the level of support and commitment to an inclusive institution) provide an informative account of the impacts of colonialism on development outcomes today. Overall, however the arguments tend to equate inclusive institutions with a set of standard lists described as liberal democracy or in a more demanding reading neo-liberalism.

Baumol, Litan and Schramm (2009) provide an accessible and intuitive take on the broader genre of 'institutional' perspectives that deals with some of criticisms of the approach taken by Acemglou and Robinson (2012). Baumol, Litan and Schramm seek to distinguish between 'good capitalism' and 'bad capitalism'. They create a typology of types of capitalism which are summarised in the box below to provide the analytical framework for their arguments.

Box 3-2: Types of capitalism by Baumol, Litan and Schramm

Type of Capitalism	Description
State-Guided Capitalism	Government decides which sectors shall grow. This type of capitalism is found in many countries but has been most common in Asia and Latin America. Initially motivated by a desire to foster growth, this type of capitalism has several pitfalls: excessive investment, picking the wrong winners, susceptibility to corruption and difficulties of ending support when it is no longer appropriate.
Oligarchic Capitalism	Differs from the state-led variety largely in the motivations of its leaders. The oligarchic variety is oriented towards protecting and enriching a very narrow fraction of the population, and perhaps even the ruler. Economic growth is not a central objective, and countries with this variety have a great deal of inequality and corruption.
Big-Firm Capitalism	Big-firm capitalism is a variety that takes advantage of economies of scale and network effects. This type is important for mass production of products, but although its firms have research and development capabilities, these are not central, and big firms often lose their competitive edge and engage in rent-seeking.
Entrepreneurial Capitalism	is the kind that produces new breakthroughs like the automobile, the telephone and the computer. In which small and innovative firms are significant. Think the U.S., Ireland, Taiwan and, increasingly, the United Kingdom. Forming a company is easy, socially useful entrepreneurship is rewarded, institutions provide incentives for innovation and growth -- a catch-all that encompasses everything from openness to trade to sound bankruptcy laws to effective antitrust regulation.

Source: Adapted and based on (Baumol et al., 2009)

Critically, Baumol and co-authors argue that the best form of capitalism is not any of these ideal types, but rather a combination of entrepreneurial capitalism and big firm capitalism. Baumol, Litan and Schramm argue that innovations are the product of new firms, but that big firms are needed to mass produce and market them. They argue thus for a division of responsibility between entrepreneurs and big firms. Of importance here is that some combination between small firms and large firms as it features prominently in South African economic policy proposals.

Baumol and co-authors argue that the rules in each of these different societies produce different outcomes, sometimes beneficial outcomes for small business but more often excluding entrepreneurial capitalism. They argue that the combination of big capitalism with entrepreneurial capitalism yields the highest and most sustainable rate of economic growth, and in fact yields overall better outcomes in terms of jobs and opportunities. In other societies, growth is hindered crucially by the structure of markets in oligarchic capitalism and state-guided capitalism suffers from the selection of winning industries and over-investment in wrong types of infrastructure. Institutions in this sense matter, because the rules create a context that either supports or limits entrepreneurial endeavours.

3.5.2 State Capture

Institutional explanations argue for a change from one type of institution to another. The changes are from 'bad' to 'good', from 'exclusive' to inclusive'. In South Africa, the concept of "state capture" has emerged as a particular type of 'bad' or 'extractive' institution. The term originates in an article by Hellman, Jones and Kaufmann (2000) with the *Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition*. This original article on state capture focuses on countries transitioning from communism to capitalism and provides an important understanding of corruption. In this analysis the authors develop the idea of a 'capture economy' which is described as:

> *In the capture economy, public officials and politicians privately sell underprovided public goods and a range of rent-generating advantages "a la carte" to individual firms. In the capture economy the 'captor' firm derives significant private benefits at an enormous social cost to the overall enterprise sector.*

The authors continue to make a distinction between 'state capture' , influence and 'administrative corruption'. These are described as:

- **State capture** with firms shaping and affecting formulation of the rules of the game through private payments to public officials and politicians.
- **Influence** is akin to state capture but without recourse to payments.
- **Administrative corruption** "petty" forms of bribery in connection with the implementation of laws, rules, and regulations.

The role of firms in a 'capture economy' provides important insights. Hellman, Jones and Kaufmann in a follow up article continue to distinguish between large incumbent firms on the one hand, and new entrants. They argue that new entrants choose state capture option as a response to the position of influence enjoyed by large incumbent firms(2003). They write in the original article in 2000:

> *Large incumbent firms with formal ties to the state tend to inherit influence as a legacy of the past and tend to enjoy more secure property and contractual rights and higher growth rates. To compete against these influential incumbents, new entrants turn to state capture as a strategic choice—not as a substitute for innovation but to compensate for weaknesses in the legal and regulatory framework. When the state underprovides the public goods needed for entry and competition, "captor" firms purchase directly from the state such private benefits as secure property rights and removal of obstacles to improved performance—but only in a capture economy.*

In South Africa the term 'state capture' means something more. In a report released by the State Capture Research Project released a paper titled *Betrayal of the promise: How South Africa is being stolen* (2017), the term state capture is described as follows:

> *While corruption is widespread at all levels and is undermining development, state capture is a far greater, systemic threat. It is akin to a silent coup and must, therefore, be understood as a political project that is given a cover of legitimacy by the vision of radical economic transformation.*

This report together with a several books, parliamentary reports and a report from the Public Protector provide devastating evidence of a ways of doing business in South Africa that amounted to 'capturing' decision making in institutions as large as Transnet and Eskom. Moreover, such a process of 'capture' was facilitated by high-ranking politicians, including Minister and The President presiding at the time.

3.5.2.1 Implications of State Capture

The description of institutional explanations has proceeded to explain some core terms in the literature and to focus attention on the particular variants and explanations in South Africa. These are important insights into the workings of the South African economy, but thus far tell us little about the implications of and the importance of small business. In this section, we draw together some of the threads in a clearer way before discussing the state as an entrepreneur with a focus on the understanding on firm entry and interactions between big and small business.

The most immediate interaction is hinted at in the work on state capture. The body of work draws a link between the corrupt practises of firms in a 'captured economy' and the impact on broader entrepreneurial activities in the economy. The insight provided is that entry into the economy by new firms are less likely because new firms do not either understand the rules, are unable to access already captured politicians or find the rules abhorrent and do not participate. In post-Communist countries this has a much larger impact as the entire economy was previously under government control.

In the South African context, the process of state capture occurs in a relatively open economy. The process being described involves not only ensuring that tenders are dished out to specific companies, but also of influencing public policy to achieve these aims. Importantly, the rules of game in several institutions have been shifted to support specific institutions. An example is the brazen takeover of Eskom board

and sub-committees, and the allocation of contracts to associates of the Gupta family. These are examples of 'bad capitalism'.

At another level, one has to ask the question whether incumbent firms have any other choice. At a moral level, they do, and one hopes that companies take the moral high road. In another sense, the saturation of corruption provides companies with little option but to engage in corrupt activities. This leads to a normalisation of a clearly unethical practice.

State capture is clearly the dominant explanation, swept along with the power media and the need to mobilise against the ex- President, Jacob Zuma. From an analytical perspective does it however provide the explanatory power needed to understand the interactions between firms and the state? The question is an important one but beyond the scope of this paper. However, in this instance, neopatrimonialism offers a complimentary term to improve understanding of corrupt interactions between the state and forms, that improves the conceptual usefulness of the term "state capture".

As Beresford (2015) argues there are at least two dimensions in the exercise of neopatrimonialism. He writes:

> *There are thus two, interwoven, dimensions to the exercise of neopatrimonial authority in South Africa: first, the direct (ab)use of public authority to distribute the spoils of the state along private channels (e.g. jobs, housing, public money), which we might label spoils politics. The second is the (ab)use of access to public authority to facilitate private capital accumulation, which one might refer to as crony capitalism. (pg.4)*

The combination of 'spoils politics' and 'crony capitalism' is a useful shorthand description of neopatrimonialism. The literature however emphasis that neopatrimonial relationships occur in the context of formal institutions, especially legislation governing how the state should function(Erdmann & Engel, 2007). The insight together with those of state capture provide a worrying picture, and one that may explain one of the puzzles in the literature – inaction over the reform of government procurement to support small businesses.

3.5.3 State As An Entrepreneur

The literature offering institutional explanations however, provides little guidance on how one would transition from 'bad' institution to a 'good institution'. A confident set of literature arguing that the state should play the role of an entrepreneur has no such qualms about making recommendations and affirming that state investment propels the development of capitalism and enables good developmental outcomes. This section discusses these literatures.

Ha-Joon Chang (2002, 2008, 2012) makes an argument for a developmental state which is describes as providing the vision and mobilising resources to achieve the developmental vision. Chang makes a distinction between the proposals as contained in the Washington Consensus and the actual practice of becoming a developed country. Chang writes about what he calls a 'common clever device' as follows:

> *It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations. (page 4)*

Chang argues that developing nations need to follow a set of proposals that are distinct from what already developed institutions are proposing and provides a rigorous defence of this position. The implications of following a different path and recognising that developed countries have 'kicked away the ladder' provides an amount to a devastating critique of many development propositions. Essentially, the argument can be summarised as 'do I say, not as I have done'. The reason for this position is that developed countries can access to markets, and in so doing perpetuate balance of trade.

One argument that Chang makes is that the state must be an investor and a leader in development. Mariana Mazzucato (2015) develops this argument, arguing for the state to be an entrepreneurial state. Governments play a crucial role in providing infrastructure and developing intellectual property that serve as the basis for economic development is the foundation of Mazzucato's argument. She considers a

range of examples of this process unfolding, which she terms the 'entrepreneurial state'. The most striking of these examples is the investment by the United States of America government in the Internet. Essentially, this investment spurs on a process of development that enables a range of companies that follow. In a more recent book, Mazzucato (2018) extends this argument by enquiring who creates value in the economy, and makes an argument that value extraction is more valued than value creation. Value extraction relates to ways of earning income that do not involve productive activities, and value creation relates to productive activities. This is an important insight into understanding small business development in South Africa, as state capture values extractive processes.

Writing from a different perspective and with a more international focus is a paper by Iyigun and Rodrik (2004). They argue that countries have a choice of policy options. They describe these as:

- "policy tinkering," which corresponds to a new draw from a pre-existing policy regime, and
- "institutional reform," which corresponds to choices policies from a different regime and imposes an adjustment cost on incumbent firms

The difference is whether countries will follow existing policies, or will they adopt policies that are different (i.e. from a different regime). Iyigun and Rodrik (2004) have a startling finding, when government undertake reforms described as 'policy tinkering' the prospects for success are higher. They use India and China as examples, where instead of adopting 'institutional reform' – which is an odd descriptor for a set of conventional policy proposals – a gradual set of small changes were undertaken. Surprisingly these yielded good outcomes, especially in terms of entrepreneurs entering the market. The reason for such an outcome, argue Iyigun and Rodrik, is that the costs of entrepreneurial discovery is relatively low and the modern sector was relatively underdeveloped. They continue to show how policy choices are contingent. Of significance here is that government's that adopt strategies consistent with their context are likely to yield good outcomes in terms of entrepreneurship.

The state in these instances has a role that is strategic in making developmental choices, but highly practical in the sense that it needs to undertake investments to support a process of the market creating opportunities that could be described in the words of the NDP as a 'massification of entrepreneurship'.

3.5.4 Redistribution And Predistribution

One of the emerging areas of interest is the linkages (or not) between development strategies described as "redistribution" and "predistribution". The definitions of the two terms are:

- **Redistribution policy** Taxes, monetary, and in-kind transfers of the government that result in a distribution of final income that differs from the distribution of market income. Taxes and transfers result in a distribution of disposable income that differs from the distribution of market income and by expenditure that provides public services to households.
- **Predistribution policy** Government actions that affect the endowments people have and their value, including the distribution of market income and the distribution of privately held wealth. Examples include education, minimum wage, and anti-discrimination policies. By affecting the endowments that people have and the value of those endowments, leading to a change in the inequality in market income here governments affect the distribution of earnings before taxes and transfers or the distribution of privately held wealth). (CORE Team & CORE Economics Education (Project), 2018)

The term "predistribution" is considered new, although the unit of analysis that of understanding market problems and the solutions (e.g. minimum wages) are not new. The term is developed in the works of Jacob Hacker who develops the term with specific reference to the rise in inequality in the United States of America (USA). Hacker provides the conceptual foundations for the term 'predistribution' in a book co-written with Paul Pierson (2011). The book details a fascinating history of the role of politics in shaping inequality in the USA. Hacker and Pierson message is one that

politics matters, because it results in a 'winner-takes-all' scenario. The process is described and shows how shifts and changes in policies resulted in the wealthy accumulating a set of advantages that permitted greater wealth and accumulation, and to do so without creating wealth or widening opportunities lower down the income distribution. It is a disturbing picture painting of an incremental stacking of advantage in the USA.

Hacker – for that is his surname – introduces the term 'predistribution' in an essay titled *The institutional foundations of middle-class democracy* (2011). The essay describes a process of gradual erosion of middle class life in America, and makes specific mention of changes in education, pensions and social insurance, and housing and economic assets. There is literally no mention of small business. Yet, an insight is crucial

> *When we think of government's effects on inequality, we think of redistribution – government taxes and transfers that take from some and give to others. Yet many of the most important changes have been in what might be called "pre-distribution" – the way in which the market distributes its rewards in the first place. Policies governing financial markets, the rights of unions and the pay of top executives have all shifted in favour of those at the top, especially the financial and non- financial executives who make up about six in 10 of the richest 0.1% of Americans.*

Indeed, the analysis of markets and the distributional outcomes, are as old as society itself. The analytical step taken here however assists in examining the role of government spending on small business, which have elements both of policies that could be described as 'redistribution' and 'predistribution'.

Whilst Hacker continues to argue for the changing of politics, a more direct linkage between redistribution and entrepreneurial growth has been argued in the literature. The argument is that a once-off redistribution is needed to equalise the playing fields, and in so doing provide a basis for households to flourish. The idea of a once-off redistribution is an idea that has not gained traction in the development literature. For example, Holis Chenery (1979) in a pioneering contribution to understanding growth do not cost the model for asset redistribution because it is too expensive. Yet,

the experiences in South East Asia, specifically Japan and Korea indicate the importance of a once-off redistribution of land, which provided a bases for participation in the economy (Jacobs, 2000; World Bank, 2006). Returning to Chang's argument of kicking away the ladder one could explore a theme of redistribution of land in the histories of developed countries. The argument presented is that without an initial once-off redistribution, the market entrenches existing advantages and in fact entrenches them, thus increasing inequality.

Taken together this strand of literature astutely describes processes of advantage and how these advantages are entrenched through the market and the role of the state. The resolution of this cycle of entrenching advantages is action by government that is derived from a context and plays the role of an entrepreneurial state. The literature thus suggests that the development of small business is related to wider changes in the functioning and role of the state.

3.6 SUMMARY

The discussion in this chapter has focused on a continuum of policy options available to government in its attempts to support small business. This continuum is based on the 'frictions' facing entrepreneurs, which range from no obstacles to economy wide challenges. The continuum could be read as policies that are based on an (1) and inequality trap and (b) those that are not based on an inequality trap. Such a classification is heuristically valuable, especially since we find the South African state adopting a range of policy options across this continuum. This is discussed in the chapter covering the findings of the transversal budget analysis.

And now here is my secret, a very simple secret: It is only with the heart that one can see rightly; what is essential is invisible to the eye.

Antoine de Saint-Exupéry, The Little Prince (2016)

4 METHOD

A common discussion with many disputes in the literature reviewed is on the links between upward social mobility and business ownership. Whilst upward social mobility is a legitimate policy objective (Bartley & Plewis, 2007; Benabou & Ok, 2001; Piketty, 1995; Reay, 2013) it has been argued that entrepreneurs seeking social mobility – both necessity and opportunity driven – face a range of traps. For necessity driven entrepreneurs these traps relate to being unable or unwilling to invest further in business to move above a threshold which is a minimum threshold for running a business that makes a reasonable return. For opportunity driven entrepreneurs' traps were identified, as businesses attempt to move upwards and onwards to becoming large companies. The range of government policies already reviewed indicates a commitment to supporting each of these distinct categories of entrepreneurs. An assessment of the impact of these support measures remains a topic for discussion later.

The attempt to support all types of entrepreneurs and a faith in social mobility, translates into a wide range of government programmes. The organisation of budget data does not easily support analyses of budget votes on a theme or issue not covered in the administrative, economic or functional classification. These official categorisations have meaning and play an important role, but also create the framework on how government budgets are understood and interpreted. In using this framework for analysis, many questions on the allocation choices and the distributional impact of spending go unasked, let alone being answered.

Unfortunately, the extant literature on transversal budget analysis offers limited advice on methods and processes when new categorisations of budget data are undertaken. More to the point, the dominant toolset used for public policy analysis and specifically the analysis of public spending has many limitations. Chief amongst these limitations is that wider contextual questions are not adequately raised. For these reasons, the paper develops a method of transversal budget analysis. In so doing, it provides a replicable methodology that can be applied to other budget areas. The report further shows how such a methodology can be extended to developing policy recommendations.

The methodological challenge is a large one due to the structure of budgets and current methods focussed on assessing impact, primarily through empirical evaluations. This chapter starts with a discussion of these challenges and discusses experiences with transversal budget analysis. Following on from this, the specificity of the research challenge is described as well as the choice of inductive start to the research (Locke, 2007; Thomas, 2006) . Finally, an overview of the procedures followed is described.

Presentation of detailed data are included in Appendix Four to this report.

4.1 METHODOLOGICAL STARTS

This section describes a set of methodological problems encountered in designing the study. This is discussed, before the theoretical and practical challenges are described. This section starts with a discussion of grounded theory and philosophical assumptions to undertake this research and follows this with an assessment of major extant methods being advocated.

4.1.1 GROUNDED THEORY, CRITICAL REALISM, PUBLIC EXPENDITURE?

An initial observation is important to note. Grounded theory is not only a qualitative method, there are examples of quantitative studies using this method. When Glaser and Strauss developed grounded theory, they explicitly stated that the method could

be applied to quantitative studies. Glaser in fact wrote a book on quantitative grounded theory(2008). In a similar vein, the pioneering work of Frederic Lee (2002; 1994a, 1994b) argued for grounded theory approach in heterodox economics, based on critical realist assumptions. The linkages developed in this paper thus follow in these pioneering footsteps. In addition, non-Western sources have followed processes of induction and abductive reasoning that predates the "discovery" of grounded theory and critical realism. One avenue in this direction – and certainly not the only or privileged perspective – are attempts to understand the use of induction in law and economics from an Islamic perspective(Cattelan, 2016; Choudhury M.A., 2012).

The reason for this introductory note is to locate the methods within a body of work that values inductive starts to research and seeks to understand the nature of reality – an ontological question. This introduction is needed because as discussed below the conventional (and this is true for Western and non-Western scholars) perspective is to undertake public policy analysis based on empirical techniques which have a place but are not appropriate for this study. More to follow on this aspect as the discussion proceeds

4.1.2 Is quantification enough?

Public expenditure analysis has traditionally been the domain of positivist research as noted in several textbooks that seek to widen the lens and philosophical assumptions (Musell, 2008; Stiglitz & Rosengard, 2015). The intent of these types of evaluations of public expenditure has been to assess the impact of government spending through measurement of impact. The general research process involves the standardised steps developed for both positivist research and those in policy analysis. The research starts with a set of research questions, the development of hypothesis and the analysis of quantitative data. The rationale for this process is an acceptance of the techniques being utilised and an acceptance of the validity of quantitative results with an inherent assumption of establishing causality.

Research undertaken in this paradigm offers important findings on the correlation between spending and outcomes, and thus provides policy relevant information. Two examples of this type of research indicate both the importance and limitations of the studies.

First, benefit incidence analysis on South African public expenditure indicates that a transfer of income occurs from the rich to the poor via the taxation and budget systems (S. van der Berg, 2001b, 2001a; S. Van der Berg, 2006; Burger, Bredenkamp, Grobler, & Berg, 2012a) . This is an important finding suggesting a broadly redistributive outcome. The most recent benefit incident study for instance finds a significant reduction in the Gini Coefficient when comparing incomes before public spending is considered and after public spending is factored into spending (Maboshe, Woolard, Inchauste, Lustig, & Purfield, 2015). Data from the 2010/11 Income and Expenditure Survey for South Africa is used to analyse the progressivity of the main tax and social spending programs and to quantify their impact in the latest benefit incident study. The study argues that South Africa has a progressive tax system, and that fiscal policy achieves "appreciable reductions" in income inequality and poverty.

Second, the National Treasury (NT) has introduced a method called Public Expenditure Reviews (PERs). The PERs process has been undertaken on many government budget votes, and several that are pertinent to this study. According to the programme:

> *PERs involve the close scrutiny of both expenditure and programme performance data, and are widely used internationally for quantifying, assessing and improving the cost effectiveness of public policy. They are also used to cost the implications of legislative changes and policy choices. PERs help identify options for achieving greater value for money in public expenditure. In cases in which policy is weakly formulated or institutions are not properly aligned for the achievement of programme objectives, policy-makers use their findings to reconfigure policies, institutions and activities. In this way, PERs help improve budget planning and reporting.*
> *https://www.gtac.gov.za/programmes-and-services/public-expenditure-and-policy-analysis*

The evaluation process starts with a review of government spending and performance data. Once this review is completed estimations of scenarios for spending are undertaken, and these presented to relevant stakeholders. The overall results across the PERs are being developed, but government has indicated a set of important lessons that have already been learned.

Some of the themes that have emerged in this process include:

- Policies are sometimes designed and implemented with unrealistic expectations regarding the availability of funding. Several PERs have identified affordability challenges, sometimes related to the mechanisms designed or implemented, and sometimes because policy commitments or time-frames have been too ambitious given the scale of need. A related problem is that short-term measures adopted to address a policy goal often have unanticipated medium and long-term budgetary implications, leading to new sources of budget pressure.
- Policies that require the realignment and/or redesign of government structures are often unable to achieve this. Programme implementation sometimes involves an implicit reframing of objectives and functions beyond the capacity of existing government structures or perhaps the scope of current law, creating accountability and oversight challenges. One manifestation of this is that some government agencies' expenditure on corporate services has expanded beyond reasonable limits. Intergovernmental cooperation poses special challenges and makes a commitment to effective performance monitoring and evaluation even more important.
- Policies and programmes that require collaboration, cooperation and integration among multiple departments, spheres of government and state-owned entities, and which require funds to flow between them, are especially challenging to design, implement and reform. Policies are sometimes founded on the assumption that nationally-driven implementation is the

most effective, with the result that the capacity of provincial and local government is underplayed.

A review of the benefit incidence analysis and PERs was undertaken, and key contradictions emerge. On the one hand, the macro level analysis of government spending indicates a positive outcome. The core finding is that fiscal policy is well directed to the poor and broadly redistributive. On the other hand, the programme level analysis indicates significant failures in the delivery of government programmes, in terms of allocations to programmes and ensuring that the intended beneficiaries receive the allocations they have been promised. The results from the macro level analysis indicate significant redistributive outcomes, while the programme level studies question not only the efficiency of spending but also the efficacy of spending, especially if it is reaching its intended beneficiaries.

This contradiction could be easily explained by arguing that the broader redistributive system - especially the provision of social grants - trumps organisational inefficiencies. The policy recommendation that emerges is the improvement of programmes through a range of strategies that seek both improvements in the efficiency and efficacy of the programmes delivered. These improvements at an operational level is further substantiated with an understanding that the fiscal system is not merely redistributive but that the space for further redistributive activities are limited.

Both approaches in South Africa provide a set of policy relevant information but are ill suited to the task of transversal budget analysis. Most importantly, the extant techniques do not provide guidance of compiling a new categorisation of spending. In turn, thematic areas of spending are not immediately amenable to analyses and in fact, reflect a silence in assessment of public spending at both macro and micro levels.

4.2 THEORETICAL AND PRACTICAL CHALLENGES

Budget data in South Africa is amongst the best in the world (International Budget Partnership, 2017). In such a context, conducting budget analysis is supported by documentation that is accessible and accurate. Even though excellent budget data exists, conducting a transversal budget analysis of small business and entrepreneurship spending needs to overcome important challenges. The report focusses on these challenges, discussing issues on identifying budget line items, taking account of developments in public policy and learning from extant studies using the transversal approach to budget analysis.

4.2.1 SELECTING CASES

Despite the presence of high quality budget information, a process of transversal budget analysis needs to overcome three challenges in terms of identifying cases.

First, the categorisation system used in budgets lacks labels on thematic issues making assigning a budget vote or even a policy instrument difficult. Budget data is organised and presented by department and categorised by administrative, economic and functional classification. The three classifications provide valuable information. According to the technical notes prepared for the International Monetary Fund (IMF), the three types of classification provide for the following:

- The administrative classification identifies the entity that is responsible for managing the public funds concerned, such as the Ministry of Education or health or, at a lower level, schools and hospitals.
- The economic classification identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending.
- The functional classification categorizes expenditure according to the purposes and objectives for which they are intended.

The National Treasury in South Africa provides further details on each of these areas as it applies in South Africa. Specifically, there have been progress on linking the budget to a set of objectives, contained in the Medium-Term Strategic Framework

(MTSF). Budget line items are identified as supporting specific objectives and provide an interesting exercise in linking plans and budgets.

Second, in the case of small business, an account of both the revenue and expenditure sides of the budget must be undertaken to carefully record the interventions of government. On the revenue side, richer individuals and companies receive a range of incentives that reduce the actual taxes that are paid. The World Bank (2015), for instance, shows that the effective company tax rate is significantly less than the 28% company tax rate. A range of incentives and the way accounts are prepared provide companies with ways and means to pay an effective tax rate much lower than the percentage listed in the tax schedules. Arguably, these reductions in the effective tax rate are tolerable (even advisable) provided that goals of employment creation and economic growth are achieved.

Third, the dominant analytical techniques are evaluative in nature and focussed on clearly defined policy objectives. The major techniques to evaluate spending is via benefit incidence studies (Lanjouw & Ravallion, 1999; McIntyre & Ataguba, 2011) and Public Expenditure Reviews (PER)(Pradhan, 1996; Toye & Jackson, 1996), which have been discussed earlier. This section expands on the suitability of these techniques for transversal budget analysis. These studies provide important insights but are not in themselves designed for understanding spending across departmental line items. In the case of benefit incident studies, the focus is primarily on social spending, and excludes economic spending in most respects, and entirely ignores the revenue side of the budget. In the case of PER, the focus is limited to a programme or project. The intent is to glean a wider understanding after sufficient numbers of cases have been undertaken, and this provides a view across departments. Most importantly, the PER has a defined scope with clear indicators and most often defined budget line items. In the case of transversal budget analysis neither the scope nor the budget line items are clearly defined. Even if they were it is doubtful that the PER which is designed for understanding one case study in depth would be a suitable instrument to understand multiple cases.

4.2.2 Developments in Public Policy Analysis Of Small Business And Entrepreneurship Policies

Research methods on understanding government policies on small business and entrepreneurship have been part of wider developments in social sciences (Shane, 2012; Shane & Venkataraman, 2000; Venkataraman, Sarasvathy, Dew, & Forster, 2012). Strands in the literature are explored in this section that have a bearing on the method developed. These strands either provide guidance for the methodology or alternatively are deemed unsuitable for the task at hand.

The growing calls for interdisciplinary research have had an impact on understanding small business and entrepreneurship policies. A volume on qualitative research methods in entrepreneurship research (Neergaard & Ulhøi, 2007), for instance provides advice on conducting research from a range of philosophical standpoints ranging from philosophical assumptions such as critical realism to methods such as grounded theory. The sheer range of approaches presented is staggering suggesting a wide range of philosophical assumptions and calls for greater interdisciplinary research. The research often with innovative philosophical assumptions and methods holds promise.

The work in economic sociology is of the greatest relevance to this study. Grouping a set of studies under the term 'comparative economic sociology' the impacts of markets on society and specifically on inequality are being analysed. These range from 'winner takes all' perspective developed by Lutter[1] (2013), to moral legitimation of forms of economic activity (Castelló & Lozano, 2011; Dart, 2004). One area that remains underdeveloped is the interactions between the redistributive efforts of the state and the impacts of markets. Munnich (2017) in this regard raises a foundational issue:

[1] The article is in German, which I do not speak. A combination of translation software and asking a German speaking scholar to interpret the article was undertaken.

> *Depending on the age of certain markets and the degree of flexibilization of labor in different countries, it should be possible to compare the extent to which these imbalances have developed beyond formal redistributive efforts by the state. This would add a* ***second layer of redistribution*** *that has its origins in the strengthening of social closure and networking efforts that may even become more important if competition is more and more de-regulated. (emphasis in original)*

The quotation raises an interaction (or as it may be a non-interaction) between the traditional redistributive role played by the state and that functions in the context of markets. From a methodological perspective, this definitively widens the lens of enquiry, but has a wider importance in that policy interventions must be understood within their context.

This widening of the lens and of contextual analysis has found resonance (albeit through a different scholarship) in the core discipline of public policy analysis, specifically what is called the 'argumentative turn'. Fischer (2009)suggests that

> *'policy is more fundamentally a sociopolitical construct than technical/instrumental tool, as it is approached in much of policy science*.

He continues,

> *Dependent on social meaning—derived from goals, motives, intentions, purposes, and values—the analysis of social action has more in common with history and literature than with physical science. Rather than seeking proofs through formal logic and empirical experimentation, the investigation of social action requires the use of discursive constructs—metaphors in particular—to organize and connect different experiences based on perceived similarities. The meaning of a social experience is assessed in terms of its position in the larger patterns of which it is a part, be it a situation, a social system, or an ideology*.

In this advice, is an insight that social meaning constructed on social facts, cannot be simply understood in terms of its materiality (e.g. Rands spent, or number of firms assisted) but requires understanding of ideas within a context.

"Social facts" to use the terminology developed by Searle (1995) thus gain in importance. Social facts do not have any material reality but exist because people collectively believe they exist and act accordingly. Examples of these social facts are things like money, sovereignty, and rights. The importance of "social fact" for instance the ‘rag to riches story’ central to many stories, exists whether there is evidence of social mobility or not, and whether such stories have a basis in reality (Bowerman, 1979; Naveh, 1991).

Furthermore, multiple realities are important to understand when locating policy within a distribution of income and/or wealth. This insight is not specific to constructivism, but it represents one pathway to understanding that wealth distribution offers different possibilities to actors. A more hopeful and important approach is through understanding power, and specifically the process of de-facing power developed by Clarissa Hayward (Hayward, 2000). Such a recognition understands that capabilities - used in a Senian sense- differ across the income distribution (See Nussbaum, 2003; Sen, 2004; Stewart & Deneulin, 2002 for debates on capabilities approach).

Yet, for all its promise, constructivist approaches disappoint because they are not designed for prediction. Specifically, they are not designed - even when making a normative judgement - to provide answers to what action should be undertaken, and by whom. One manoeuvre to resolve this challenge from within constructionism is the work pioneered by Donna Mertens (2007). Mertens argues for the development of a 'transformative paradigm', and explicitly brings forth questions on the usability of research. Mertens argues for the development of action agendas that have meaningful impacts on the research, research participants, other stakeholders and more broadly the world. The manoeuvre is based on an emphasis on axiological stance of the researcher. To appropriate the famous aphorism from Karl Marx - the researcher must seek to not merely understand the world, but to change it.

The approach adopted by Mertens is exemplary in its emphasis on an axiological stance that seeks to amplify ‘sights unseen and voices unheard' to appropriate lyrics from Beat Street. It is neither simple nor simplistic to provide a space for marginal voices, and an explicit axiological stance is of benefit to public policy as a sensitising

concept. However, what would be the movement from providing voice to developing action agendas? Mertens provides little clarity on this aspect, which leaves the question as to whether an axiological stance is sufficient basis for developing action agendas.

My answer to this and other questions raised by constructivism is to argue that critical realism which draws from constructivism, provides a stronger ontological basis for the development of public policy. Specifically, critical realism provides a set of philosophical assumptions which encapsulate the axiological emphasis in the transformative paradigm as well as the importance of understanding public policy as a socio-political construct , that is, a feasible route to having a phronetic quality. They become phronetic (i.e. provide useful knowledge) in this route through a layered ontology and through seeking for what Bhaskar (Bhaskar, 2016b) calls 'generative mechanisms'.

At the same time, the disciplines of development economics and development studies have been characterised by a combination of emphasis of randomised control trials and of the importance of iteration. A range of studies have assessed the impact of a large transfer to households that support business development.(Banerjee & Duflo, 2011). The results are fascinating and important, suggesting some positive impacts in terms of increased investments by the poor in their businesses. Of importance is that the findings are compared as against another similar group that has not received the 'treatment'. A discussion on the method and its philosophical assumptions are beyond the scope of the paper, except to note that the approach advanced is of testing before scaling.

Testing before scaling is the core of an approach described as 'problem solving approach' with an emphasis on iteration, learning as a core function of policy developments (Andrews, 2013). Whilst not as focussed on randomised controlled trials, it calls for greater experimentation in government and presents a methodology for doing that. The parallels between this model, and the dominant method for high growth start-ups in technology is striking, even ironic. The dominant model in entrepreneurship is described as the 'lean stack' and includes a combination of ideas on business models, the importance of understanding problems before product

development and of moving quickly through a learning loop (Andrews, 2013; Levy, 2014).

4.2.3 Transversal Budget Analysis

The reason for including problem solving approaches and iterative approaches in this section, is that by their very nature they are focussed on a specific intervention. That intervention needs to be measurable both in and of itself (e.g. budget performance) but ideally also against a counterfactual. The assumptions here are that (a) the programme or intervention is well defined and (b) the evaluation process is well defined. Conducting a transversal budget analysis is neither of these, but rather starts with a set of interventions that are not well defined, and due to that the evaluation criteria is not at all clear. Fortunately, extant studies using transversal budget analysis provide useful guidance.

Earlier work on transversal budget analysis largely focussed on women and children, and on sectors of the economy, notably agriculture (Budlender & Buenaobra, 2008; Elson, 1995, 1998; Nomani, 2016) . These studies further sought to influence government policy, linking research with activism. Most notably, the Women's Budget in South Africa which developed a set of case studies on various topics in the budget provide a rich, textured and usable set of data and case studies. The method developed was one of in depth case studies, with chapters dedicated to understanding the trends across these case studies. The method adopted thus was not aimed at providing an aggregated picture, and certainly not a quantification of amounts allocated to women.

After an extensive review, one transversal budget analysis was found that focused on small business. The review conducted in the United Kingdom provided an analysis of spending by government across national and local government[2]. The intent of the exercise was a quantification of spending, by the United Kingdom government. Of importance is that the study provided a quantification of amounts of spending across

[2] This document needs to be physically found as it cannot be found online. A request has been sent to the United Kingdom government.

departments and spheres of government, and in so doing created a baseline. Unfortunately, this has not continued in subsequent years.

4.3 Methodological Choices

In South Africa there is no official baseline on state spending on small business and entrepreneurship. To create such a baseline for this report was more challenging as there is no clear method of conducting such a survey in the literature. This section provides a background to the methodological choices in this paper, starting with a description of what such a methodology needs to accomplish. Importantly, some aspects of the design are fait accompli – for instance having an inductive start – simply because a baseline does not exist. Other aspects, such as the usage of critical realism are deliberate choices.

Unfortunately, the extant literature on transversal budget analysis offers limited advice on methods and processes when data is not categorised in current reporting conventions. More to the point, the dominant toolset used for public policy analysis and specifically the analysis of public spending has many limitations. Chief amongst these limitations is that wider contextual questions are not adequately raised. For these reasons, the report develops a method of transversal budget analysis.

4.3.1 What Is Needed?

In designing a transversal budget analysis, is important to remember the end. This section describes a set of criteria that guided the research design, starting with the need to provide data that supports an analysis of the political economy, followed by a need to prepare data in a way that supports the development of policy proposals.

At the outset, it is important to remind ourselves that the title of the paper includes the words “political economy”. Without getting into lengthy debates on meanings of political economy (Clark, 2016; Eaton, 1966; Stilwell, 2012; Weingast & Wittman, 2006), this implies that the method provides information on the interactions between government and entrepreneurs, and accounts for a broader context. It bears repeating, the method needs to support a deeper understanding of the context and address distributional questions.

The budget data in itself provides arithmetic estimates of expenditure, but does not in itself unpack the underlying choices in economic policy (Cothran, 1993; Wildavsky, 1978). The research method is thus needed to provide the conceptual space to develop linkages between the budget data and wider economic strategy. But, it needs to go further, making an assessment on how government spending impacts on the context. To do that, the data in the budget requires a coding process that supports linkages with the wider economic developments and supports recommendations. This process is outlined later.

Building recommendations offered a challenge. Public expenditure analysis thrives on reprioritising and reallocating budgets at the recommendation stage or finding ways to improve the quality of spending. These are objectives that are laudable, but they run the risk of not accounting for incrementalism in budgets. Wildavsky (1964) in his early work describes this as a repeated process with marginal changes to a baseline. In subsequent works and writing with a co-author creates a more complex picture of budgets (Wildavsky & Caiden, 2004), and of importance is the observation that budgets tend towards an incrementalism, and specifically a form of 'disjointed incrementalism' (See Lindblom, 1979 for a classic discussion). It raises the possibility that the search for a rationale of allocations across departments may lack both, and simply may just be an additional increment to the budget. If this is the case, it would however be an important and interesting as it indicates that rejigging allocations may not be an optimal policy response.

Even if one can accurately document a transversal budget and determine whether it reflects an incrementalism how does one decide between options focussed on a rejigging of budgets versus wider changes in policies? And more to the point, how does one chart an optimal path with the reality of multiple possible futures and steady states? The traditional and conventional route in public policy is the development of criteria and the assessment of options against that criteria. It is a surprising similarity that the process of standard public policy analysis reflects a process of decision making that Lindblom (1979) describes as incrementalism in another setting.

Specifically, it is about comparing options against each other, sometimes in pairwise comparisons with a budget constraint. The budget constraint is important to note because under current circumstances some options would simply be unaffordable. This limits policy options to those deemed feasible within a budget constraint, even when the constraint is not rigid. The reason is that the current budget allocations plays an anchoring role in deciding between options. Certainly, this is not always the case with punctuated-equilibrium models providing one model of how the exception – big shifts in policy and budgets – becomes possible (Sabatier, 2007).

The stance that budgets reflect more than simple numbers – they provide a sense of a plan, a wish list, a dream. As Wildavsky (1964:5) reminds us

> *Human nature is never more evident than when men are struggling to gain a larger share of funds or to apportion what they have along with their myriad claimants. Budgeting deals with the purposes of men. In other words how can they be moved to cooperate? How can they find ways of dealing effectively with recalcitrant rank problem? Serving diverse purposes, a budget can be many thing; a political act, a plan of work, a prediction, a source of enlightment, a means of obfuscation, a mechanism of control, an escape from restrictions, a means of action, a brake on progress, even a prayer that the powers that be will deal gently with the best aspirations of fallible men.*

This quote requires repetition because it raises the many ways budgets are used, and how policy alternatives are constrained by political circumstances. It raises the possibility – albeit weak in some senses – to conduct a selection of public policy alternatives without a budget constraint or without pairwise comparisons within or even between departmental budgets. It asks a wider question – without resource constraints what would be the best possible policy?

An immediate, overarching and blunt criticism requires stating upfront - Is developing alternatives without a budget constraint not divorcing state action from context? After all, budgets are limited, critiques will argue. However, such a criticism prioritises one aspect of a context, and in fact flattens context through a process of exclusion. The realist philosopher Ram Roy Bhaskar (Bhaskar, 2016a) refers to this

mode of thinking as 'an *epistemic fallacy*'. Bhaskar argues that the fallacy is a confusion between what we know and the nature of reality. To illustrate, government may decide against a Universal Basic Income (UBI) because it is unaffordable but does not in turn tackle the reality that unemployment is high and that many South African fall below a poverty line. In this example, we do of course know that under current conditions the Universal Basic Income is unaffordable but fail to ask what conditions would make it affordable. By asking the 'what conditions' question the feasibility criteria become wider than reviewing current allocations. For Bhaskar, asking such a question requires understanding reality, which his early writings define as stratified and layered.

4.3.2 Critical Realism And Public Spending

Thus far critique of this or that position has been covered. In this and subsequent sections the report explains the research strategy. This section is a linking step between critique of methods elsewhere and the research strategy adopted. This link explains the usefulness of critical realism as a metatheory to guide the analysis of budget votes. Seemingly the detail of this or that budget vote is distant from the philosophy of science and attempting such a link through exploring metatheoretical positions in the philosophy of science. Is such an undertaking futile, or an indulgent discretion?

Let us recap the research challenge succinctly:

- Government's programmes aimed at business owners assume a mobility through running successful enterprises, and consequently an increase in employment levels.
- Government plays a supportive and catalytical role through a range of programmes, policies and instruments that are currently not compiled into a coherent whole.
- Mobility through business ownership occurs in the context of markets, and interactions between firms and the state.

There are a range of ways to test these assumptions, but critical realism offers a way to ask demanding and policy relevant questions. The work of Pawson and Tilly (1997) in creating real evaluation provides a workable method of conducting evaluations from a realist perspective. Pawson and Tilly (1997) frame the realist question as:

> *What works, for whom and in what context?*

Immediately the question links into public policy by asking a precise question, that can be summarised as "who benefits". This is one of the most important, perhaps even the defining question in the discipline of public policy. In answering this question, core realist ideas include the following:

- There is a reality independent of what we experience, but that reality can only be fallibly know.
- Reality is both stratified and layered.
- Understanding generative mechanisms can casually explain what is observed, through a process of retroduction.

Critical Realism has an emphasis on ideas and specifically theory. The major development in public policy using critical realism is the work developed by Pawson and Tilly (1997) as noted earlier. Real evaluations offer an important rationale for the development of policy based on the realist paradigm. The advice, however, is to proceed based on hypothesis, that is derived through developing an initial theory of programme. This report proceeds without the development of initial hypothesis, rather inferring hypothesis through an engagement with the data. In addition, there are disputes whether Pawson and Tilly approach to realism is consistent with Bhaskar's work, with Bhaskar described as "critical realism" and Pawson described as "scientific realism" (Dalkin, Greenhalgh, Jones, Cunningham, & Lhussier, 2015). Here again, the report trusts in an inductive start, and uses 'real evaluation', but

ultimately argues for a form of realism, which Bhaskar calls 'dialectical critical realism' (Bhaskar, 2000, 2008)[3].

The depth and complexity of Critical Realism – which has a range of family disputes – is not covered in this paper for reasons of brevity. The review focusses on three prescient areas in critical realism that are important for the paper.

First, an initial attempt to develop a theory and hypothesis using standard policy analysis techniques proved futile. This futility was because the programmes being investigated differed in many perceptible ways. The programmes targeted different beneficiaries, they used different instruments and had different implementation systems. The initial attempt to develop a set of hypotheses failed, but in so doing presented a challenge of how to proceed. Thinking through the available data, the danger of conflating programme descriptions and what is known, with the nature of reality appeared as a distinct possibility.

Second, a potentially debilitating question arose - if there is this level of complexity that an initial theory cannot be developed, how conceivably will an understanding of what works be undertaken? This question proved unanswerable without beginning to look more closely at the data. For this reason, the process starts with exploring the data, without reference to either a standard literature review or a set of hypotheses. The idea of configurational thinking developed by Pawson (2013) provided a means for reducing complexity and (potentially) improving understanding, but benefits from simply looking at the data.

Third, the interest of the study is in understanding the "social facts" and the generative mechanisms. This cannot be accomplished through only a quantification of budget votes or a benefit incidence analysis, but requires understanding what works, and for whom, and in what context. The challenge is that the scope of the study is wide and requires ways to find meaning in the data.

[3] Bhaskar uses the term 'transcendental dialectical critical realism' in several places. This report does not delve into this debate although the questions related to agency are pertinent. It is an area for further research.

4.4 METHODOLOGY

So far, the methods section has described various weaknesses in strategies, and argued that critical realism offers a set of philosophical positions that could yield useful information. To reiterate, this discussion on research approaches and exploring philosophical assumptions arises because there is no clearly delineated list of programmes in government that can be described as focussed on small business. Even if such a list were available, the opportunity to explore other budgets could yield useful information because new connections are important, as are understandings of the wider choices within the budget.

This section is focussed on how one proceeds to operationalise the research process. It is again useful to repeat that the method must:

- Provide a theory of what works for whom and in what context; and
- Support the development of alternatives that recognises a range of possible combinations.

The research method combines insights from methods in grounded theory, more general coding practices in qualitative research and real evaluation. In addition, this is complemented with a set of calculations that are common in public expenditure analysis, for instance, calculating real value of spending. The method draws on various disciplines which means it can become unnecessarily complicated. For this reason, in developing the research a more generalised process of coding and presentation of data was undertaken based on the Miles, Huberman and Saladana (Miles, Huberman, & Saldaña, 2013). Following on from this, a process of theory building following guidance provided by Danemark and co-authors (Danermark, Ekstrom, Jakobsen, Karlsson, & ChKarlsson, 2002) is undertaken. The process is explored in detail below, but a high-level summary of process is presented to orientate the reader.

The procedure followed to undertake the research followed three major steps. These are:

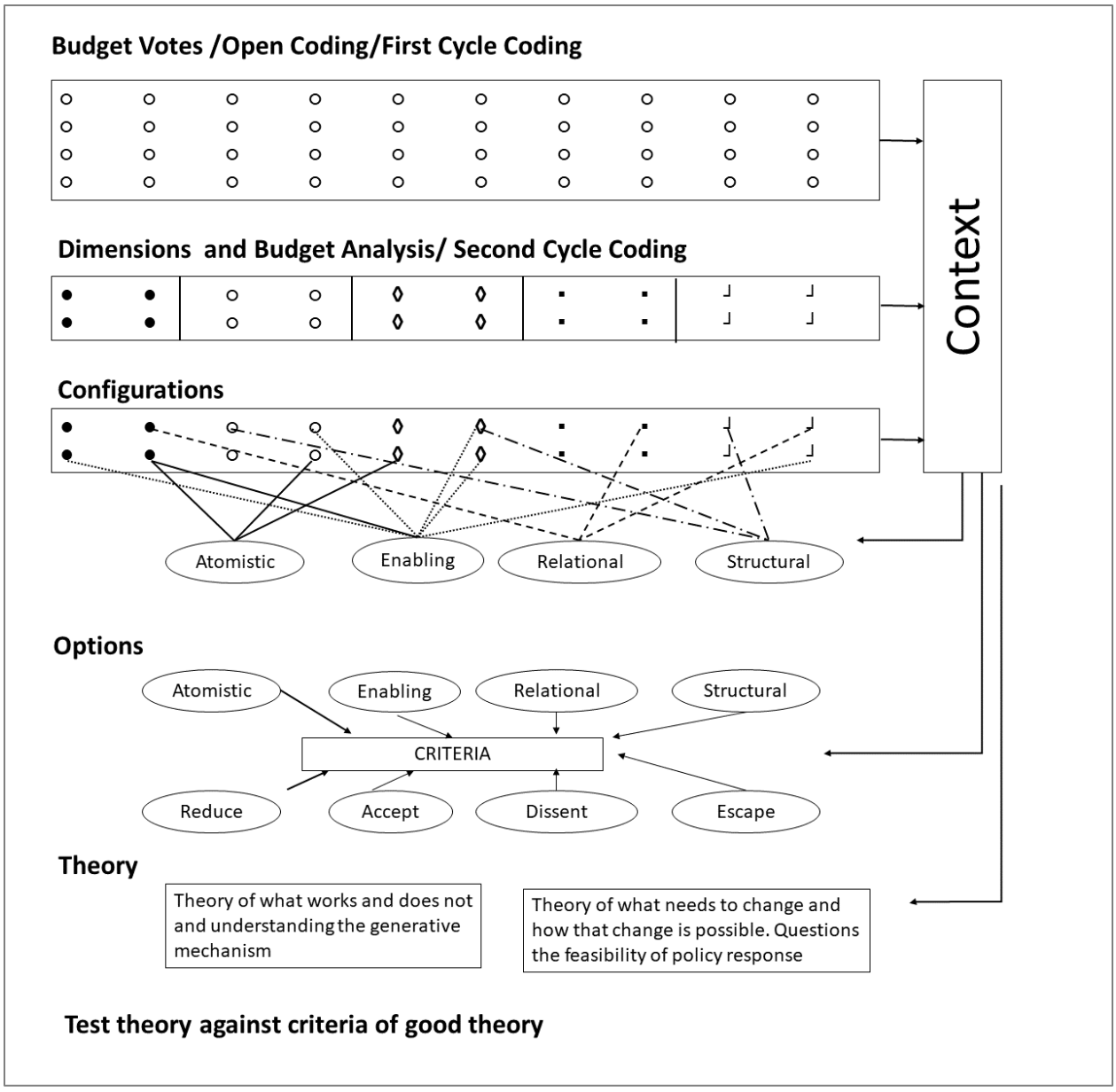
1. **Coding.** A process of first cycle coding - with the aim of identifying incidents in the budget document and corroboration of these instances

started the analysis. Following on from this a process of second cycle coding was undertaken. Second cycle coding undertakes a process of understanding patterns in the data through primarily a quantitative analysis of budget data and an understanding the dimensions involved.

2. **Configurational analysis –** A process of reasoning described as "retroduction" (or inference to the best possible explanation) was undertaken, with the aim of understanding the configurations of programmes and projects
3. **Alternatives -** The idea of constructing proposals and alternatives proved difficult, but a process of exploring different future possibilities proved useful.

The process is depicted in the graphic below:

Box 4-1: Overall research design



4.4.1 CODING

First cycle coding methods are codes initially assigned to data chunks (Saldaña: 2012; 2014). These processes followed are explained below:

- **Finding incidents.** The scope of the analysis is the budget documentation for 2017, and specifically the estimates of expenditure. The process started with a reading of the entire document - just over 1 700 pages. During this process, incidents were identified. The software programme Atlas.TI was utilised in this process of recording initial observations. Once the initial set of incidents were identified, each budget document was read separately with the aim of identifying (a) descriptions (b) budget information and (c) performance data.
- **Corroboration of incidents.** Once incidents were identified, a review of departmental documentation was undertaken. This review included searching the Annual Performance Plans, Annual Reports and Strategic Plans from government departments. In addition, to ascertaining that the budget information is included in departmental planning documentation, where available, additional budget and performance information was extracted.
- **Writing up data.** Based on the information extracted at a departmental level, a descriptive write up was undertaken. This write up included information on departmental votes with a focus on recording what was the intent of department, the link to budgets and performance, and the underlying rationale. Budget information was analysed according to a template. This template was developed in spreadsheet program Excel and checked several times with practitioners to ensure accuracy. The template provides for an analysis of several budget measures. Having completed the expenditure side of the budget, the analysis proceeded to tax side of the budget. The process employed was to identify the overall tax systems for corporations, before identifying various incentives that are available.

Second cycle coding works with information derived from first cycle coding. The key activities undertaken were:

- **Budget information and dimensional analysis.** Based on the write up of data, the analysis proceeded with a recording of budget information. This included a process described as dimensional analysis - one of the variants in

grounded theory (Kools, McCarthy, Durham, & Robrecht, 1996; Schatzman, 1991). Through this process a set of codes were developed that are largely quantitative.

- **Contextual analysis.** Based on the information on budget votes, a contextual map of the environment was undertaken. This is called an ecosystem analysis, and builds on work by Adele Clarke (2005) on situational analysis. The contextualisation is derived from the data in that project descriptions provide a basis for identifying issues. The process is however sensitive to silences and inaction by government. The challenge with Clark's approach is that the language is distinct from much of public policy analysis, so insights were integrated into a more conventional structure.

4.4.2 Configurational Thinking

The work that Pawson and Tilly (1997) introduced on real evaluation provides an example of undertaking evaluations at a single programme level. The insights and process are important as it provides a way to understand how reasoning for programmes, and how participants utilise resources. In doing so, the generative mechanisms are better understood, and in fact causality implied. Pawson and Tilly (1997) provide an instructive process of understanding the relationship between context, mechanisms and outcomes. Pawson (2013) in a later work, describes this as configurational thinking. Pawson describes configurational thinking which makes linkages between outcome, context and mechanisms. This guidance of linking outcome to context, and seeking out explanatory mechanisms provides an important background

The process however followed in this report aimed to be close to that described by Danemark and co-authors (2002) describe as procedure for critical realist thinking. The reason for following this process is two-fold. First, the process allowed for easier integration of multiple cases, and most importantly specified a step for comparing alternative theoretical explanations. Second, this report starts inductively and as such, determining outcomes are part of a discovery process.

The process followed is described schematically as:

1. Description –This is loosely the process described as coding. Although, the process of coding is analysis, this initial process of coding the data included describing the programmes, establishing budgets and ensuring comprehensiveness of coverage.
2. Analytical resolution – In this step, we distinguish various components, aspects and dimensions in budget data using the coding frame developed in step 1. This process has been described 'fracturing the data'. In this process, coding, memoing and theory will be developed. The important aspect of this step is to undertake what Saldaña (2012) calls 'second cycle coding'.
3. Theoretical redescription - This process entails the comparison of different theoretical interpretations and explanations which will be presented and compared, and possibly even integrated with one another.
4. Retroduction – This phase is concerned with answering questions on the causal nature of what has been arrived at in step three. It involves asking and answering questions such as: How is X possible? What properties must exist for X to be what it is? What causal mechanisms are related to X? In this stage, one remains open to competing explanations.
5. Comparing different theories and abstractions – In this step, choices are made on which approach has the best explanatory power. It is in a sense, a step concerned with inference to the best explanation.
6. Concretisation and contextualisation – In this step, the emphasis is on distinguishing between the 'more structural conditions and the accidental circumstances'. The process involves clarifying how different structures manifest themselves in concrete situations.
7. Building recommendations: This is potentially the most demanding step in the research process, as choices will need to be developed in terms of criteria for evaluation of options. More importantly, it entails a harder set of policy questions, dependent on what explanations the research process arrives at.

This study is within this family of ideas but has a much more complicated task due to:

- The sheer number of coded data carries dangers what Pawson (2013) criticises as creating catalogues, and not configurations. The study thus needs to account for many variables and understand patterns and anti-patterns.
- The study hopes to proceed to developing recommendations and is in this sense concerned with a future event. To add to this demanding challenge, little advice exists on undertaking multi-programme studies using a critical realist frame. The challenge is one complexity, and Pawson provides a checklist that is utilised here to understand four concurrent configurations in small business strategy in South Africa.

Several interventions were than undertaken to ensure that the catalogues were not developed, and the process to reach recommendations was strengthened. These included:

First, the study started inductively uncovering a range of activities related to small business. Once grouped thematically they informed an initial contextual analysis at a programme level. The movement proceeded with an intent to understand the reality of programmes and the reality it is seeking to change.

Second, critical realism values the identification of generative mechanisms. In fact, each programme could be evaluated in this manner, but that is a task of immense complexity and beyond the resources of a graduate student. Instead, the process now proceeded to find patterns across the programmes. This is an important perspective due to the limitations it imposes on defining configurations. This limitation is that operational level insights are excluded, even though a constant comparative method has been employed. In doing so, the question remains whether a generative mechanism has been identified?

Third, the study has raised inequality as a contextual issue. However, it moves from a contextual issue to being an explanatory variable to understand the contradiction between the aspirations of a market driven social mobility process on the one hand, and the limited scale of current government programmes. In doing this, inequality moves to become a theoretical frame. The configurations discussed below are

organised around inequality and being derived from the data suggests volitions guiding policy. They coexist together at the same point in time. The study makes a choice not to decide between each of these explanations as the best explanation, because that does not necessarily take us further to developing a theory centred on inequality.

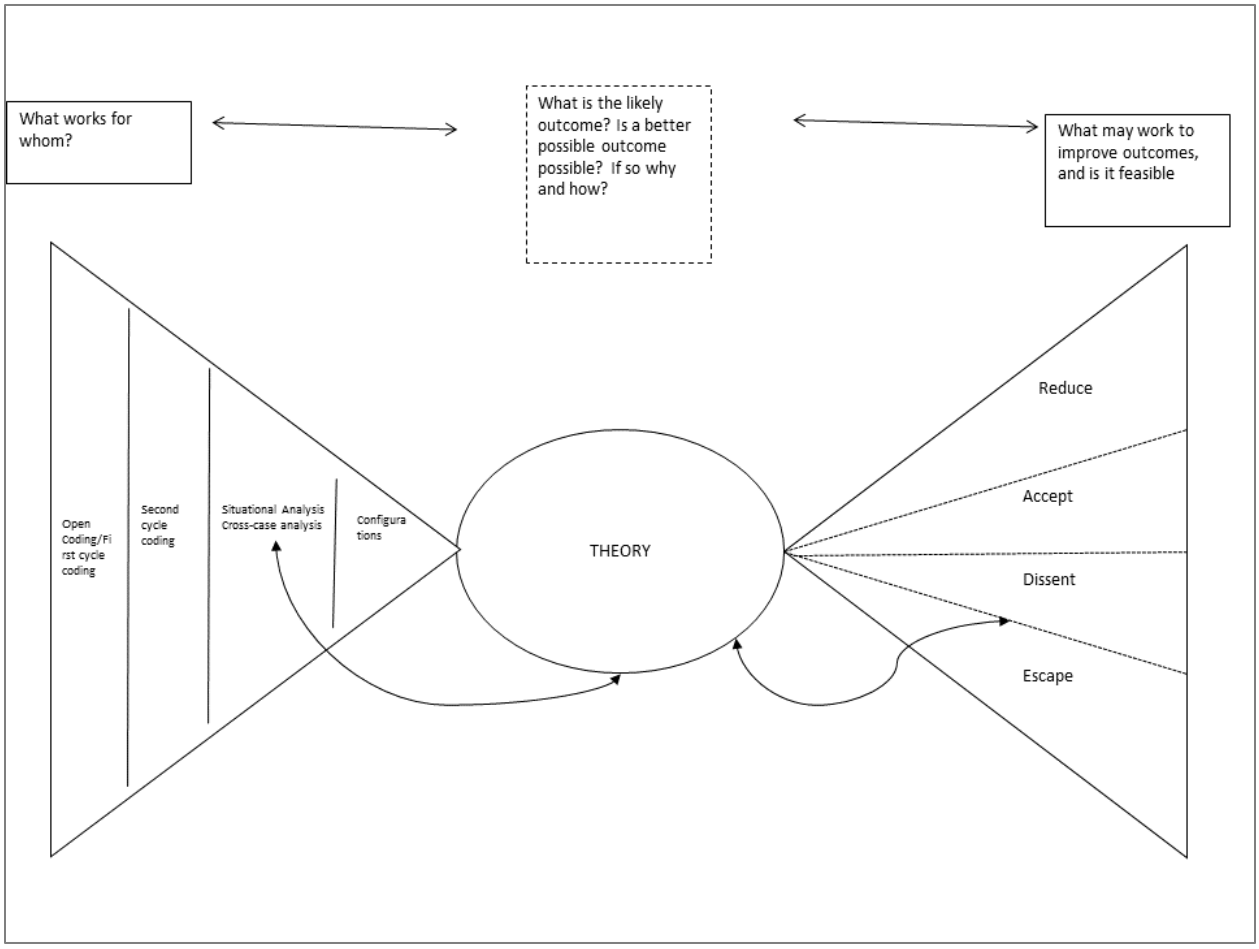
4.4.3 Creating Alternatives

Government programmes and actions do not represent a single unified theory. At this point, a search for an explanatory construct was conducted. There is a certain immediacy in rushing to explain policy choices and distributional patterns via inequality, simply because it is the foundational feature of South Africa. After several rounds of exploring the concept of inequality as an explanatory variable, it was found to provide a framing through which to understand the data. However, inequality without an additional understanding of capitalist processes would provide an unsatisfactory theory. Such an approach raises a significant question for creating alternatives – are we to construct an alternative at a programme or economy wide level? This question is answered in the discussion chapter, where an option labelled 'escape' is proposed.

The process of developing alternatives continues to keep several variables at play, distinguishing between four possible paths. These are (a) reduction (b) acceptance (c) dissent and (d) escape. To select between these options, the intent of a proliferation of small business and a subsequent increase in employment are used as criteria. Importantly, the impacts on inequality are not just indirect, as the analyses throws up the important issue of initial conditions in the *whole* income distribution.

The process and movement from analysis to developing recommendations is visualised in the diagram below:

Box 4-2: Linking analyses and recommendations



4.5 LIMITATIONS

The study has several limitations.

The study does not benefit from a strong tradition of deriving policy recommendations from an inductive start. The underlying feature of policy analysis techniques across research paradigms is the formulation of a hypothesis either using deductive methods or building theoretical hypotheses. As such, this study is a first attempt at a method of transversal budget analysis with an inductive start.

Related to the absence of methodological guidance on the specific choices made within the study, the development of alternatives proved challenging. The major limitation was balancing the need for simplicity (parsimony) with the importance of

new ideas. This study steers towards simplicity to support the practical value of the study, but the theory represents a more complex picture.

When we look at the National Budget speech which is delivered by the Minister of Finance, we need to pay attention to two specific areas: the 'income' section, which talks about where the government gets its money from, and the 'expenses' section which is how government will spend this money.

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5 FINDINGS

Building a strong small business sector, with the goals of 90% of new jobs being created by small business is a clearly stated objective in the NDP. Thus far, this objective has been criticised as being arithmetically unlikely, and cautions are raised that inequality provides a break on massive upward mobility via the market. This section extends this critique of the NDP through a set of findings that indicate that the current programme of government remains too haphazard and to small too have the impacts imagined in the NDP.

The findings are a result of five separate analytical activities. These are discussed separately, as each analytical activity provides a different perspective. The activities undertaken are:

1. Dimensional analysis of codes used to understand characteristics of budget votes.
2. Conventional budget analysis that provides analyses of nominal and real changes and on the priority given to small business.
3. Review of tax data from the budget documentation and a discussion on the implications of taxes.
4. Coding of themes that emerge from the data.

The analytical activities are described as within-case analysis and cross-case analysis. The processes covered in the within case analysis are often purely descriptions. Such an exercise of recording the data is undertaken and included in an appendix (See Appendix Four). This section ends with a discussion of themes that extracts core project rationales from the write-up of data, and this is discussed under the section titled themes. This provides a linkage between the individuals codes and the wider patterns that have emerged. The cross-case patterns that emerge are also

discussed here as the data on budgets and taxes are amenable to quantitative analysis, but also from the coding techniques employed in this paper. Simply stated, the relationships between within case and cross-case patterns cannot be viewed as separate and discreet activities, but activities that relate to each other.

5.1 Findings From Coded Data

This section provides an overview of a process called "dimensional analysis" in a variants of grounded theory (Schatzman, 1991). The intent is to find dimensions in the data, that provide ways to understand what is 'going on'. The process of dimensional analysis leads to quantitative results that can be measured using conventional statistical techniques. This is made easier by the fact that budget data have a system of organising information that is quantitative. This section starts by describing how the dataset was constructed, that is, the series of judgements on what to include and exclude in the dataset. Next, an overview of the number and prevalence of the data is presented. Finally, a set of themes that emerge from the data are presented.

5.1.1 Constructing The Dataset

The dataset on expenditure is constructed during the process of first and second cycle coding. The process involves reviewing narrative reports, performance indicators and the descriptions of line items. Three rules guided the selection of budget votes included in the table:

1. **Small business or entrepreneurship focus –** This seems self-evident. However, several surprises emerged (including large allocations in a school nutrition programme for example) through a process of first cycle coding. Essentially, this is a line by line coding of the text.
2. **The most precise budget item is selected with a preference for the largest amount –** The budget produced uses the largest number of monies that is available. To illustrate, some budgets are programmes, others sub-programmes and others are discreet line items. Where entire programmes have a rationale to support small business these are included, but sub-programmes and transfers to institutions are excluded to avoid double

counting. The most relevant example is that of SEDA, where the budget is not listed separately but as part of the programme on 'design and support' in the Department of Small Business and Development.

3. **A wide lens is utilized** – The dataset gives several programmes the benefit of the doubt, as some programmes service both small and large businesses. The most important example is that various incentives provided by the Department of Trade and Industry (DTI) are included as part of the budget envelope, even though in practice the incentives are skewed heavily in favour of big business.

The intent here is **not** precision of determining a 'small business budget', but rather an accurate indication of spending. This is due primarily due to providing a comprehensive review of all available budget information, not just those with budget line item attached to it . There are other sources of non-numeric information in the budget document that is crucial to understanding the budget. More importantly, breaking down some budgets into a specific number that benefit small business is not possible, as there are often multiple beneficiaries.

Four choices that were made in constructing the dataset require some explanation.

1. **Inclusion of incentives administered by the DTI** – As noted above, the inclusion is based on intent in programme descriptions, even though the practice suggests something different.
2. **Exclusion of several delivery agencies** – The budget information for delivery agencies is not clearly delineated and funds are often earmarked for different purposes or not clearly linked to small business. For example, SEDA received transfers from more than one government department. Another example, the Industrial Development Corporation is not focussed on small business. Agencies like the National Empowerment Fund (NEF) is funded via an endowment, and budget data is unclear on any transfers to the Land and Agricultural Development Bank of South Africa. Simply stated, if there is no clear line item or the purpose is not related to small business, adding these items into the budget would lead to unreliable estimates. The

one caveat is that due to attempting to capture as large an amount as possible, some of these activities might be included.

3. **Inclusion of spatially related programmes of economic development.** There are several programmes aimed at economic transformation within a geographic space. This includes very specific areas such as those identified as 'Special Economic Zones' and others are less defined, like support for secondary cities. Initially these were excluded, but through reviewing the programme documentation a focus on supporting small business is observable. Here again, not every cent is dedicated to small business, but rather that there is an intent to support small business. Most importantly, developing policies on small business in South Africa requires understanding of a spatial context of different property rights in TAA areas, and of the legacies of apartheid planning.
4. **Including the School Nutrition Programme.** The school nutrition programme has a significantly larger budget than all other identified programmes but has a strong focus on supporting small business development. Whilst it delivers food to schools through a range of service providers, including using small companies. For this reason, the budget is included. Where possible, the data is presented to include results with and without the inclusion of the school nutrition programme.

5.1.2 Prevalence Of Data

Table 5-1 provides a summary of information on which government departments had relevant information and which did not. It is important to note that procurement in particular is excluded, as that will include all government departments. Procurement is however discussed later in this chapter.

Table 5-1: Information availability per government department

Departments Without Information (N=8)	Departments with Information (N=32)
The Presidency Parliament International Relations and Cooperation Health Correctional Services Independent Police Investigative Directorate Justice and Constitutional Development Office of the Chief Justice and Judicial Administration	Communications Cooperative Governance and Traditional Affairs Home Affairs National Treasury Planning, Monitoring and Evaluation Public Enterprises Public Service and Administration Public Works Statistics South Africa Women Basic Education Higher Education and Training Social Development Defence and Military Veterans Police Agriculture, Forestry and Fisheries Economic Development Energy Environmental Affairs Labour Mineral Resources Science and Technology Small Business Development Telecommunications and Postal Services Tourism Trade and Industry Transport Water and Sanitation Arts and Culture Human Settlements Rural Development and Land Reform Sport and Recreation South Africa

The data provides an important indicator on the availability of data on SMMEs spending across government departments. The graph below shows that 32 out of 40 budget votes (80%) have programmes, initiatives or a direct reference to small business and entrepreneurship. The intent of open coding is to be as inclusive as possible, so as to ensure the unbiased emergence of themes.

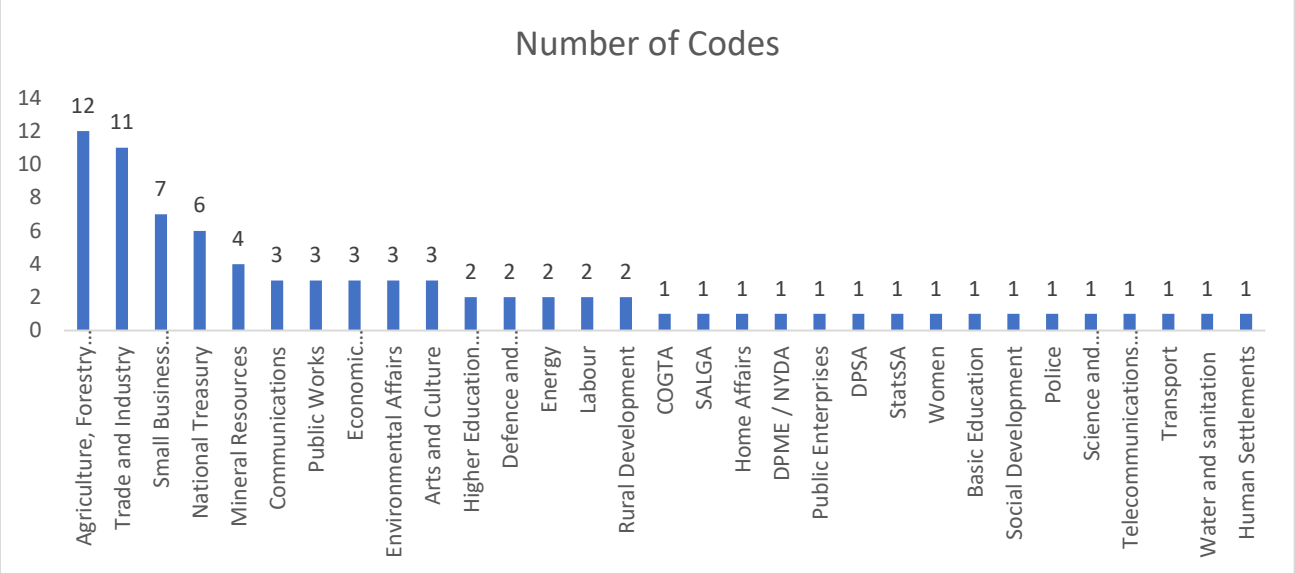
Even at this basic level of analysis, an important feature emerges. Departments concerned with policing, safety, prisons and courts do not have specific programmes

targeted at small business. This is of significance for two related reasons. First, SMMEs regularly cite crime as a major challenge being faced in the running of businesses. Second, the social significance of this must be noted. The rehabilitation programme for offenders includes integration back into society, which includes support for finding work, but there is no specific reference to using business ownership to improve integration into society.

5.1.3 Distribution Of Incidents

Amongst the departments that contain information relevant to small business and entrepreneurship, there is a great diversity in the number of codes that are observable. The graph below shows the number of codes identified in each department which exhibits a longtail distribution.

Figure 5-1: Number of codes per department



This distribution indicates the presence of at least some activities across a range of departments. This is of significance as departments such as National Treasury, Trade and Industry; and Agriculture, Forestry and Fishing are areas where activity on small business is expected. In the case of the Department of Agriculture, Forestry and Fisheries (DAFF) the large number of codes is because three major economic sectors (viz. agriculture, forestry and fishing) are grouped together under one budget vote.

However, the key economics departments (e.g. DSBD and NT) also have many codes. This is also significant, as it brings forth an understanding that government policies on small business operates at both at an economic sector level and across the economy. An additional and surprising fact are codes in several departments related to social development, especially in Basic Education.

5.2 Dimensional Analysis – Descriptive Statistics

This section provides relevant statistical results from the 'dimensional analysis'. The variables used for the data are:

- Key Performance Indicators;
- Budget Data;
- Industrial Sectors;
- Spatial Patterns; and
- Necessity vs. opportunity-based businesses.

This section provides a description of the data, primarily using frequencies.

5.2.1 Key Performance Indicators

South Africa's government has a strong focus on the measurement of performance. The rollout of the national monitoring system has seen the emergence of a process of developing planning and monitoring documents. A snapshot of these documents is presented in the *Estimates of Expenditure (ENE)* and includes 'high level' or rather most important indicators for the department. In other words, if small business were a priority for a department it would surface as a priority in budget documentation – which serves as both a summary and a culmination of planning and budgeting processes in departments.

Hence, once codes were identified, a reading of the full budget documentation and especially the section reporting on KPIs was undertaken with the aim of exploring whether the KPIs could be associated with any codes. The data was coded such that if a KPI was connected to a code, it was coded 'Yes', if not, it was coded, 'No'. The results are shown in Table 5-2, which indicates that of the 84 areas included in analysis, only 32 (38.1%) are attached to a Key Performance Indicator.

Table 5-2: Is a code linked to a KPI?

	Frequency	Percent	Valid Percent	Cumulative Percent
No	52	61.9	61.9	61.9
Yes	32	38.1	38.1	100.0
Total	84	100.0	100.0	

Of the 32 codes that are directly linked to a KPI, the vast majority have an external focus – see Table 5-3. By external focus it is meant that the KPI is linked to a beneficiary outside of the department in question and is not related to improving the internal efficiency of the department. The data also shows that there are no internally focussed KPIs. One KPI was excluded from the analysis as the description was not entirely clear. Nonetheless, the results are encouraging in that in government departments when a KPI is related to SMMEs it is most likely to have an external focus.

Table 5-3: Is the KPI internally focused on externally focused?

	Frequency	Percent	Valid Percent	Cumulative Percent
External	31	36.9	36.9	36.9
Not applicable	53	63.1	63.1	100.0
Total	84	100.0	100.0	

5.2.2 BUDGET DATA

An analysis of various dimensions of the budget is presented below. Here our focus is simply on understanding the prevalence of budget data being linked to a code where an identified code is not only a budget line item but could include a KPI or suasions in the budget documentation. This section provides information when a clear line item is available and can be linked to a code. The data shows that 47.6% of all codes could be attached to a budget, or 40 out 84 possible codes.

Table 5-4: Is a code included in SMME Budget?

	Frequency	Percent	Valid Percent	Cumulative Percent
Not included	44	52.4	52.4	52.4
Included in SMME Budget	40	47.6	47.6	100.0
Total	84	100.0	100.0	

5.2.3 INDUSTRIAL SECTORS

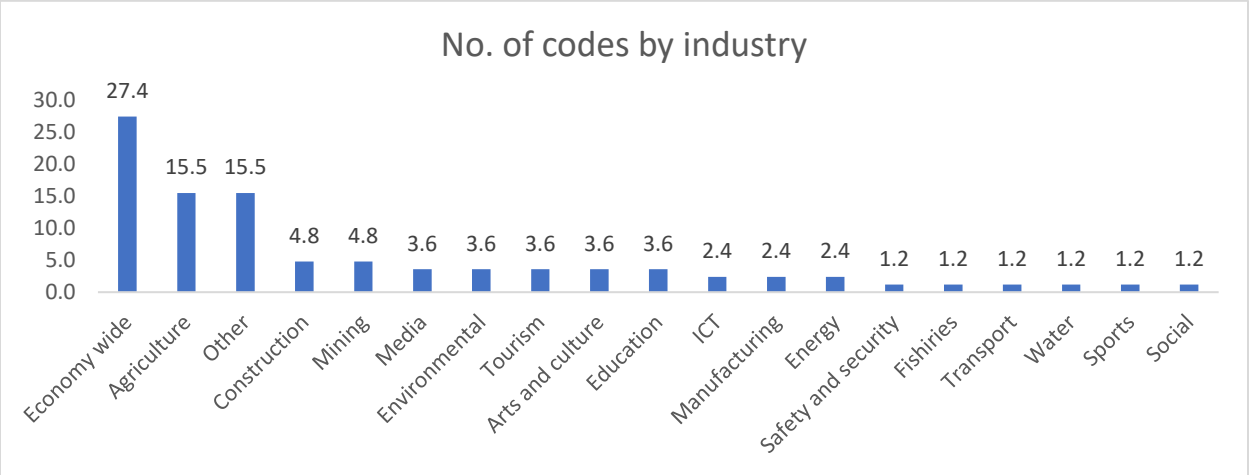
One of the important debates on policy to support small business is whether support should be focussed in an industrial sector (i.e. sector policy) or provide economy wide support. Of course, that debate assumes that government support for small business and entrepreneurship is a valid policy objective. The analysis shows that 41 (48.8%) of all codes can be linked to an intervention or project or something else related to a specific sector.

Table 5-5: Are codes linked to an industrial sector?

	Frequency	Percent	Valid Percent	Cumulative Percent
No	43	51.2	51.2	51.2
Yes	41	48.8	48.8	100.0
Total	84	100.0	100.0	

The spread across the different industrial sector is incredibly wide as evidenced in Figure 5-2.

Figure 5-2: Number of codes by industry (%)



From Figure 5-2 we learn that:

- A large percentage of codes are focussed on the **wider economy**, which means many different things in the budget documentation. It might mean that incentives are available across different businesses, or that the institution provides financial or non-financial support across the economy.
- The number of projects should not be confused with size of the budget. As is discussed later, the budgets are significantly skewed towards the social sector, which is a counterintuitive finding.
- The category "other" includes a range of programmes, including all those termed spatial. The reason for tagging these programmes "other" is that there is some overlap between projects that have a spatial focus and are linked to an industry. The table below compares industry projects, by whether they have a defined spatial focus. The table shows that in some industrial sectors, there are projects that have a clear geographic area they are operating in. For instance, fisheries are focussed on fishing communities on the Ocean, and agri-parks have a list of areas that are identified for agri-parks. In some sectors 100% of codes have a linkage to spatial area, and not too much can be read into this as in some departments there is only one

code. The data does however show that most projects and programmes are not linked to a specific spatial location.

Table 5-6: Codes by Industry and Spatial Location

Sector	Is the programme or project defined spatially?		Total
	No	Yes	
Agriculture	76.9%	23.1%	100.0%
ICT	100.0%		100.0%
Manufacturing	100.0%		100.0%
Construction	75.0%	25.0%	100.0%
Media	100.0%		100.0%
Safety and security	100.0%		100.0%
Fisheries		100.0%	100.0%
Energy	50.0%	50.0%	100.0%
Other	84.6%	15.4%	100.0%
Environmental	66.7%	33.3%	100.0%
Mining	100.0%		100.0%
Tourism	66.7%	33.3%	100.0%
Transport	100.0%		100.0%
Water	100.0%		100.0%
Arts and culture	100.0%		100.0%
Sports	100.0%		100.0%
Education	100.0%		100.0%
Social	100.0%		100.0%
Economy wide	95.7%	4.3%	100.0%
Total	86.9%	13.1%	100.0%

P= 0.472

5.3 Relationships In The Data

There are a couple of interesting relationships that emerge from the data, and these are discussed below. The relationships between industrial sectors, KPIs and budgets are particularly interesting. The KPIs and budget data provide information on the possible performance of the programme, while coding the data by industrial sector provides information on the types of interventions being undertaken.

5.3.1 KPIs And Budgets

One of the underpinnings of government programmes is that activities must have budget and must be tracked via a KPI. A good programme or project in government thus has an assumption of having both a budget and a KPI.

Table 5-7: Does the code have a budget and a KPI attached to it?

		Does the code have a budget?	
		No	Yes
Does the code have a KPI?	No	38.1	23.8
	Yes	14.3	23.8

p=0.032

The data indicates that only 23.8% of codes have both a KPI and budget attached to them. This is significant as without a clear budget and a relate KPI bureaucrats and politicians may find motivating for continued budget allocations more difficult. Most importantly, the largest segment (38.1%) have neither a KPI nor a budget attached to them. In some instances, this might simply be an indicator of future intent, like the venture capital firms mentioned in the reporting of the *Unemployment Insurance Fund (UIF)* and by programmes focussed on military veterans. However, in other areas there is little evidence that a policy intervention, programme or even a project is in the pipeline. In these cases, it would seem that departments are paying lip service to SMME development, as they neither have a budget nor a performance indicator to support delivery.

Of interest is that 23.8% of sample indicate that a budget is available but is not attached to a KPI. This is particularly interesting as government has attempted to introduce a monitoring and evaluation system. The availability of a budget but no KPI suggests that departments are at various stages in mainstreaming SMME into their programmes.

Conceptually, this is an important finding – there are projects and programmes with or without KPIs and budgets, that seek to support small business. This finding is further developed in the discussion on projects versus policy in the discussion chapter.

5.3.2 KPIs And Sectors

Given the messaging from government, there is an anticipation that KPIs would be linked to specific industrial sectors. This is due to the message from government that it will seek a range of interventions at a sectoral level as indicated in the IPAP and the Agricultural Policy Action Plan (APAP). The table below shows the results of a crosstab between KPIs being recorded and whether a code can be linked to an industrial sector.

Table 5-8: Crosstab KPIs and Sectors

		Is it linked to a specific sector?		
		No	Yes	Total
Does the project have a KPI?	No	32.1%	29.8%	61.9%
	Yes	19.0%	19.0%	38.1%
Total		51.2%	48.8%	100.0%

p=0.864

The data shows that only 19% of sample has both a KPI and is linked to a sector. At the same time, 32.1% have neither a KPI nor are linked to a specific sector. The data is in fact important because of the wide range of industry related initiatives that are being undertaken by government departments in various sectors. In addition, there are ways to record these activities in programmes like the Industrial Policy Action Plan (IPAP), but there seems little overlap between the IPAP and the various initiatives listed here. The same is true for the APAP which seeks to provide a coherent and complete set of actions that government will undertake.

In terms of the data, there is very little difference between whether a code is linked to an industrial sector and who implements the projects (See Table 5-9). This is curious insight as a sector programme should traditionally have strong partnership approaches, and it would follow that implementation should most likely occur outside of the department. This is however not the case as shown in the data. In a statistical sense, the results are not significant, having a p-value of 0.717.

Table 5-9: Sector by who implements the project

% within Sector (0,1)						
		Who implements this project?				Total
		Department	Entity that reports to the department	Outside Agency	Mixed	
Sector (0,1)	No	42.9%	33.3%	14.3%	9.5%	100.0%
	Yes	42.5%	30.0%	10.0%	17.5%	100.0%
Total		42.7%	31.7%	12.2%	13.4%	100.0%

p=.717

5.3.3 BUDGETS AND IMPLEMENTATION

Delivering public services can occur in a variety of ways. The table below compares the implementation type with inclusion in the SMME budget. Overall, indirect delivery by an outside agency is much more likely to be attached to a clear budget, as compared to other forms of delivery. Surprisingly, programmes that have a "mixed" delivery method have the highest number of items included in the SMME budget. This is due to these often being programmes involving government and social partners, or programmes that have multiple delivery paths. In a statistical sense, the differences are not significant as the p-value for the 0.179.

Table 5-10: Crosstab implementation and inclusion in SMME budget

	Who implements this project?				Total
	Department	Entity that reports to the department	Outside Agency	Mixed	
Not included	48.6%	69.2%	40.0%	36.4%	52.4%
Included in SMME Budget	51.4%	30.8%	60.0%	63.6%	47.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

p=0.179

Another area that is not statistically significant is the crosstab between budgets and an industrial sector. The results indicate that 51.2% of all sector codes, are attached to a budget. This is higher than codes not deemed to belong to a sector, but still about half of sector codes are not attached to a budget.

Table 5-11: Crosstab inclusion in budget and sector

	Sector (0,1)		Total
	No	Yes	
Not included	55.8%	48.8%	52.4%
Included in SMME Budget	44.2%	51.2%	47.6%
Total	100.0%	100.0%	100.0%

p=0.159

5.3.4 Summary Of Relationships Between Variables

A summary of the data analysed above is now presented, to help consolidate learning. The key findings are:

1. **Not much statistical significance:** The majority of crosstabs reveal little significance in the results. In a sense, this is expected as there is little coordination between government departments, and little alignment within departments between SMME work, budgets and KPIs.
2. **KPIs – Budget however significant.** The data shows that from a statistically significant result when budgets and KPIs are cross tabbed. This makes sense, as government has a process of organizing budgets according to

KPIs. The idea being that a link between budgets and KPI can be easily achieved.

3. **Sectors –** The wide number of activities across many sectors is an interesting observation to note, even if it has no statistically significant relationship to other departments.

5.4 Analysis Of Expenditure

This section presents budget data comparing the overall budget aiming to ascertain:

- Priority given to the budget
- Progress
- Equity
- Adequacy

The box below provides an indication of the questions being asked in each section. In addition, where possible the analyses are conducted at an aggregated level, and at a departmental level.

Box 5-1: Foci and questions in budget analyses

Focus	Key question	Outcome of analysis
1. Priority	How does the budget for this purpose compare to resources spent in other areas?	Assess whether these budget priorities are in line with government's policy promises and commitments
2. Progress	Is government's budgeting on this issue improving over time?	Monitor whether government is shifting its priorities over time
3. Equity	Are resources being allocated or spent fairly?	Evaluate whether government budgets discriminate unfairly
4. Adequacy	How much is being allocated to this issue?	See whether government's allocation is sufficient. Consider whether government allocations are keeping up with inflation

Source: Institute of Security Studies (2012)

Readers should note that an appendix provides all the tables used in these analyses.

5.4.1 PRIORITY

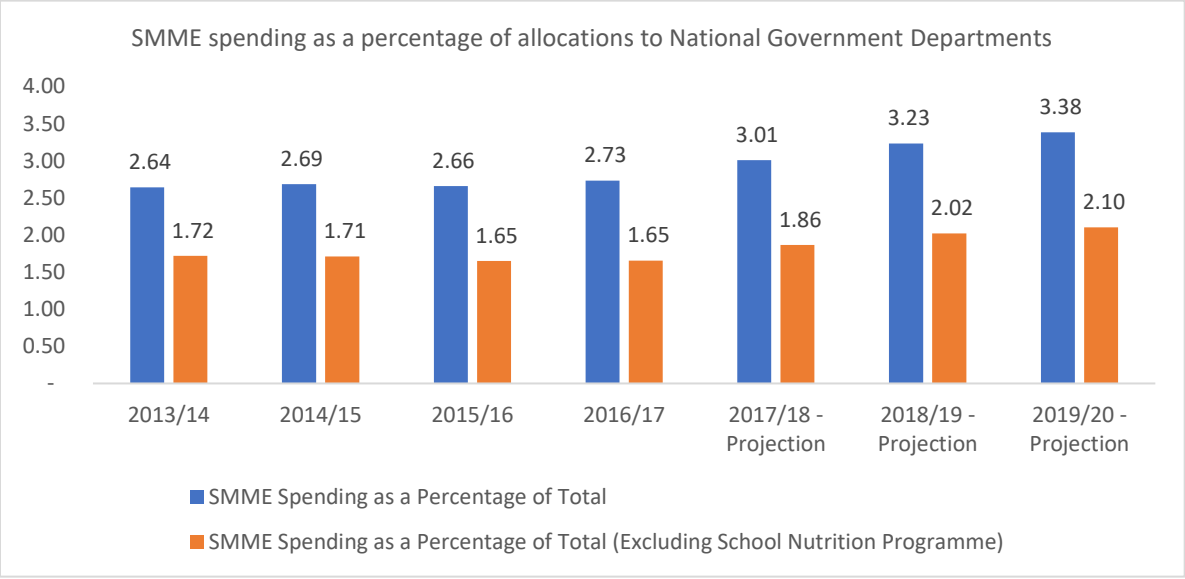
Given the wide support for small business and entrepreneurship in South Africa, a reasonable expectation would be that allocations would reflect this priority. It raises a question, how big does an allocation need to be, to be considered a priority? In some respects, the answer is subjective, and in others more objective measures are used to determine the outcome (e.g. looking at the gap between the budget and needs).

The question can however be answered with reference to the available data. Three measures that provide an indication of priority are possible. These are:

1. comparison between the identified budget line items and the total budget;
2. comparison in the growth of budgets over the Medium-Term in real and nominal terms; and
3. a comparison of percentage of total spending and growth over the MTEF at a departmental level. The analyses proceed along these lines.

The chart below shows the spending on SMME as a percentage of total spending by national departments.

Figure 5-3: SMME spending as a percentage of allocations to National Government Departments

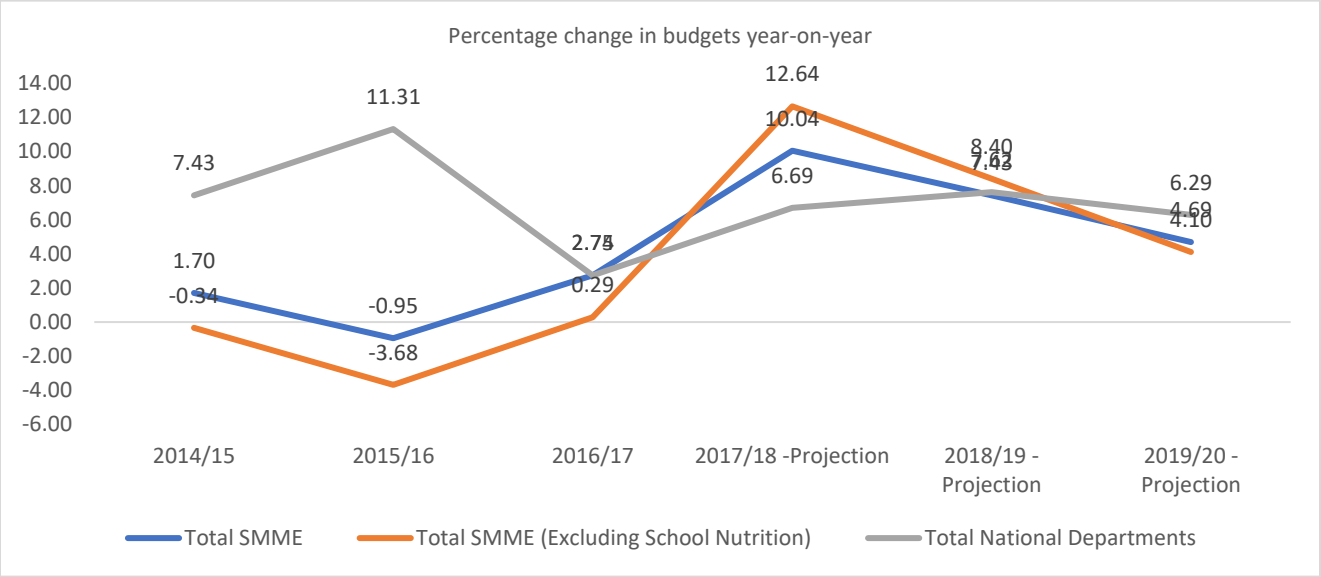


The data shows that spending on SMMEs is less than 4% on every measure. When school nutrition programme is excluded, the range is only between 1.7% and 2.1%. On this measure of priority, the data suggests that allocations to programmes on small business is small as a percentage of total spending.

One argument worth considering is that the amount of allocations in themselves do not say much about the efficiency of spending. In this case, there is a potentially good argument to make that government can achieve big results without needing to spend lots of monies. This is an argument that is intriguing, and one that we debate fully in the chapter titled 'Discussion'. In brief, the response provided indicates that a pathway is possible for not increasing budgets specifically for SMME development and attaining results, but that this requires greater coordination of economic policies and significant increases in spending in areas such as social security.

When one looks at the comparison in percentage terms, the reader is not given an indication of whether SMME spending is growing more quickly than other forms of spending. The chart below calculates the growth of the budget (i.e. percentage change) for total spending and SMME spending.

Figure 5-4: Percentage change in SMME budgets and total budgets, 2014/15 to 2019/20

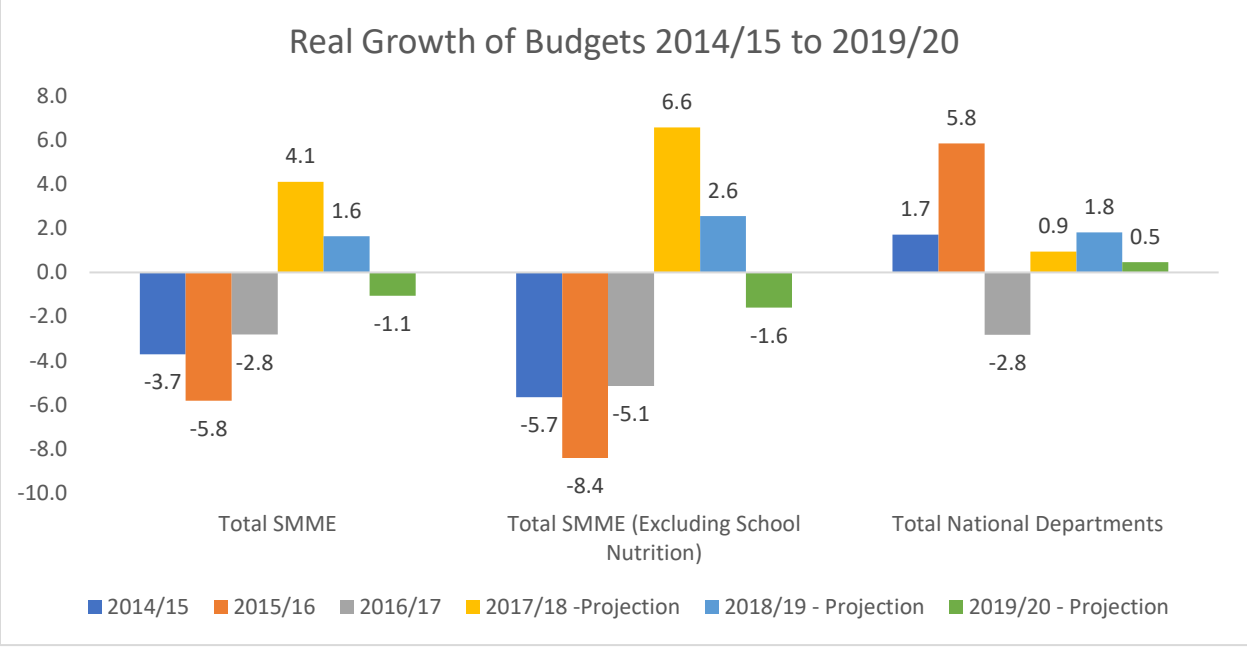


The results show that between 2014/15 and 2016/17, SMME budgets grew very slowly or even declined as compared to the total for national departments. From 2017/18 onwards, the growth of the SMME budget is more closely linked to trend for budgets for national departments. In explaining these results, the following is important:

- New programmes have been introduced in 2017/18. These include programmes aimed at Early Childhood Development and recycling. Some programmes like the Tourism Incentive Grant received larger allocations.
- The outer years of the MTEF are often imprecise. This is due to government projecting a significant reduction in the budget deficit, which means that expenditure is projected to grow slowly. The reality is however that government spending usually rises at least above inflation in the outer years.
- Several programmes focussed on SMMEs have seen declines in allocations in 2014/15 and 2016/17 because of government's belt tightening exercise.

This provides a backdrop to understanding spending once inflation is considered. The chart below provides a summary representation of year-on-year changes once inflation is considered.

Figure 5-5: Real Growth of Budgets 2014/15 to 2019/20



The data provides some counter-intuitive results when inflation is factored in. It shows that for the periods 2014/15 to 2016/17, spending on SMMEs by national government departments has decreased in real terms. Spending is however projected to increase from 2017/18 to 2018/19 in real terms. Of additional interest is that total budgets for national departments experiences a year with a negative real growth in 2016/17, which is an odd but accurate finding based on the analysis.

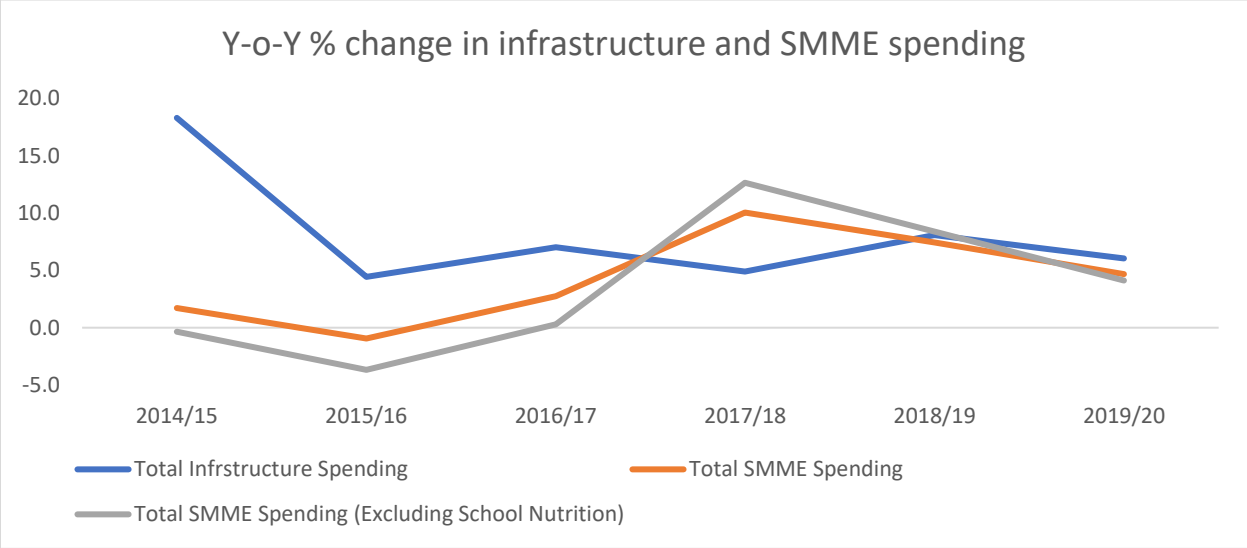
The results indicate that government spending on SMMEs has not yet experienced a rapid growth in spending. This indicates that government cannot claim to have provided a massive boost to SMME development during the period under review.

5.4.2 Progress

In assessing progress, one is attempting to more fully understand whether government is shifting priorities over time. This is difficult to undertake because as noted in the methods section, the data is not organised in a way to easily interpret SMME spending. Government however does report on the activities of national government departments grouping spending on infrastructure and personnel by department and providing a total that is specific to national departments. This allows for an overall comparison of the constructed SMME budget with spending on infrastructure. This provides some measure of the scale of spending on two priority areas.

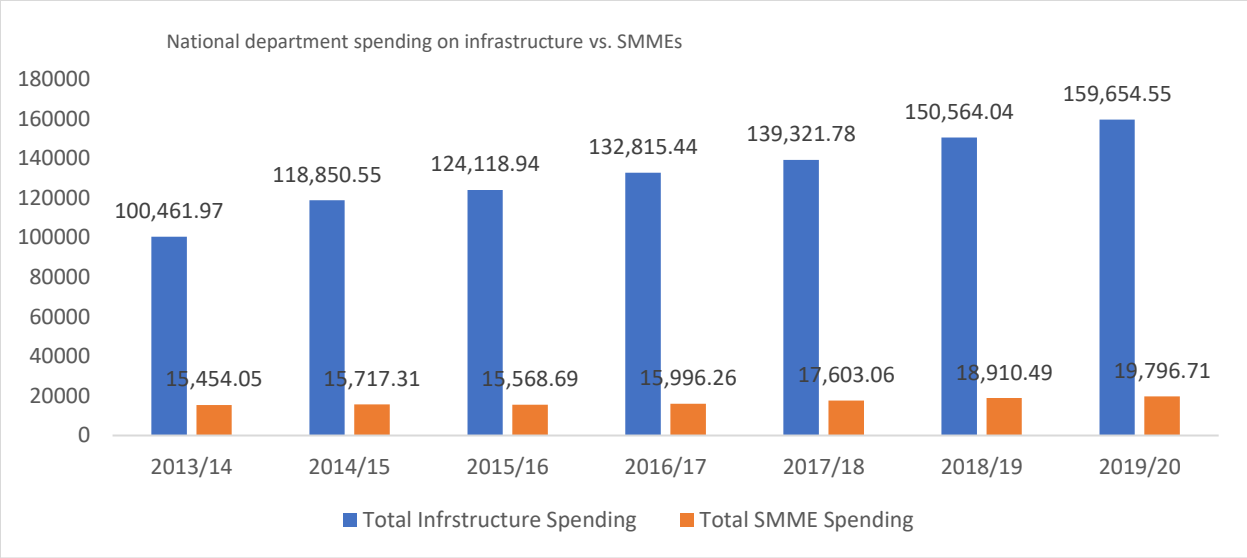
The chart below compares total infrastructure spending by national departments with the budget constructed to represent spending on SMMEs. This analysis shows that spending on SMMEs will rise and fall in a similar way to spending on infrastructure.

Figure 5-6: Year on Year Percentage change in infrastructure and SMME spending



The amounts spent on infrastructure versus the SMME budget are, however, of very different magnitudes. The table below provides nominal budgets for infrastructure and SMME spending. This shows that between R 15bn -R20bn is spent on SMME, in comparison to R 100bn -R 160bn on infrastructure. No doubt there is some double counting of infrastructure projects that might benefit SMME, but the difference in nominal amounts are stark.

Figure 5-7: National department spending on infrastructure vs. SMMEs



In this view, SMME spending is a fraction of spending on infrastructure by national departments. In the discussion section, this theme is taken up, arguing that infrastructure spending is likely to be skewed towards the needs of larger companies, especially on improving logistics and in providing utilities.

5.4.3 Assessing The Budget

Reference was made earlier to a set of categories traditionally used in budget analyses. This section provides a summary of the findings on this analysis. The central finding is that the budget for SMMEs is relatively a small percentage of total spending and is small in comparison to infrastructure spending. Overall, the budget – even if it rises at a higher rate than inflation – remains small and does not suggest a process of scaling interventions in these areas.

Box 5-2: Summary of Budget Analyses

Focus	Outcome of analysis	Findings
1. Priority	Assess whether these budget priorities are in line with government's policy promises and commitments	The SMME budget tracks overall percentage changes in the budget. It does not indicate a rapid increase consistent with a prioritisation of SMME development.
2. Progress	Monitor whether government is shifting its priorities over time	It is difficult to decide in this area, however, budget growth and comparison to infrastructure spending suggests that priorities remain the same.
3. Equity	Evaluate whether government budgets discriminate unfairly	Infrastructure spending is skewed towards larger companies and is much more than allocations to small business.
4. Adequacy	See whether government's allocation is sufficient. Consider whether government allocations are keeping up with inflation	Spending on SMMEs will be slightly higher than inflation over the medium-term. However, it remains doubtful that the current rate of spending will support a proliferation of small businesses.

5.5 TAXES AND PROCUREMENT

This section outlines the instances and references to tax and procurement in the budget documentation. In this section, the primary reference document is the *Budget Review 2017* (National Treasury, 2017a) . This section starts with a discussion of taxes, before discussing procurement. These are discussed separately as they have implications across sectors, and because taxes are crucial to understanding budget analysis.

The analysis of the expenditure in the budget provides for a rich source of data and information. The budget however also has a tax side. This section discusses the tax

side of the budget from four perspectives. First, a review of tax reforms focused on small business is presented. Second, the effective tax rate (once various subsidies are accounted for) are discussed. Third, an indicator of allocations by government into the economy through incentives and capital transfers is provided. Fourth, tax incentives to support the formation of venture capital companies are discussed.

5.5.1 SMALL BUSINESS TAXATION

South Africa has attempted to utilise the tax system to support SMMEs. The current tax system makes a distinction between micro and small businesses and provides applicable tax rates for each of these categories. The relevant tax tables are reproduced below.

Table 5-12: SA Tax rates as per company type

Type of Company	Tax Rate
INCOME TAX: COMPANIES	28%
INCOME TAX: SMALL BUSINESS CORPORATIONS	
0 – 75 750	0% of taxable income
75 751 – 365 000	7% of taxable income above 75 750
365 001 – 550 000	20 248 + 21% of taxable income above 365 000
550 001 and above	59 098 + 28% of taxable income above 550 000
TURNOVER TAX FOR MICRO BUSINESSES	
0 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

Source: National Treasury, 2017

Two features of this tax regime for companies are important to explain:

1. Companies and small business corporations are taxed on an income basis, while micro enterprises are taxed on turnover. The intent is to provide for both an easier administrative system for small businesses and micro-enterprises and also to reduce the effective tax rate paid by smaller companies in the economy.
2. The rate for companies on the one hand, and small and micro businesses on the other is significantly different. The table below provides a simplification of the rates, which excludes the complexity of various thresholds, for

explanatory purposes. The table below shows that micro and small businesses are provided with a tax dispensation that is significantly different than that for companies.

Table 5-13: Type of tax paid by different companies

Company	Type of tax	Tax Rate
Companies	Income	28%
Small Business Corporations	Income	0%-28%
Micro Business	Turnover	0%-3%

Source: National Treasury, 2017

The picture thus looks broadly progressive with a tax regime that seeks to benefit small and micro businesses. The NT however, notes a major challenge in the system, which is the lack of systems and procedures for moving from a micro to small business. The NT notes in Annexure C of the *Budget Review 2017,* that:

> *Qualifying micro businesses (with turnover up to R1 million a year) and small business corporations (with turnover less than R20 million a year) are eligible for preferential corporate income tax rates. The former are taxed on turnover, while the latter are taxed on taxable income. There are no transitional measures for micro businesses that grow sufficiently to migrate into the small business corporation tax regime. This can result in unforeseen tax liabilities and administrative penalties. Government proposes to reduce associated administrative penalties so that businesses can transition smoothly. (page 143)*

5.5.2 EFFECTIVE TAX RATE

The published tax rate, however differs from the effective tax rate. The World Bank working with the Davis Tax Commission have undertaken an analysis of the Marginal Effective Rate (METR). The methodology involves accounting for a range of special tax arrangements in sectors and understanding the implications on the actual tax paid. The results of this study indicate that companies are likely to pay much less than the published tax rate of 28%. The table recording the effective tax rate across sectors are shown for the economy in Table 5-14. The tables provide an indication of effective tax rates for small businesses in manufacturing when the 100% capital

allowance under Section 12E is estimated. The results indicate a large impact, with the Marginal Effective Tax Rate (METR) estimated at – 4.7%.

Table 5-14: Effective tax rate across sectors

Asset class	METR
Land	-0.4%
Residential buildings	-6.7%
Non-Residential Buildings	15.2%
Construction Works, Roads and Parking areas	42.7%
Land improvements	-0.4%
Network equipment	-105.0%
Computers and other IT Equipment	-105.0%
Motor Vehicles and Other Transport equipment	-105.0%
Plant, Machinery and other office equipment	-105.0%
Capital work in progress	-105.0%
Other property, plant and equipment	-105.0%
Computer software	1.4%
Inventory	29.0%
TOTAL	-4.7%

Source: World Bank, 2015

Table 5-15: METR across sectors

METR For investment in Asset:	MANUFACTURING	MINING *	FORESTRY and FISHING	CONSTRUCTION	TOURISM	SERVICES (not including Finance)	TRANSPORT, STORAGE & COMMUNICATION	ELECTRCITY, GAS and WATER SUPPLY
Land	11.4%	15.1%	11.4%	11.4%	11.4%	11.4%	11.4%	12.3%
Residential buildings	5.8%	-3.3%	3.5%	3.5%	3.5%	3.5%	3.5%	7.0%
Non-Residential Buildings	23.8%	28.1%	12.3%	9.5%	3.5%	3.5%	3.5%	7.0%
Construction Works, Roads and Parking areas	18.8%	20.9%	49.9%	47.2%	18.8%	18.8%	18.8%	22.4%
Land improvements	11.4%	-17.6%	-24.6%	-24.6%	-24.6%	11.4%	11.4%	12.3%
Network equipment	13.6%	31.8%	25.6%	25.6%	25.6%	25.6%	21.0%	33.2%
Computers and other IT Equipment	8.6%	23.7%	37.6%	18.2%	37.6%	37.6%	37.6%	45.7%
Motor Vehicles and Other Transport equipment		24.6%	29.1%	11.0%	19.4%	19.4%	10.2%	29.7%
	9.2%							
Plant, Machinery and other office equipment	-3.1%	-30.5%	6.3%	3.7%	2.2%	10.1%	8.3%	-7.9%
Capital work in progress	-5.9%	-30.3%	35.8%	29.3%	34.1%	34.9%	30.9%	37.4%
Other property, plant and equipment	-5.9%	-17.0%	35.8%	29.3%	34.1%	34.9%	30.9%	37.4%
Computer software	11.9%	29.7%	11.9%	11.9%	11.9%	11.9%	11.9%	25.2%
Inventory	35.5%	30.8%	35.5%	35.5%	35.5%	35.5%	35.5%	36.4%
Overall METR	19.6%	-1.2%	17.0%	19.5%	6.1%	14.0%	18.8%	23.0%

Source: World Bank, 2015

This estimation assesses the advantages of a reduced effective tax rate in relation to to compare the benefits of these tax incentives in relation to jobs and investments. This study finds a broadly positive relationship across the economy. However, a follow up report shows that certain sectors are identified as being better able to create jobs. The results of this analysis are shown in Table 5-16 below. The results indicate a complex picture between revenue foregone, and jobs created. For small business corporations (SBCs) their impact is that 13.7 jobs are created for every million Rand invested, at a cost of just over R 170 000-00 per job. It is the highest cost per job in this analysis.

Table 5-16: Implied additional Jobs because of Tax Incentives (2012)

	Employment created per million rand in Investment	Additional Investment (in million Rand)	Implied additional Employment	Revenue Foregone	Cost/Job*
Agriculture	6.6	217.4	1,441	123.5	85,701
Construction	10.7	310.3	3,333	69.0	20,704
Manufacturing	7.9	881.8	6,922	375.8	54,293
Mining	3.8	-	-	278.5	HIGH
Real Estate	0.3	-	-	141.1	HIGH
Services	22.8	439.2	10,019	156.7	15,639
Trade	8.7	213.2	1,844	78.3	42,431
Transport & Logistics	1.3	-	-	1037.8	HIGH
Utilities	0.4	-	-	617.3	HIGH
SBCs	13.7	449.1	6,167	1055.8	171,218
All Sectors	13.5	2,511.1	33,874	3936.6	116,213

* HIGH Cost/Job indicates that there is no or negligible impact of the Tax Incentive implying a high cost per job created
Source: World Bank, 2016

The data raises significant questions on the feasibility of continued investments in small business at a scale required to create 90% of jobs in small business, due to the high costs associated with creating a single job in smaller businesses.

5.5.3 INCENTIVES AND SUBSIDIES

As noted throughout the section on expenditure, government provides a range of incentives and subsidies to business in South Africa. A question arises as to the distribution of these subsidies between small, medium and large business. After an extensive review of sources, the only aggregated source of such information is the Annual Financial Statements (AFS) produced annually by Statistics South Africa. This section starts with a review of the aggregated data provided in the 2015 preliminary results prepared by Statistics South Africa. The results were checked against the results for 2014, and no major trend changes were noticeable. For reasons of ensuring that the latest data is presented, it was decided to utilise the 2015 preliminary results.

Specifically, the data provided provides two line items that directly measure the support government provides to small business. These line items are:

- Government subsidies and incentives; and
- Capital transfers received from government.

By simply summing these two line items, an indicator of support is provided that provides an aggregation of a range of incentives and subsidies. This section summarises these results, indicating that when measured at an economy wide level, big business benefits disproportionally.

Before displaying the data and analysis, the recording of the Annual Financial Statements has some important exclusions. The three most important exclusions are:

1. Financial intermediation, insurance and pension funds.
2. Agriculture, hunting and related services.
3. Government and educational institutions.

The exclusions of these sectors are due to a range of factors. Some of these exclusions improve the data, for instance through the exclusion of government and educational institutions. This exclusion provides a for a clearer indicator of market economy and

allows for a separation between work undertaken by government and by businesses in the community, social and personal services.

In the other two instances (i.e. Agriculture and Financial Services) the exclusions impact on the data, in that there is under recording of transfers. In addition, one of the major features of the data uncovered in the budget documentation is that government intends a large programme of supporting smallscale farmers, and this is not recorded in the Annual Financial Statements. It should also be noted that the data from the Department of Agriculture is dated, and the primary reason for undertaking a Census of Agriculture.

After several attempts to close these gaps, it was decided to proceed with the data in the AFS as it stood, as there were no data that could be sensibly merged into the AFS that would complete the data. Nonetheless, the data provides an important indicator of government's tax incentives and capital transfers. Moreover, it is the only available data known to the author and publicly accessible that provides such an estimation.

The table below (Table 5-17) provides a summary of data across the economy using data from the Annual Financial Statements. The table shows that small business receives only 9.9% of government subsidies and incentives, and only 1.39% of capital transfers, while medium sized businesses receive 10.6% and 0.41% respectively. Large business receives the largest share of government subsidies and incentives (79.5%) and for capital transfers (98.2%). In reading these numbers it should be remembered that these are percentages of each line item.

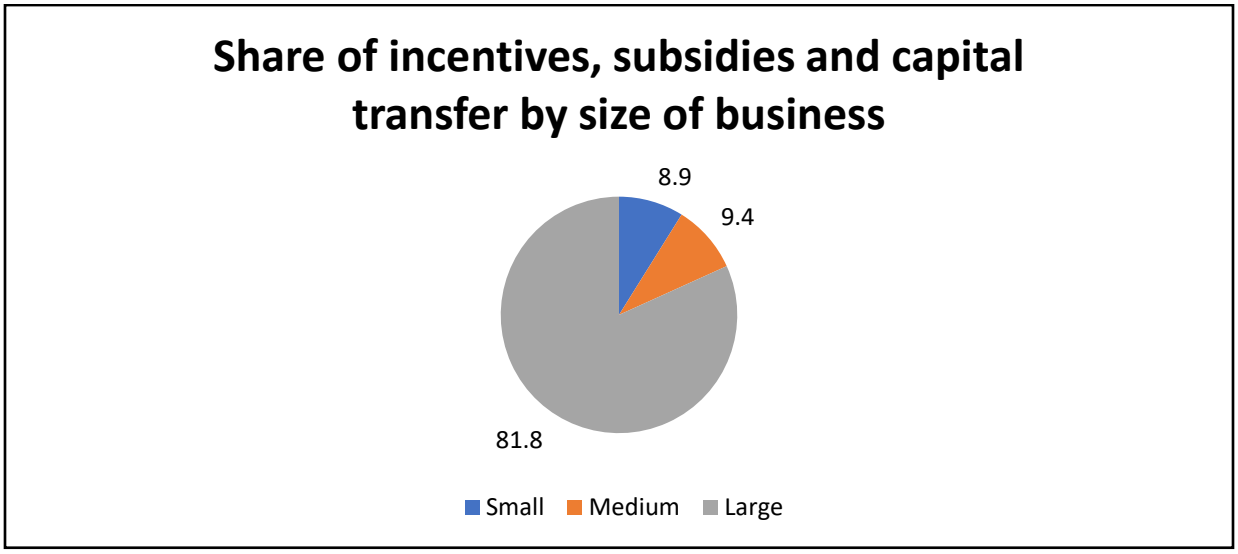
Table 5-17: Subsidies and transfers by size of companies

	Government subsidies and incentives				Capital transfers received from government				Total
	Small	Medium	Large	Sub Total	Small	Medium	Large	Sub Total	Total
All industries	2313	2469	18584	23366	44	13	3113	3170	26536
Percentage of Total									
All Industries	9.9	10.6	79.5	100	1.39	0.41	98.20	100.00	

Source: Statistics South Africa, 2015

When the line items are combined and summed, the results indicate that large business receives 81.8% of all subsidies and incentives and capital transfers.

Figure 5-8: Share of incentives, subsidies and capital transfer by size of business



Source: Statistics South Africa, 2015

The aggregated picture (see Figure 5-8) provides a reflection that when accounting for tax and other incentives large businesses benefit the most. In comparative terms, it leads to a question whether the entirety of the budget system can be viewed as being beneficial to small and medium business. The analysis requires a comparison between (a) expenditure and (b) tax and other incentives. It is a difficult undertaking, but one that is undertaken in the contextual section of this paper.

The data can be further analysed by sector of the economy, and this provides important insights into government subsidies for small, medium and large businesses. The table below shows the allocations across sectors in the economy.

Table 5-18: Sectoral breakdown of government subsidies, incentives and capital transfers by size of business

	Government subsidies and incentives				Capital transfers received from government				Combined
Sector	Small	Medium	Large	Sub-Total	Small	Medium	Large	Sub-Total	Total
Forestry and fishing	0.04	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.01
Mining and quarrying	0.39	0.16	0.03	0.08	0.00	0.00	0.00	0.00	0.07
Manufacturing	10.20	25.52	25.25	23.79	0.00	0.00	0.19	0.19	20.97
Electricity, gas and water supply	6.57	0.00	1.40	1.76	0.00	0.00	21.49	21.10	4.07
Construction	0.13	0.16	2.49	2.01	0.00	0.00	0.00	0.00	1.77
Trade	0.09	1.13	0.54	0.56	0.00	0.00	0.26	0.25	0.52
Transport, storage and communication	0.00	44.75	33.11	31.06	0.00	0.00	62.58	61.45	34.69
Activities auxiliary to financial intermediation, real estate and other business services	10.72	4.58	22.50	19.44	100.00	100.00	15.45	16.97	19.14
Community, social and personal services	71.85	23.69	14.68	21.29	0.00	0.00	0.03	0.03	18.75
All industries	100	100	100	100	100.00	100.00	100.00	100.00	100.00

Source: Statistics South Africa, 2015

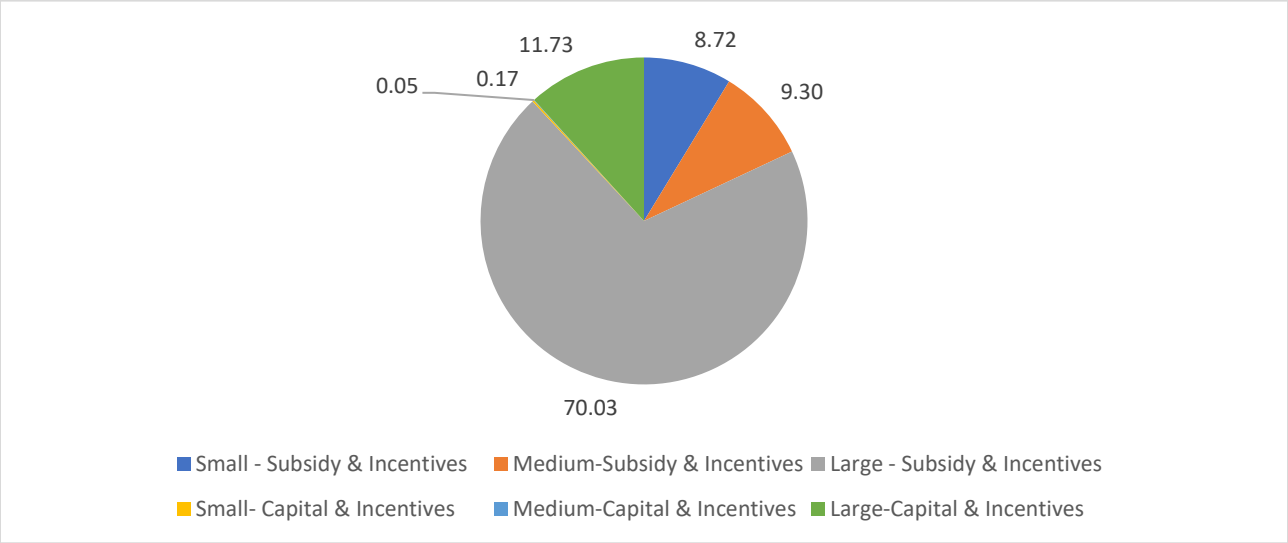
The data indicates that the largest share of incentives and capital transfers goes to transport, storage and communications, which is understandable given the allocations provided to bus companies on various routes, and for the provision of scholar transport. Interestingly, medium sized transport companies receive the single largest allocation within its category for transport, storage and communications.

An important feature of the incentives and subsidies going to small business is that 71.85% is allocated to community, social and personal services. The national account is thus recording various incentives and subsidies that government provides for undertaking social delivery programmes and other programmes that are being undertaken.

Comparing the allocations within each category (i.e. share by sector within each size category) thus provides an indication of which sectors of the economy benefits, specifically in this case for small and medium businesses. These are important insights for assessing the broader distributional outcomes of the tax system, that often goes unrecorded.

The wider picture, however, remains much more significant, which shows that large business benefits disproportionality more. Figure 5-9 below provides a segmented view of the allocations.

Figure 5-9: Breakdown of subsidies and incentives, and capital transfers (%) by size of companies



The data is represented in the table below, as the graph may be difficult to read in black and white print.

Table 5-19: Breakdown of subsidies and incentives, and capital transfers (%) by size of companies

Small - Subsidy & Incentives	8.72
Medium-Subsidy & Incentives	9.30
Large - Subsidy & Incentives	70.03
Small- Capital & Incentives	0.17
Medium-Capital & Incentives	0.05
Large-Capital & Incentives	11.73
Total	100

Sources: Statistics South Africa, 2017

5.5.4 Venture Capital Tax Incentive

The Venture Capital Tax Incentive (VCT) incentive requires further discussion, because it is geared towards providing investment in small businesses. In 2009, government introduced a deduction for any investor to deduct from income tax any

expenditure incurred in exchange for Venture Capital Company (VCC) shares. In 2014, amendments to the legislation were introduced to encourage the emergence of venture capital companies.

The results of this process have seen a significant increase in the number of VCC registered under this tax incentive. According to data on the South African revenue services website [4], there are now over 50 companies that are providing investment opportunities to investors under this incentive. The full impact of such an incentive is too early to assess. The presence of such a vehicle is however an important instrument for further analysis as we proceed to the dimensional analysis.

Table 5-20 below is calculated from data from the South African Revenue Service and shows the number of approvals under this incentive since 2012. The trend is for a significant number of new approvals after the 2014 amendments. Further, 2017 might see a record number of approvals as more companies see value in this form of investment. An indicator of the growing popularity is that at least seven South African technology related websites have provided investment advice on this instrument, which educates the public about this investment opportunity.

Table 5-20: Number of approvals of Section 12J Venture Companies

2012	1
2013	3
2014	2
2015	18
2016	16
2017 (till March 2017)	14
Total	54

Source: National Treasury data https://treasury.gov.za

5.6 PROCUREMENT

In November 2007, the South African Cabinet issued a statement supporting the introduction of "set-asides" in procurement for small business. The statement at the time read as:

[4] See http://www.sars.gov.za/ClientSegments/Businesses/Pages/Venture-Capital-Companies.aspx

Cabinet approved that 85% of expenditure on the following 10 listed products and services will be procured from SMMEs. This measure is aimed at growing SMMEs and increasing demand for goods and services from the sector. The 10 listed products and services will be as follows:

1. *advertising, media and communication*
2. *interior and exterior cleaning services and cleaning product supplies*
3. *clothing and textiles*
4. *computer equipment and consumable supplies*
5. *interior and exterior furniture and décor*
6. *events co-ordination and management*
7. *maintenance, repairs, construction and office space*
8. *travel co-ordination and shuttle services*
9. *food perishable and supplies*
10. *stationery supplies and printing*

http://www.gcis.gov.za/content/newsroom/media-releases/cabinet-statements/statement-cabinet-meeting-7-november-2007

The introduction of set-asides has, however, been slow in the making. In 2017, the new regulations for procurement should have been introduced. The NT indicated these changes in a press statement on the 23 January 2017.

The revision of the Preferential Procurement Regulations of 2011 was largely influenced by the need to provide for a mechanism to empower certain categories (Small Medium and Micro Enterprises (SMME) also classified as EMEs or QSEs, Co-operatives, Township and Rural enterprises) through procurement. This was an outcome of social dialogue on the New Growth Path (NGP) wherein government and social partners signed a Local Procurement Accord on 31 October 2011.To this end, commitment made by government was to leverage public procurement.

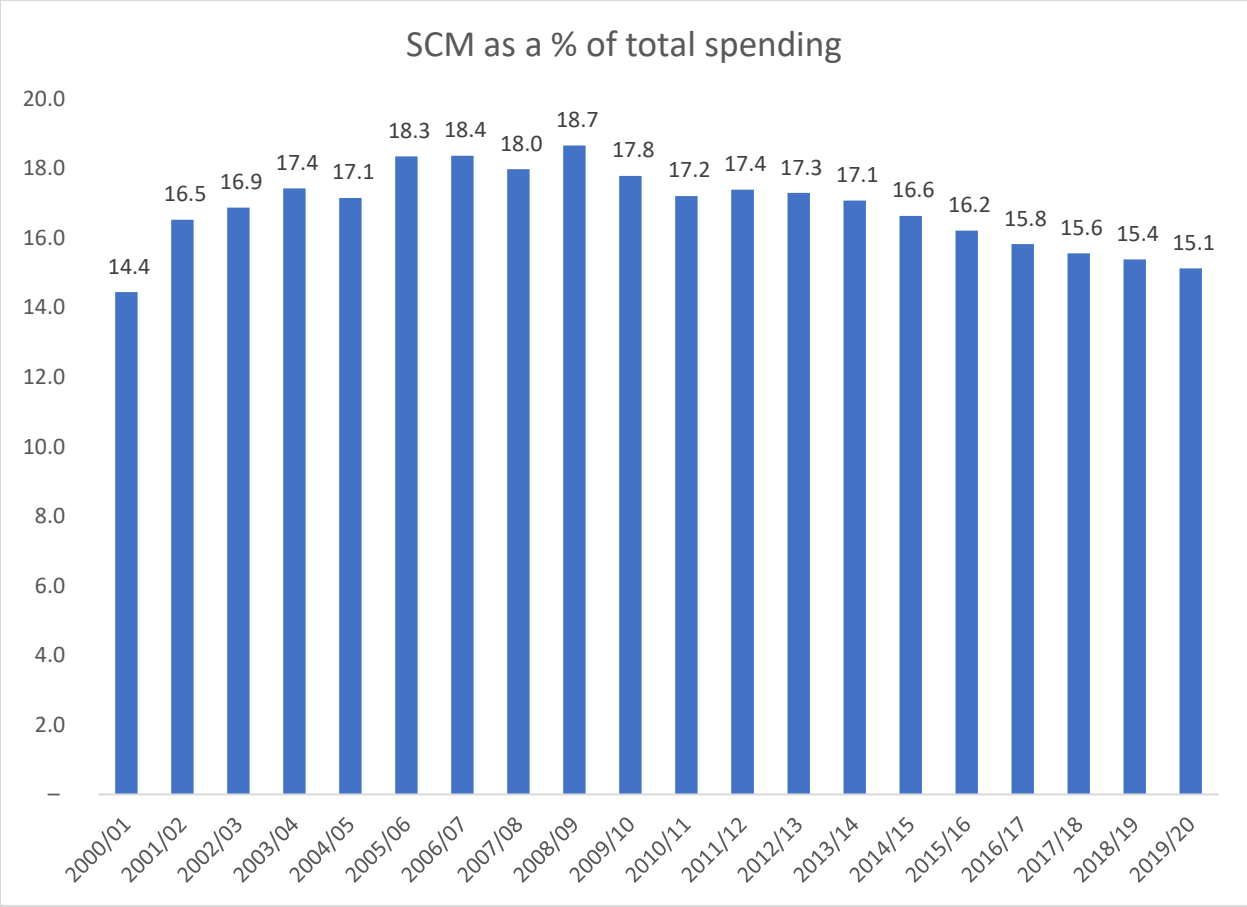
The reason for extracting quotes from the press statements is to emphasis the long-time lag between the Cabinet decision and the process unfolding at the time of writing to introduce set-asides for small business. The current proposed regulations

indicate an intent to move towards set-asides of 30% for small business, but includes co-operatives, township and rural enterprises, and other targeted groups. The specific amendments are for sub-contracting, in which 30% must be sub-contracting to smaller companies.

It is difficult to estimate the procurement budget for government. The NT however developed a method of estimating this using standard economic classification, and this measure if called the "supply chain management budget". The calculation was undertaken using this value in relation to the 2017 budget information. The results of this calculation and an estimation of the value of procurement for a 30% set-aside for small business is estimated. This provides merely an **indication** of possible value of 30% set-aside because the estimates provided in Appendix Five. This section is less interested in the value of the spend, but more focused on the share of spend.

The graph below sets out the percentage of "supply chain management budget" (SCM) in terms of total expenditure.

Figure 5-10: Percentage of budget spend on "supply chain management"

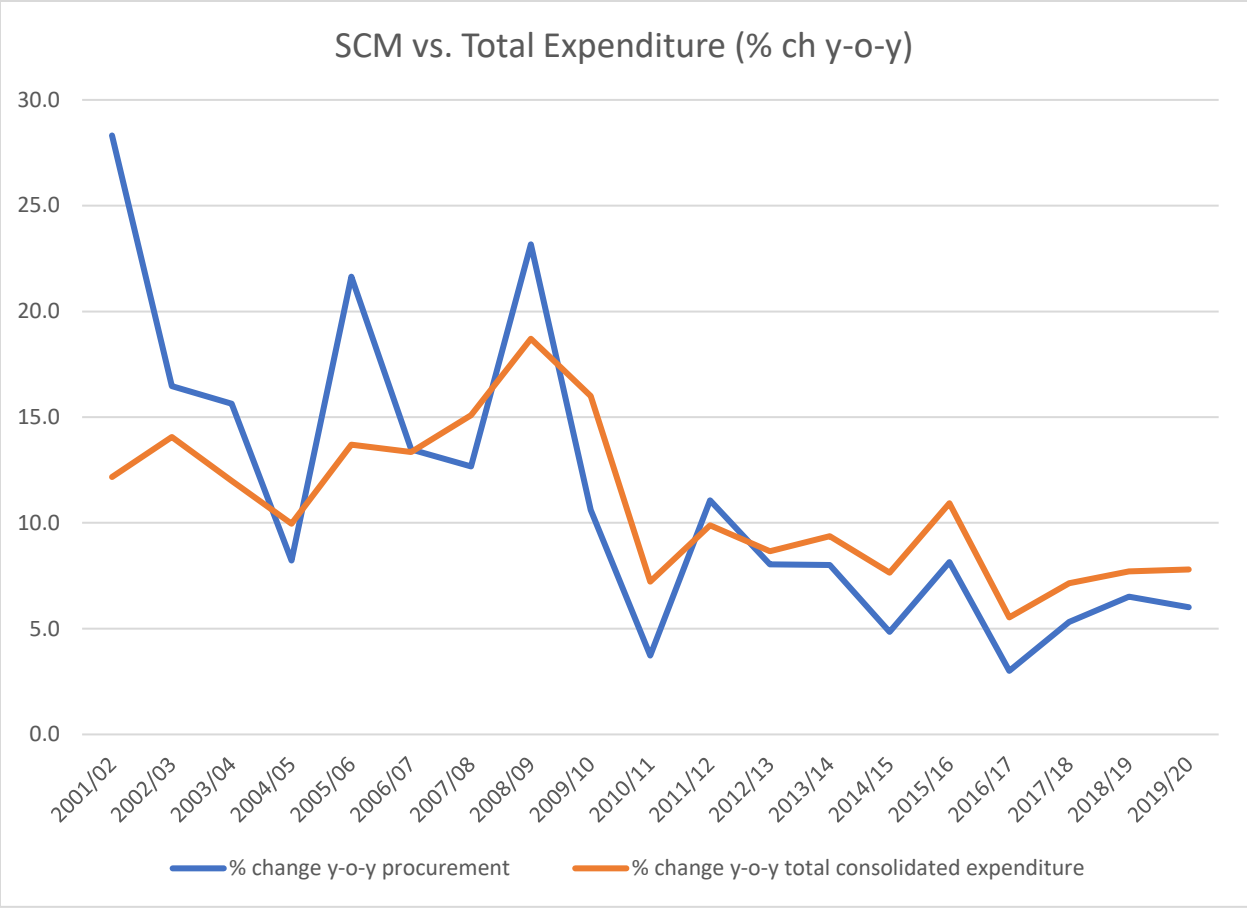


Sources: Authors calculations based on Budget Review 2017.

These calculations indicate two important features. First, that the spending on procurement is likely to decline over the MTEF to around 15% of total spending. Second, and by implications, reforms aimed at introducing set-asides or other rules to support smaller companies will be introduced in a period of declining budgets.

The intent of government can be seen in projected budgets for total expenditure versus spending on the 'supply chain management budget'. The graph below shows an important intent, that total expenditure is expected to grow more quickly than spending on procurement related activities.

Figure 5-11: Supply chain management budget in comparison to total expenditure (% Change Year-on-Year)



Sources: Authors calculations based on Budget Review 2017.

5.7 THEMES

A process of comparing each code to another was conducted, often called "within case analyses". The process involved a process of compiling a separate document of identified codes and asking a range of questions on each project. The initial set of questions included those discussed above:

- Who implements?
- How much, if there is a budget?
- Does the code seek to intervene at a sectoral or economy wide level?

This section builds on these questions through investigating the relationship between mechanisms, and outcomes. The approach followed is aimed at answering the question posed by Pawson and Tilly (1997) - what works, for whom and in what context. The exact process of arriving at an answer to this question is different from project to project, but the underlying intent to understand the relationship between mechanisms, context and outcomes remains common. This section highlights the core themes to emerge from a process of analyses that included:

- Understanding programme data through a complexity checklist.
- Grouping projects under several different matrixes.
- Bringing literature on small business and entrepreneurship into the process.

At each stage, a series of memos were undertaken. This section is directly derived from these memos.

5.7.1 Definitions of Small Business

Departments have different definitions of small business, and these differences are at a conceptual, definition and measurement levels, which has been described in the background chapter. The differences are not merely semantic, and the wider import of these differences are explored below:

- **Form of enterprise:** At a conceptual level, are forms of enterprises such as cooperatives including in a definition of small business. The legislation certainly includes them in some respects, but not in other. In the review of government departments, the only reference to 'cooperatives as a small business' is made by the DSBD. The only other incidents are the regulatory role of National Treasury in regulation of cooperatives and the inclusion of cooperatives as beneficiaries. In almost every other instance, a more conventional understanding of small business is operational. By conventional, the departments view small businesses and entrepreneurship as akin to private business ownership, and not forms of communal ownership.
- **Treating survivalist and opportunity-based businesses the same:** The programmes hardly ever mention survivalist businesses. The references

that do emerge are related to informal upgrading projects envisaged by the DSBD and in spatial programmes. Other than that, the distinction that is visible in the world, does not make its way into the design of policies. In fact, the vast majority of policies argue for an expansive definition of small business making no distinction between survivalist and opportunity-based businesses. (Arguably, the expansion would include cooperatives, even though there are limited instances where cooperatives are mentioned.)

- **Cut-off points for small business:** The legislation provides a range of cut-off points to make distinctions between small, medium and large businesses. This is overly complicated as discussed earlier in the report. In an operational sense, the definitions are even more fluid. In the case of the Isibaya Fund funding starts at R 10 million for retail, and in the case of incentives administered by the DTI thresholds assume businesses capable of handling investments over R 10 million. The cut-off points in practice are thus fluid, because whilst they have no direct exclusion of small business in the definitions, the minimum investments are much larger than those needed by small business. The Jobs Fund run by the NT is even more explicit as it does not fund businesses directly.

5.7.2 Role of Departments And Intermediaries

In the case of the Jobs Fund the model is to work with intermediaries. Government working through intermediaries is common across programmes and projects reviewed. The types of intermediaries range from non-governmental organisations to government agencies and even private sector providers. The National Departments in fact can be described as playing three major roles:

1. **Developing policy:** Across all departments there is a strong focus on the development and improvement of public policy. The underpinnings of these policy changes are however different by department and sector, but there is evidence of policy related activities across most of the identified codes.
2. **Disbursing funds to implementation agents:** The majority of government departments play a role in disbursing funds to implementation

agencies, which include state owned enterprises. Most notably, government departments transfer funds to major agencies, especially SEFA and SEDA.

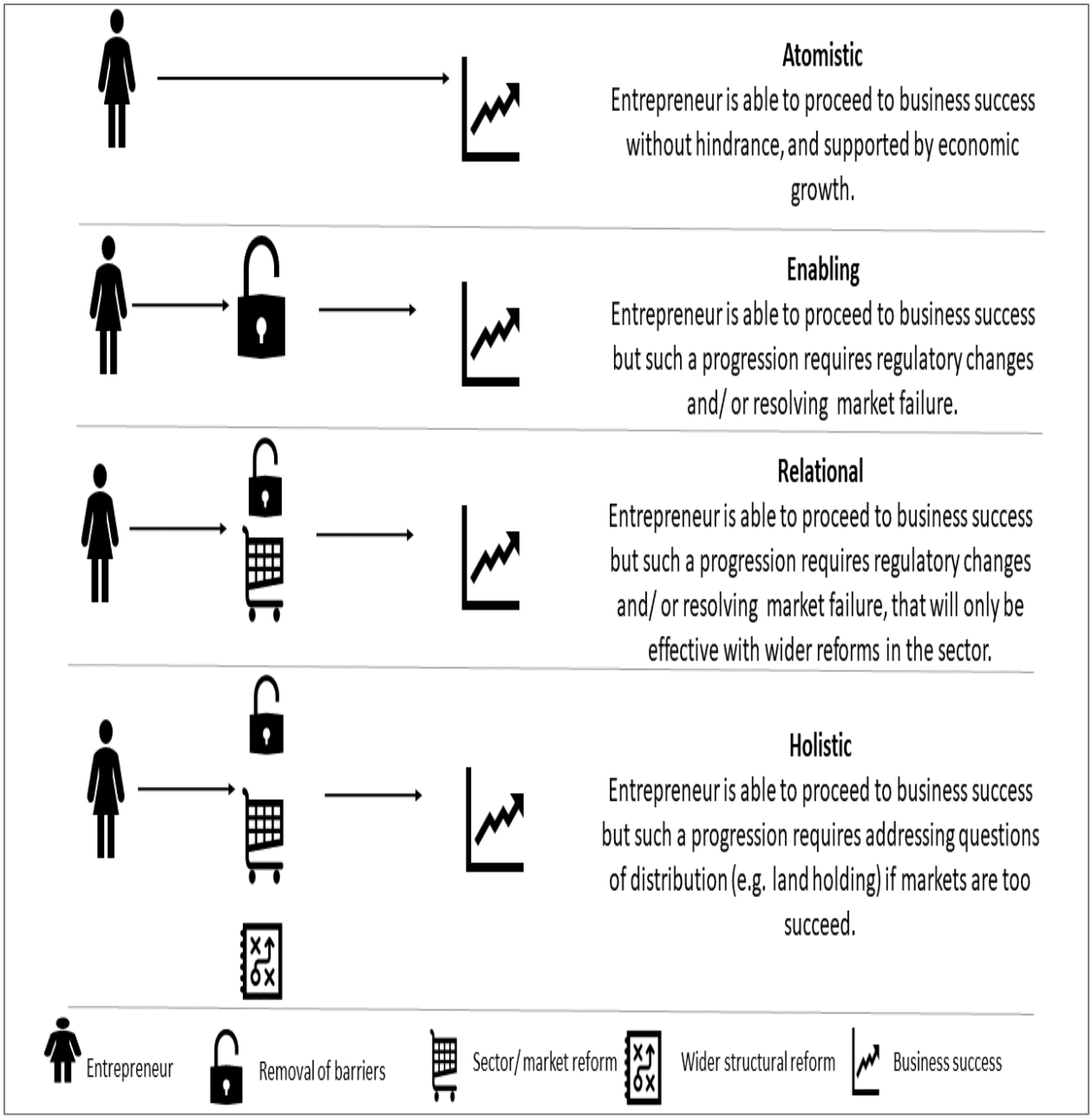
3. **Direct implementation:** In some instances, national government departments directly deliver projects to entrepreneurs. This is rare as most direct contact with entrepreneur is via an intermediary. National government departments however continue to undertake research, planning, policy development and other activities. This function – economic planning and coordination - as we debate in the discussion chapter is often crucial to successful development transitions.
4. **Regulating:** Government departments also play a regulating role either directly, or by providing funding and policy support to regulatory agencies.

The over-arching picture that emerges is one of a separation between implementation and policy. Implementation occurs largely through the agencies and intermediaries, whilst government departments are responsible for policy development and monitoring and evaluation.

5.7.3 Levels of Policy Interventions

Even though the overarching approach by government resembles "new public management" there are differences in how departments organise their delivery systems. The level of policy interventions differs by department. The interventions by government are guided by different assumptions about how entrepreneurs become successful. A typology of interventions can be constructed based on what level of support the state provides to entrepreneur. This is represented in the graphic below.

Box 5-3: Typology of mobility assumptions



The graphic depicts programmes based on what sort of intervention government intends to undertake. The four types of approaches are based on the hurdles that the entrepreneur must undertake to reach success. The four types of programmes were termed:

- **Atomistic –** to describe instances where no substantial barriers exist, and all that is needed is economic growth. In a sense, a rising tide lifts all boats
- **Enabling –** Where interventions aim to create an enabling environment for the firm through linkages policies or removing some barrier. The defining feature is that the resolution of issues can be solved at lower levels than the sector level.
- **Relational -** The relational view is largely about industrial sectors. setting and seeks to range of interventions to support growth of the industry, greater numbers of market players and requires government to play a range of roles to resolve market challenges.
- **Holistic –** The holistic or structural view argues for strategies to address initial wealth holdings, which are so unequal to render efforts at small business development unreliable.

The following table is illustrative of the types of projects and programmes in the samples that can be grouped under each heading. The intention is not to be comprehensive and not to force the data into these categories, but merely to indicate the different assumptions guiding each of the projects.

Box 5-4: Example of projects by categories

Atomistic	Enabling	Relational	Holistic
Most tax policies Fiscal management Venture capital programmes planned in UIF and military veterans	Jobs Fund NYDA SEFA SEDA	Sector programmes in Communications, Construction, Agriculture, Fisheries, Ocean Phakisa, Recycling Industry, ICT, Tourism, Arts and culture. Spatial programmes	One farmer, one-hectare policies

5.7.4 MAXIMISING BUDGETS

The coding of data under these headings provides important clues as to what government departments are doing. At the same time, these activities require budgets. Three features of the operations of budgets are important to note:

1. **Different forms of prioritisation:** The budgets have a range of prioritisation techniques. The range of techniques adopted are many and varied. The techniques included closing programmes, combining budget votes, proving endowments (e.g. NEF), separating transfers to agencies between capital and current transfers, internally restructuring the department and a range of other tactics adopted by departments. This is a wide area and requires additional study.
2. **Leveraging outside funding:** One of the major strategies being used is to leverage outside funding. This is done through various means including (a) raising debt through capital markets, for example Land Bank and SEFA; and (b) requiring co-financing or matching financing to access government's monies. The Jobs Fund and the incentivise administered by the DTI are examples of this.
3. **Prioritising beneficiaries through financial measures:** Besides better usage of funds or leveraging outside funding, there are examples of government departments seeking better beneficiaries. The basic intent is ensuring that only companies that have an already good track record or can raise enough funds for matching grants are provided access to the programme. Examples of this include the Jobs Fund, DTI incentives and National Gazelles programmes. There might be good reasons to focus on expanding firms, and it is a legitimate policy goal.

5.7.5 Designing Against Corruption

One of the features across departments is designing programmes to be less prone to corrupt activities. Two examples highlight attempts to design systems and policies in ways that stop corruption.

First, the Department of Public Service and Administration (DPSA) provides mechanisms for a financial disclosure framework that requires public service workers to disclose ownership in businesses. The intent of the policy is to ensure that conflicts of interest are reduced in the public service, and that the integrity of the procurement system is maintained.

Second, at a programme level, a range of checks are introduced to ensure that the legitimate beneficiaries are selected. These checks include ensuring that businesses are tax compliant, compliance with other legislations (e.g. skills development, occupational health and safety) and other measures. The intent is to ensure at a programme level that the operations of government are ethical.

5.7.6 Budgets For Local Economic Development

The decline of the Local Economic Development (LED) in the Department of Cooperative Governance and Traditional Affairs (COGTA) is a surprise given the traditional importance given to it in the rhetoric of government. Over the MTEF there is in fact no explicit budget labelled "LED". The reasons for the change are important to note in two respects. First, that there are significant changes within the COGTA budget with the introduction and expansion of the Community Works Programme (CWP). Second, that spending similar to LED seems to occur in several other places in the budget under different headings, most notably the Neighbourhood Partnership Grant.

5.7.7 State as a Market Creator

The government plays a role as a creator of markets, and by providing a market for services and goods. The review of programmes however indicates several ways that government engages directly and indirectly with markets in terms of procurement. The three major ways are through:

- **Direct purchasing:** The procurement process in government provides a large source of potential demand for small business. Over the years, there have been several efforts to redirect spending by government on goods and services to small and medium businesses.
- **Specifying products and paying for installation.** The linkage between changes in government policy and potential opportunities for small business emerges in the review of data in several instances. First, the changes from analogue to digital is motivated in part by government providing small businesses with opportunities to install the new dishes. Second, the

introduction of solar water heating again provides opportunities for small business to act as the installers.

- **Large buyer:** In some sectors; like performing arts, film, energy and logistics; government is the largest and often only buyer of services. For example, the SABC is one of the largest producers of content for radio, television and digital media. In the case of energy, government through its utilities retain effective control over generation, transmission and distribution of energy, and regulate renewables. Similarly, in providing logistics and rail government retains a large share of these markets. There are good reasons for this, as many of the areas mentioned above are public goods.

5.7.8 Venture Capital in Government

Several unusual sources of venture capital for start-ups emerge from the analyses. The unusual sources include the Unemployment Insurance Fund (UIF) and the Department of Military Veterans which are both seeking to create venture capital funds. This is in addition to more typical sources, such as the Public Investment Corporation (PIC). In addition, each of the industrial sectors focussed on supporting small business and entrepreneurship are interested in establishing or have established a venture capital fund.

The finding is important due to the sources of funding being unusual and traditionally not part of the basket of funds used by government to support small business. For example, the UIF has been designed to provide income support – a form of insurance for recently unemployed – and has grown its funds and reserves substantially. This is due several factors, including improvements in the operations of the fund. It is now seeking to support the growth of small business, which it argues will result in more employment. It is an unusual source of potential venture capital but remains a potentially large source of funding. The proposed establishment of the Special Purpose Vehicle (SPV) for Military Veterans is another example of an unusual

source of potential funding for venture capital. Other more conventional sources include the PIC, and funding streams through SEFA and even the National Youth Development Agency (NYDA).

The multiple references to venture capital opportunities across such a diverse number of departments is a surprising finding not just due to the sources of funding, but as a reflection that new startup businesses are viewed as a viable investment vehicle.

5.7.9 Sector Programmes

While venture capital may surprise, the sheer number of programmes focussed on an industrial sector was anticipated at the outset. In fact, any department that is associated with an industrial sector has a programme focussed on small businesses. Across the departments the programmes seek multiple goals, with small business being just one goal. The overarching goal can be described as 'transformation".

Whilst this report is not able to provide a full evaluation of these programmes, several features remain important for this analysis:

- **Sectors and multiple beneficiaries:** Across all the programmes, the beneficiaries include women, blacks, and small business. The overlap and potential conflicts between these types of businesses remains a source of contention. The objectives of programmes include a standard list of economic growth, employment creation and supporting entrepreneurship ecosystem for the sector.
- **Tensions between goals:** The tensions described in the NDP between 'sources of growth' and 'sources of jobs' is found in several of the strategy documents covering the sectors. The tension is palpable in sectors like mining and manufacturing where capital intensive project could result in large gains in terms of trade.
- **Ineffective coordination:** Follow the sector programmes and one finds them mentioned in many places and different documents. The sector strategies are for instance included in a government wide objective, included in a transversal action plan and are subjected to various influences by

stakeholders. Despite the many important measures to support coordination of programmes, it is doubtful that this coordination has been effective. For instance, not one of the sector programmes reference another within the budget documents. This is curious as opportunities across value chains (e.g. agriculture to manufacturing, or tourism and arts) seem like natural fits.

- **Different design of programmes:** The design of programmes differs in many respects. For example, the tourism programme has an extensive set of partnerships and links with the broader industry and was established long ago. A counter example is agriculture where programme is designed primarily as agricultural extension project, with government providing key inputs into the production process, and a more commercialised relationship with stakeholders.

5.7.10 Absence of Traditional Authority Interventions

A most significant gap emerges in the absence of programmes aimed at supporting small business in TAA. This gap is significant simply because poverty and unemployment are concentrated in these areas. As noted earlier, these areas have communal tenure property relations, that are described as feudal. The silence in this area remains a crucial one, as meeting developmental goals outlined in the NDP will require addressing challenges in these areas.

5.7.11 Crime

Another area that is an omission is crime. Every survey of entrepreneur's places crime as a major problem facing entrepreneurs and especially small business. There is however no cross-referencing between the spending plans on reducing crime and efforts to support the 'proliferation of small business'.

5.7.12 Planned Scale In Agriculture

The plans for agriculture are large. To recap, the intent is to "support around 435 000 subsistence and smallholder farmers" over the MTEF, or around 145 000 each year. The intention is to provide a range of services through agricultural extension programmes, and in so doing support the development of an egalitarian agrarian

sector in South Africa. The targets are high and probably unattainable, but the intent towards scale via agriculture is a finding, that surprises.

5.7.13 Multiple And Competing Beneficiaries

In the case of smallholder farmers, the programme is geared towards helping not just smallholder farmers, but black smallholder farmers, and especially black female smallholder farmers. In this programme, there is every likelihood of an overlap between the identities of smallholder, black and female. A happy coincidence.

However, in several areas there is no such coincidence between the identity of beneficiaries. Mining is a good example. The sector has benefited few people and is widely cited as an example of the rise of 'unproductive capital' or 'passive investing' by black economic empowerment entrepreneurs. In this case, the challenges of changing overall ownership patterns in large companies while at the same time supporting smaller miners represents an instance of different beneficiaries under the same policy regime of black economic empowerment. Moreover, in the case of mining there are clear indications that even though beneficiaries are black, the distribution of benefits has gone disproportionally to larger companies engaged in passive investment.

5.7.14 Expenditure Estimates

In analysing SMME spending, it is possible to get lost in the detail. The identified spending is simply a small amount when compared to total spending by national departments. The spending accounted for in the SMME budget is however also minuscule when compared to total procurement budget of government. The budget is also small in comparison to what is available through the range of grants and subsidies.

5.7.15 Social Sector Spending

The largest budgets deemed part of "SMME budget" is spending on the school nutrition programme. This is at first glance an unusual budget line item to include in an SMME budget. The narrative and project documents however show that the programme has a strong focus on the SMME sector

5.8 CONFIGURATIONS

This section has thus far set out a set of thematic issues that have emerged and presented the data. This section combines these analyses into a set of configurations. At present, we are concerned with how to represent configurations of programmes under review. Four configurations are identified. These are:

- Atomistic;
- Enabling;
- Relational; and
- Holistic.

This section proceeds to explain each of these with specific refence to the idea of small business as an asset. It proceeds to do this using a complexity checklist developed by Pawson (2013).

5.8.1 SUMMARY OF THE MAIN CONFIGURATIONS ON SMALL BUSINESS

The coding process has provided dimensions and located these dimensions in a context. These analyses provide the building blocks on which a set of configurations are proposed. Specifically, each code was analysed with reference to:

- **Volitions**: the "choice architecture" of a program including how program subjects might respond to a program or intervention;
- **Implementation**: the implementation chains of an intervention/program which "are prone to inconsistency and interpretation, blockages, delays, and unintended consequences" (p.36);
- **Contexts**: the context of an intervention refers to the circumstance in which it plays out. Pawson (2013) outlines a "four I's" framework: *Individuals* (characteristic and capacities of stakeholders in the program); *Interpersonal relations*; *Institutional settings*; and *Infrastructure* (which refers to the wider social, economic, and cultural setting of a program/intervention);
- **Time**: the history and of timing of an intervention;

- **Outcomes**: approaches for monitoring and ways stakeholders might interpret the outcomes;
- **Rivalry**: the pre-existing policy landscape in which the program is embedded – this primarily refers to "other, contiguous programs and policies may share or oppose the ambitions of the intervention under study and actions of stakeholders and subjects under study" (p.44); and
- **Emergence:** potential emergent effects, long-term adaptations, and unintended consequences associated with the program/intervention

Once this process was completed, four clusters were identified. Importantly they coexist, and as such each or any of them cannot constitute a theory in themselves. The box below summarises these four clusters, which are organized in what they tell us about the underlying assumptions of inequality and in relation to small business as an asset.

Box 5-5: Summary of configurations

	Atomistic	Enabling	Relational	Holistic
Volitions: the "choice architecture" of a program including how program subjects might respond to a program or intervention;	The core feature is in the lack of active programmes aimed at small business. This core features sees a focus on increasing economic growth through fiscal and monetary measures and supplemented with incentives usually for larger companies.	This approach seeks to remove barriers and is consistent with the M4P approach. It provides a focus on improving regulation and moving markets closer to an ideal of a competitive market.	This approach is seeking to locate entrepreneur in a context of unequal markets and sees growth of businesses and a more equally held society as needing a range of interventions.	This approach is largely absent across the programmes described, but however emerges with specific reference to smallholder famers, and a range of initiatives aimed at reducing market concentration
Implementation: the implementation chains of an intervention/program which "are prone to inconsistency and interpretation, blockages, delays, and unintended consequences" (p.36);	Implementation is via budget and monetary policy, and a grants and incentives administration	Implementation is largely at the level of policy and regulations. Although several interventions happen at a market or regional level.	Implementation occurs through dedicated programmes and establishment of arm's length entities, tasked with providing support to sectors.	Implementation does not occur, although discursive features are important. Sermons – in the way used in policy studies – dominates this perspective. Implementation in a sense is political consensus building
Contexts: the context of an intervention refers to the circumstance in which it plays out. Pawson outlines a "four I's" framework: *Individuals* (characteristic and capacities of stakeholders in the program); *Interpersonal relations*; *Institutional settings*; and *Infrastructure* (which refers to	This approach assumes a link between macroeconomic management and strategic incentives to support growth and development.	The context for this approach is the individual. The individual is located within a socio-political context, but changes at a regulatory level or a market intervention	The durability of inequality is recognized in these programmes. Strategic and integrated programmes are developed to ensure	The durability of inequality and the reproduction of inequality are key to the context of interventions.

the wider social, economic, and cultural setting of a program/intervention);		are deemed possible, and barriers surmountable.	that the context id changed.	
Time: the history and of timing of an intervention;	Future orientated. Growth projections are important, and good social outcomes are achieved in the future – provided targets for growth are met.	Located in the present with a perspective on a brighter future. Context remains important but does not determine the future. The starting point of now, creates a future with better outcomes.	Ambivalent stance on time. Recognises a present linked to the past but is optimistic that interventions can work.	Located largely in the past, offering a critique that the present is shaped by history and institutions. Argues that a future will not be better unless radical change occurs.
Outcomes: approaches for monitoring and ways stakeholders might interpret the outcomes;	Growth targets and increased levels of incentives are valued.	Best practice case studies and the development of 'evidence-based models'.	Largely related to performance within the programme.	Interpretations suggest that any activity without a major shift in economic and social policy are unlikely to be meaningful.
Rivalry: the pre-existing policy landscape in which the program is embedded – this primarily refers to "other, contiguous programs and policies may share or oppose the ambitions of the intervention under study and actions of stakeholders and subjects under study" (p.44); and	Social security programmes and SMME programmes could be described as rivals. Social security because it indicates the presence of a poverty trap. SMME programmes because it suggests that growth and incentives might not be enough.	Programmes in the M4P perspectives find a rival in programmes aimed at wider sector change. This rivalry is less fierce today as this perspective supports institutional reforms and has embraced the idea of "thinking politically".	The programme competes with non-market-based solutions (usually social security expansions). It however also competes with programmes that link the social and economic, through provision of government services by individuals and small companies.	This perspective faces a rival in an emergence discourse on decolonisation which offers a different conception of power to that embedded in traditional structural focus.

Emergence: potential emergent effects, long-term adaptations, and unintended consequences associated with the program/intervention	This model has now accepted a larger role for the state, as evidenced in several programmes aimed at cofunding innovations.	The M4P approach has specifically moved to a more focussed attention on enabling environments.	The challenge remains the structural nature of the capitalism, but these programmes are moving into a process of developing policy. In a sense, a shift from operations to strategy	The approach has been appropriate by and is associated with neopatrimonialism economic relations.

And they work all month and don't make no money

Grandmaster Melle Mel, Beat Street Breakdown

6 DISCUSSION

Building a set of options for policy is a core part of the study. This chapter provides a summary of these options. The discussion argues that the current approach of government towards small business and entrepreneurship development is likely to flounder in the context of an inequality trap. This section makes an argument as follows:

1. There is evidence that inequality traps in South Africa are a central reason for low levels of small business development in South Africa.
2. The current government programme will be unable to respond effectively to the inequality traps, and because of that the NDP goals for increased employment via small business will not be realised. This section describes the state as a 'reluctant tactical state' and small business as an "elixir".
3. Finally, a discussion on possible pathways for small business development in South Africa is presented.

The section proceeds by discussing each of these points in turn.

6.1 THE PRESENCE AND NATURE OF INEQUALITY TRAPS

The review of the literature has discussed the frictions and obstacles that exist for a business owner to pursue a path of social mobility via business ownership. A continuum of perspective was presented, ranging from simple tweaks to prioritisation of redistribution. This section explores why this continuum exists and locates it within the concept of an inequality trap. a means to understand these insights.

Three features in the literature point to what is important in locating budget data within a context of an inequality trap. These are discussed, and questions are derived from each of these features.

First, the literature goes great length to distinguish the motivations of entrepreneurs (Verheul, Thurik, Hessels, & van der Zwan, 2010; C. C. Williams, 2008). Some entrepreneurs pursue an opportunity, and others eke out a living (Temkin, 2009; Viswanathan, Sridharan, Ritchie, Venugopal, & Jung, 2012). The reasons for this observation and the remedies are hotly debated, with some explanations describing a poverty trap and/or an inequality trap and others describing market failures (Zoltan Acs, 2010; Naude et al., 2013) . The literature and the data in South Africa support this distinction between opportunity-based and necessity-driven entrepreneurship, and in fact the evidence presented earlier indicates a poverty trap amongst necessity driven entrepreneurs. Is there however, a wider inequality trap that is an obstacle to both necessity and opportunity driven entrepreneurs achieving social mobility through business ownership?

Second, a motivation for state action in entrepreneurship ranges from resolving distributional inequities created under colonial rule (Agbeibor, 2006; Georgiou, Dodd, Andriopoulos, & Gotsi, 2013) to creating employment and growth (Storey, 1994, 2003, 2008). The rationale is thus wide, and as shown in the review of government programmes, multiple rationales exist within the South African government. Linking the activities of government to a context provides a means to interpret a smorgasbord of policies, programmes and projects on small business. It raises the question – Is the absence of coherence in government programmes propelled by an inability to resolve poverty and inequality traps?

Third, mobility assumes reaching some threshold and staying above such a threshold. In the case of firms these thresholds are directly related to the demand for services or products. The impediments to reaching these thresholds are many and diverse, but the literature emphasises initial asset holdings and access to financial services. In a sense, the literature is mostly concerned with understanding impediments to the supply of entrepreneurs and opportunity identification(Hatt, 2018; Ucbasaran, Westhead, & Wright, 2009) . An underdeveloped area in the literature is around exploring demand for products and services, yet this is a useful area for future research. It raises a further question – are efforts aimed at increasing

the supply of entrepreneurs doomed to failure in the context of highly concentrated markets?

Following this initial foray into aspects of the role of the state and demand for products, this section seeks to integrate entrepreneurship into a set of dynamics in an unequal setting. This includes the presentation of a set of stylised facts from the literature, in the form of a journey of two entrepreneurs starting from different starting points.

6.1.1 Demand Challenges And Motivations

The NDP speaks of 'small and expanding firms' and recommends interventions. To resolve demand for services and products, government policy seeks linkages between smaller companies and larger companies. Importantly, these linkages are provided by access to bigger markets provided by government and large customers. In conventional management jargon, the strategy could be described as a Business-to-Business model to ensure that firms have enough demand to continue. However, the argument developed is that 'small and expanding firms' will create employment through meeting local demand, which could be described as a Business-to-Consumer model. The disjuncture between the recommendations on the one hand, and the rationale for policy choices suggests that the NDP has not necessarily resolved how the state supports demand for services and products developed or provided by 'small and expanding firms'.

The literature amplifies aspects of demand found in the review of programmes explained below. These are:

- Necessity-driven entrepreneurs are unable to grow businesses significantly larger due to low returns on investments in the sense of disposable income. The compounding factor is that Necessity-driven entrepreneurs face challenges related to the differentiation of products, access to wider markets, and even penetration of large companies into small markets.

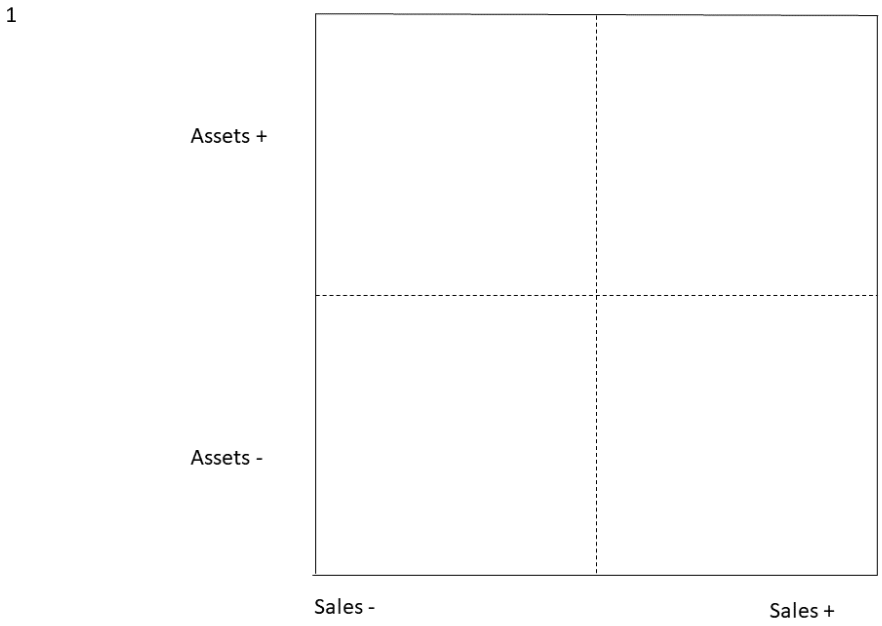
- Small opportunity-driven firms face a growth challenge, seeking to reach a threshold that supports them being an established business. In other words, having enough sales to run a business at profit for the foreseeable future.
- Medium and large opportunity-driven firms face a similar growth challenge of expanding markets in markets that are often highly concentrated, and in which workers are dominated
- Incumbent dominant firms face a demand challenge to maintain market positions, with possible challenges from international companies.

6.1.2 Representing Demand

Given that different sized firms have different challenges related to demand for products and services, a puzzle emerges. This puzzle is understanding the interactions between initial conditions of entrepreneurs and the ability to satisfy demand in a manner that leads to a successful business. To pose the precise question - Are initial conditions are good predictor of who will fail and succeed in an entrepreneurial endeavour, or is all that is needed is hard work and dedication?

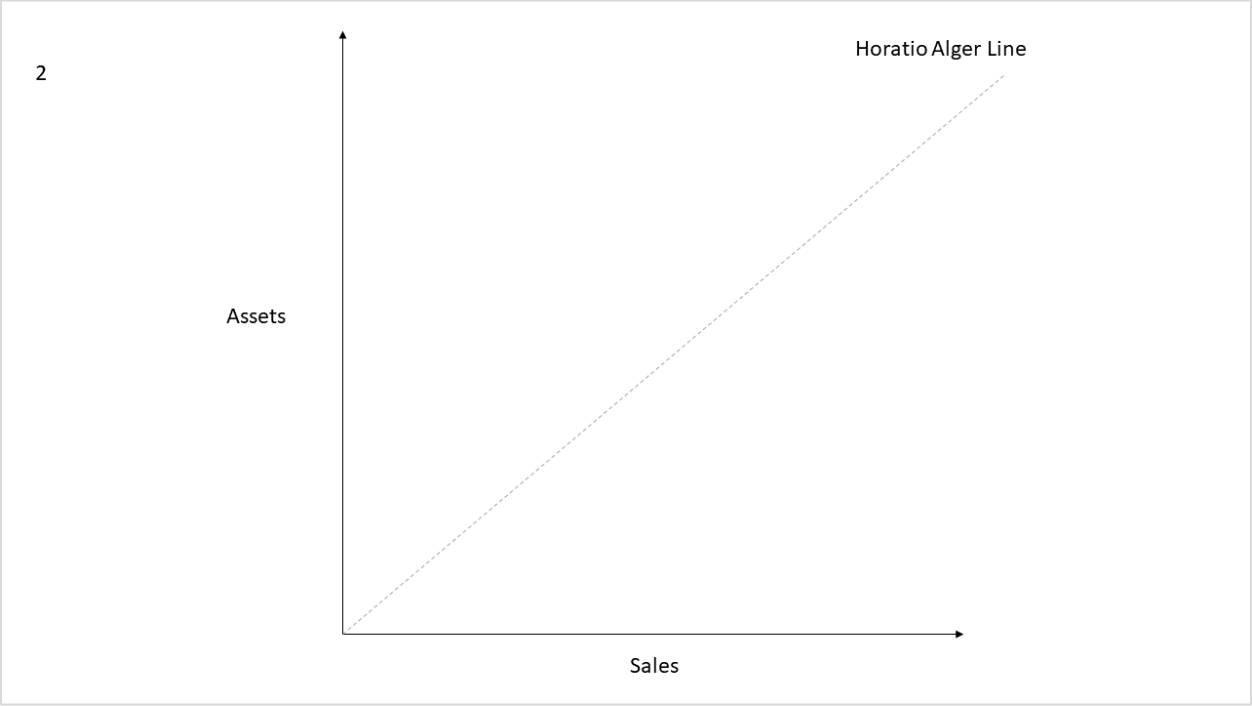
This section explores and discusses the relationship between asset holdings and the demand for services using a conceptual chart. The chart is constructed with two variables. On the one axis, is the individual asset holdings that the entrepreneur has, which is similar to the starting point of those writing on occupational choice and credit rationing. On the other axis, is demand for product and services. This is drawn from insights on thin markets and shallow markets in the South African economy, which begin to unpack demand for product and services by the size of business. The chart thus assumes a relationship between asset holdings of the entrepreneur and demand for product. In other words, there is a relationship between the initial holdings of entrepreneur and the ability of entrepreneur to establish a successful business. The exact direction and outcome of these interactions are at this stage undetermined. The relationship can be positive or negative. Asset holdings can be negative, a common trait when entrepreneurs use debt instruments to finance start up or growth. Similarly, sales can be negative in the sense of sales not covering the running cost of the business, that is, a breakeven point. This is graphed in the diagram below.

Diagram 6-1: Assets and sales quadrant



A second core assumption is that at a hypothetical level there is a dynamic and virtuous interaction between the assets of the entrepreneur and sales generated. The more sales the entrepreneur makes the more she has to invest in the business and create a household accumulation strategy. In other words, at a hypothetical level one could move from R1-00 of assets and generate a sale, and incrementally work your way up the income level. This is represented by the 45-degree line in the next diagram. This movement is possible, given the absence of any frictions. In a sense, this line can be called the Horatio Alger line, where nothing but hard work is needed to reach the proverbial 'top'.

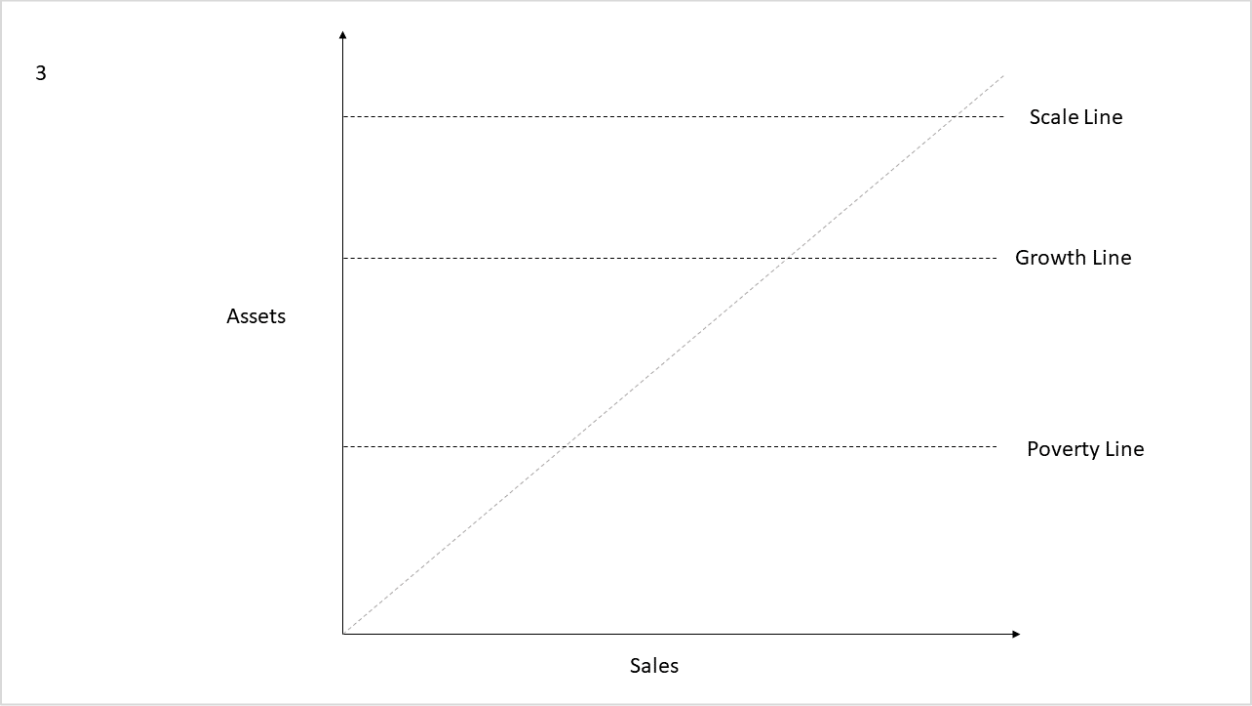
Diagram 6-2: Assets and sales, with Horatio Alger Line



However, as discussed in Banerjee and Duflo (2011) there is a cogent argument for a poverty trap amongst survivalist businesses. This trap emerges when additional investment does not yield a marginal return sufficient to move the proverbial 'penniless entrepreneur' above the poverty line. As one moves higher up the asset ladder, one is able to find a set of frictions that are prevalent, and different from the poverty traps of survivalist businesses.

There is however a point at which businesses where an entrepreneur has a bundle of asset above a theoretical threshold that depicts a point between asset poverty line and having a business that can be described as established, and successful. A third line is however important which is the transition from and medium business, to that of the scale line, in which medium businesses are able to compete with larger businesses. These three lines are depicted in the chart below.

Diagram 6-3: Thresholds for business success



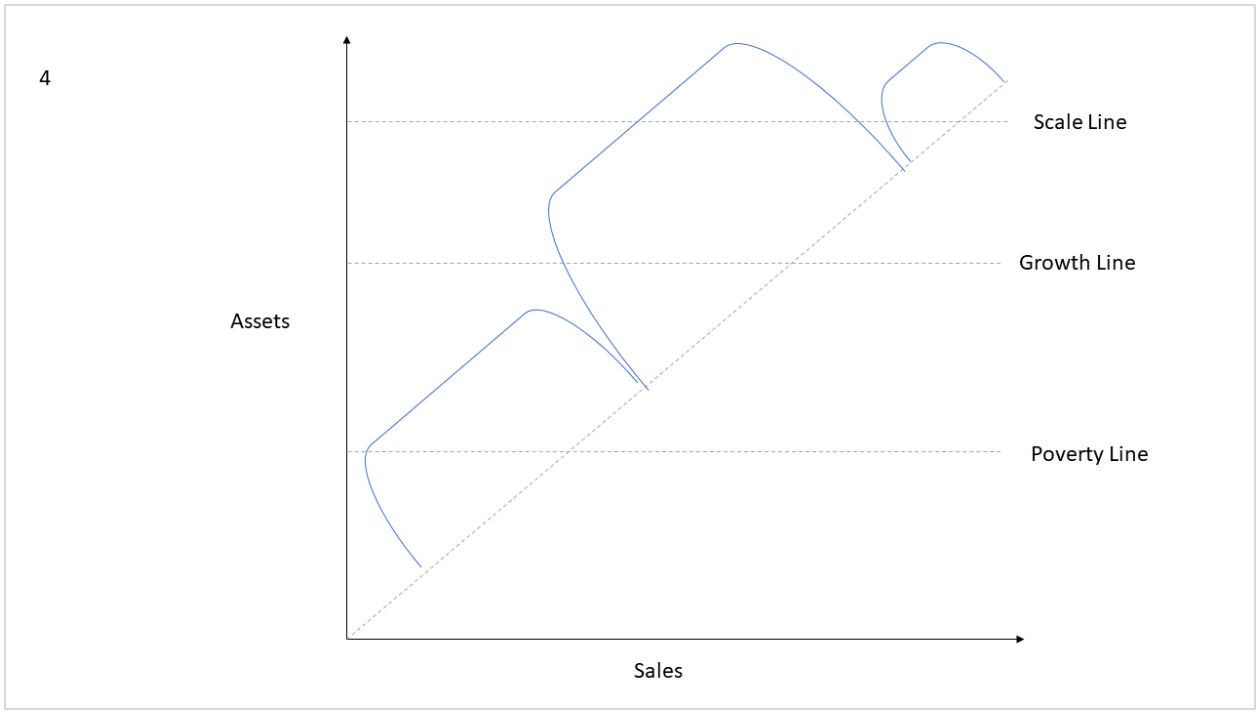
The diagram (6-3) as yet does not have any values attached to it. However, as shown in the literature review for the conceptual framework, for every argument in favour of a rapid proliferation of entrepreneurship there is a counter argument. To use the serviceable terms the presence of either a vicious or virtuous cycle can be safely assumed. Or more precisely, the co-existence of vicious and virtuous cycles.

Immediately, something important has happened that bears some explanations. The diagonal which we have called the Horatio Alger line represents time in a linear manner. In a sense, the argument is that over a period of time the entrepreneur through hard work and tenacity will overcome the odds of his station in life to run a successful large business. In this vision, time is on the side of the entrepreneur, as resource that he can spend judiciously to reach his goal.

Yet, we already know that this is not always the case. For some entrepreneurs, the conditions they find themselves today are likely the ones they will find tomorrow. In fact, entrepreneurs may find themselves caught up in situations where their asset position is declining and where businesses fail, leaving the entrepreneur in debt. There is thus a process of self-reinforcement of their situation, which is akin to a trap.

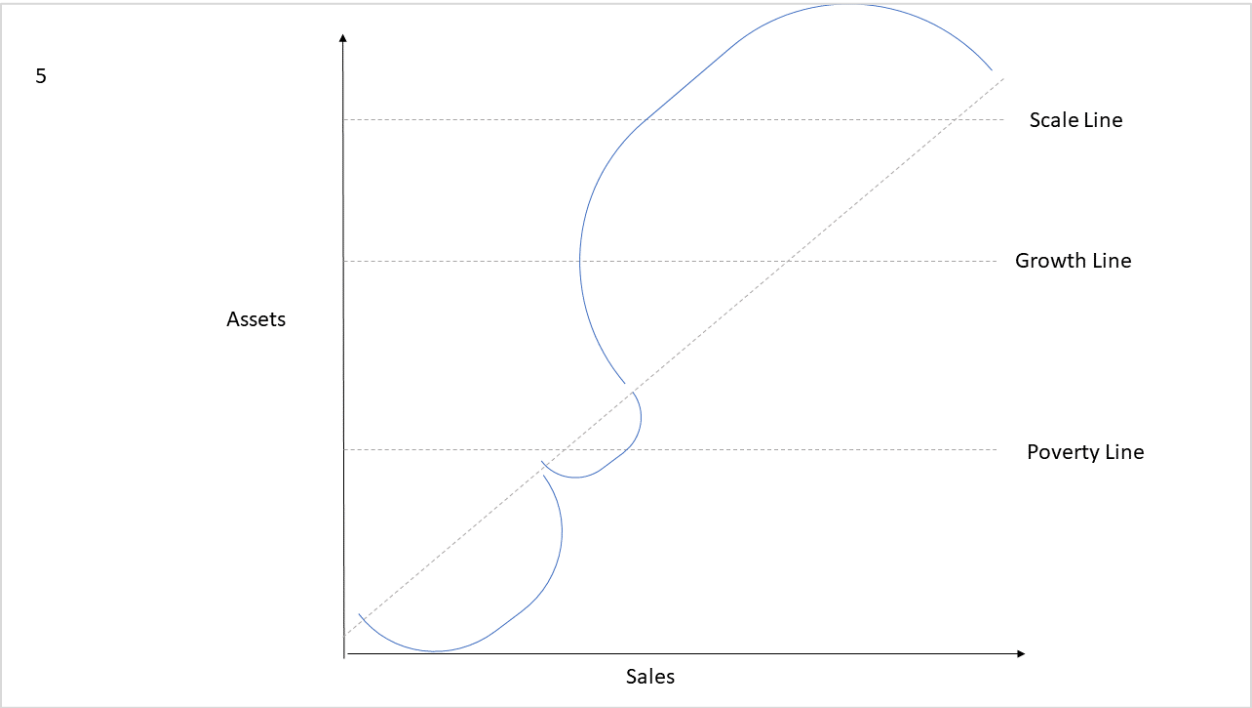
There are multiple ways to depict these virtuous and vicious traps on the diagram. Here scale of the drawing becomes more important. In diagram 6-4 a virtuous cycle of many small businesses is depicted, and one in which they share a larger share of sales. This is a depiction of what the NDP seems to argue when it speaks of a proliferation of 'small and expanding firms'. Of importance is that the majority of firms are above the diagonal line (aka Horatio Alger line) and above the poverty line.

Diagram 6-4: Virtuous cycle



The next diagram (6-5), however, depicts something more similar to South African situation, where large numbers of firms are below both below the diagonal line and the poverty line, reflecting a large number of survivalist businesses. In addition, a situation where large companies account for the largest sales. In such a situation, there are lots of micro businesses and large dominant businesses, with a missing middle.

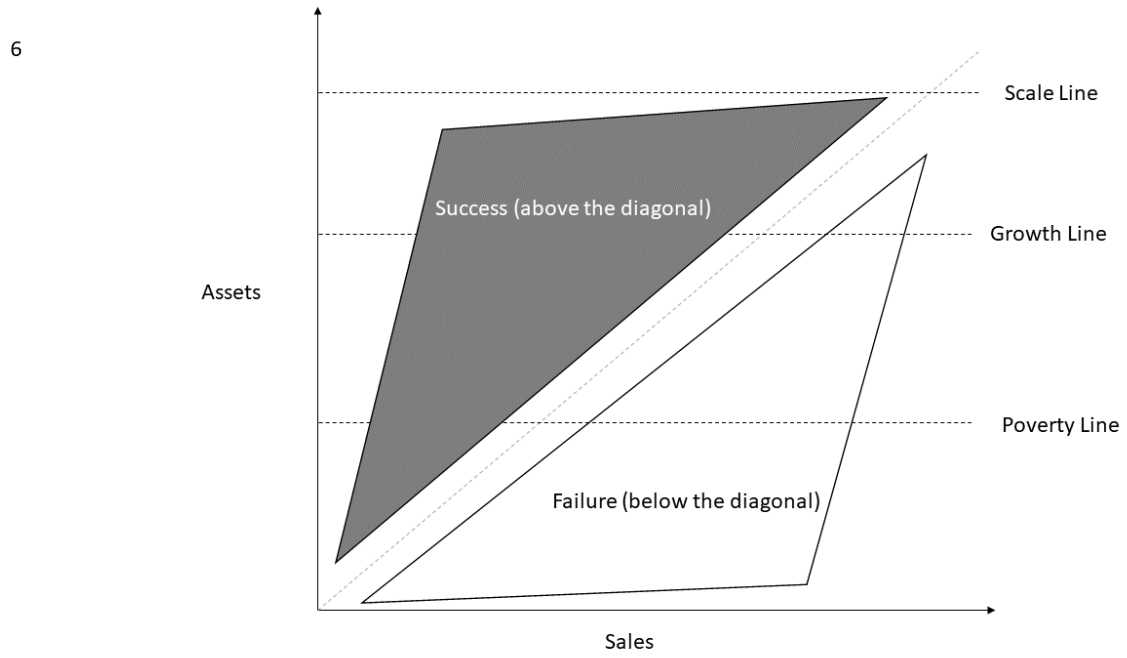
Diagram 6-5: Example of a Vicious cycle



However, there are successful transitions from one stage to the next, as the stories of entrepreneurs in the popular press suggest. These stories are however exceptional, reflecting the skill of the entrepreneur and a range of contingent elements, including luck. Whatever the cause, the presence of successful transitions is important. The next diagram depicts two areas, one representing success stories (above the 45-degree line) and failures below the 45-degree line in a stylised manner. The reason

for doing this is that some government policies seek to support already successful businesses to grow even further.

Diagram 6-6: Stylised examples of failure and success



The public policy intent that emerges seems to thus have government playing many possible roles to support entrepreneurs moving from one threshold to the next. This is an aspect we discuss later, however what is important is that the conceptual map suggests that there is unlikely to be a convergence of income and assets via the marketplace. The next step is thus to explore possible interactions between the entrepreneurs in two different starting points.

6.1.3 Demand And Initial Conditions

The NDP argument rests on three related outcomes being achieved. These are:

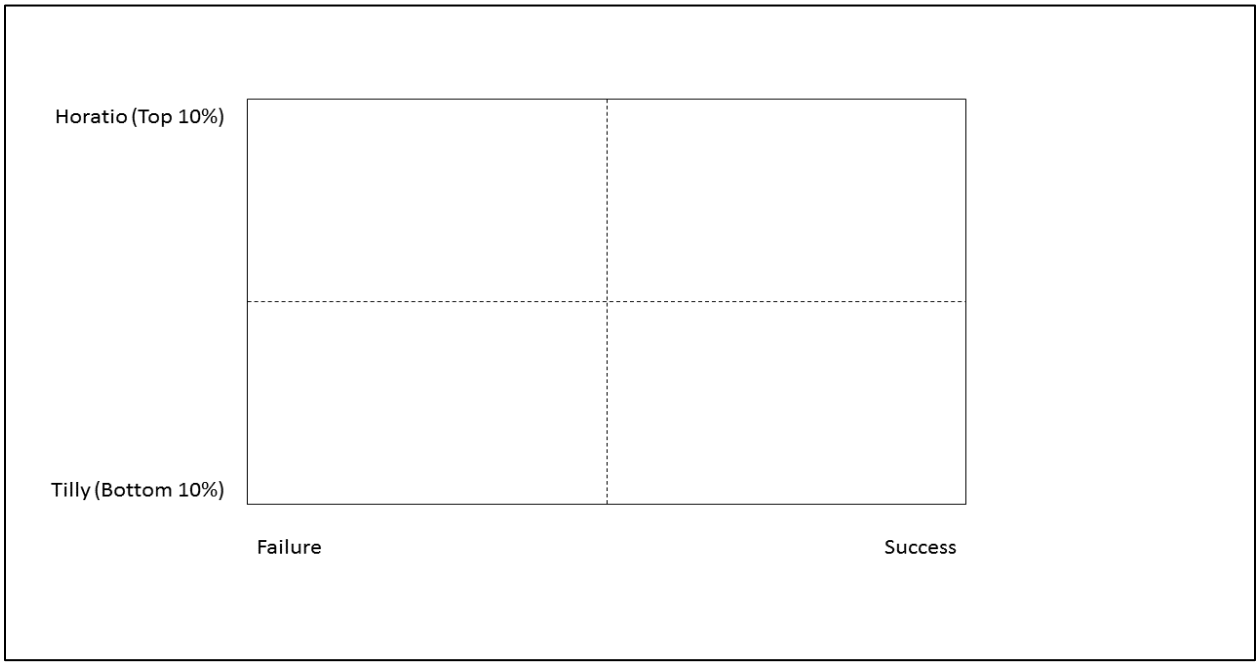
1. Increase in the number of firms;
2. Increased wealth; and
3. Increased jobs.

To reach these objectives, the NDP outlines a set of policies, that have been discussed earlier in this report. Furthermore , these outcomes will need to be achieved in a highly unequal context. To discuss the importance of this context, a description of two entrepreneurs and possible outcomes is presented. This illustration (6-7) starts with differences in wealth holdings, before locating these in the context of a highly-concentrated market.

The illustration represents a simplified model that is meant to introduce the linkages between small business and asset building literature. It excludes survivalist business and both entrepreneurs are male. This is deliberately done at this juncture to highlight questions on how survivalist and female run businesses are traditionally excluded in analysis.

A quadrant is used to develop the argument on what sorts of transitions are being proposed. The entrepreneur from the top 10% (who we call Horatio), and the entrepreneur from the bottom 10% (who we call Tilly) are plotted on the vertical axis. On the horizontal axis, two outcomes are plotted – successful business and business failure. The quadrant appears in Figure 6-7.

Diagram 6-7: Quadrant on business success for Top 10% and Bottom 10%



The four possible outcomes in this scenario of these entrepreneurs succeeding and failing are presented in Table 6-1 and captured in Figure 6-2.

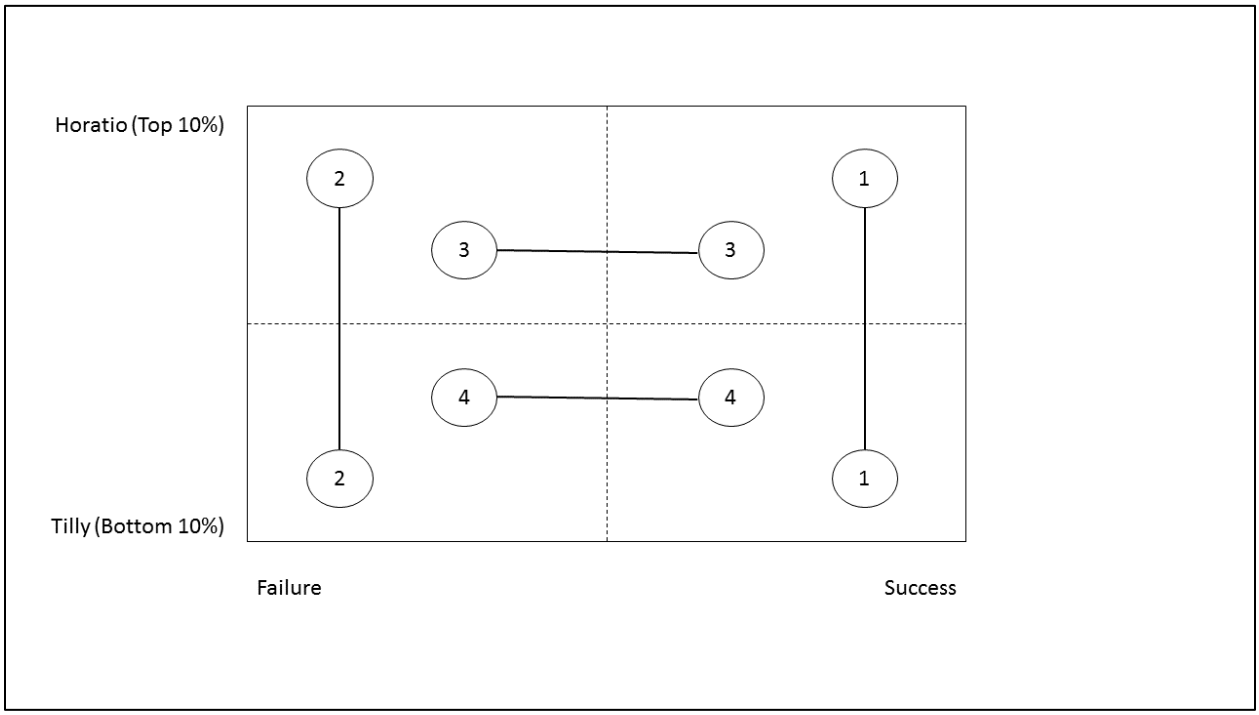
Table 6-1: Summary of outcomes entrepreneurs at different levels of the distribution

Outcome Number	Horatio	Tilly	Label	Inequality Trap?
1	Succeeds	Succeeds	Virtuous Cycle	No
2	Fails	Fails	Vicious Cycle	Maybe
3	Fails	Succeeds	Bottom 10 Succeeds	Unclear
4	Succeeds	Fails	Top 10 Succeeds	No

Of importance, is that virtuous cycle (Outcome 1) argued in the NDP is easier to identify, as is a vicious cycle (Outcome 2). Outcome 3 (Bottom 10 Succeeds) and Outcome 4 (Top 10 Succeeds) are less clear to decide of a good policy outcome. Moreover, evaluating these outcomes is relatively easy for Outcome 1 and Outcome 2, which would be deemed good and bad respectively. Outcome 3 and Outcome 4

however represent a challenge. Specifically, Outcome 4, where Horatio succeeds and Tilly fails, represents a challenge. On the one hand, the very existence of a successful business is positive. On the other hand, it heightens inequality in the sense that Horatio – as part of the Top 10% - is building success on top of success. The converse however is not necessarily true. In Outcome 3, where Tilly succeeds, and Horatio fails, it does not immediately follow that inequality is decreased, because Horatio still has a large pool of familial assets on which to draw on. The prospect for mobility for Tilly is however enhanced, and in this sense, represents a good outcome, and under certain conditions may reduce inequality.

Diagram 6-8: Possible outcomes for two entrepreneurs



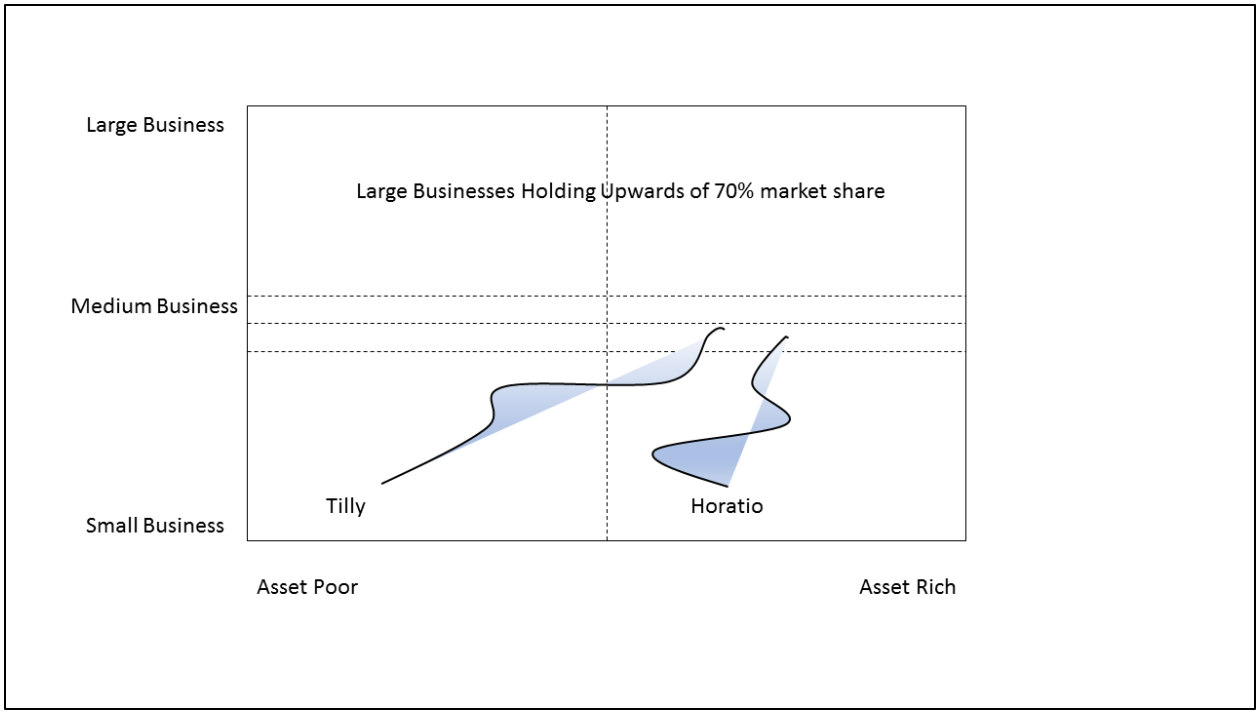
The insight provided when both fail (Outcome 2 – Vicious Cycle) provides a way to understand the differing circumstances and the responses based on initial conditions. The ability of Horatio – as part of the Top 10% - to respond to this negative shock is significantly better than the ability of Tilly – as part of the Bottom

10% - to respond. This is due to initial holdings that each entrepreneur holds at the start of the process.

This illustration of the two entrepreneurs at different ends of the wealth distribution resonate with findings in the literature on inequality and entrepreneurship and where discussed earlier in the report . For present purposes, it is important to emphasise that this illustration raises the importance of multiple outcomes that may arise from interactions between government and entrepreneurial activity within an unequal context. Specifically, the illustration suggests that a business best be thought of as an asset, and that success and failure change asset holdings. This forms an important insight into the development of theory, and the development of alternatives as the study proceeds.

Thus far, the differences between these two entrepreneurs were emphasised. They are however similar in that they are both start-up ventures. The illustration also assumes that both Tilly and Horatio are seeking a path to becoming medium sized business. In other words, they would provide the jobs that the NDP envisages and contribute to economic growth. The challenge they face is that large businesses (some without profits, and some with) control upwards of 70% of the market (see Diagram 6-9).

Diagram 6-9: Entrepreneurs in a concentrated market



In such a context, is the intended movement from small to large business by Tilly and Horatio possible? In a circumstance of linkages between small and large businesses a mutually good outcome is possible. In less benevolent circumstances – say of collusion and other cartel behaviour – the prospects of this transition are limited. The NDP is alive to this challenge, citing uncompetitive markets as a challenge. However, the NDP and most of the interventions from government, skirt this reality. They focus on the entrepreneur and not the wider system.

6.1.4 Demand And Initial Conditions

This section started with a conceptual map that looked at demand for services, and initial asset holdings of entrepreneurs. At a conceptual level it reasons out a set of circumstances under which business success and failure can be described. In the next step, the pathways for two entrepreneurs starting a business venture but having different initial asset holdings are explored. This shows that under some circumstances an argument for an inequality trap can be substantiated, but also that under different outcomes it cannot be substantiated.

The implications of this approach are important to note:

- The model presented indicates a common challenge – regardless of individual asset holdings of the entrepreneur – of increasing demand in the context of highly concentrated markets.
- Initial asset holdings however matter in that richer entrepreneurs have a higher prospect of bundling resources to compete and grow a business, while asset poor entrepreneurs are unlikely to reach thresholds that justify additional investments.

6.1.5 THE NATURE OF INEQUALITY TRAPS

Whilst the diagrams discussed above are conceptual, they derive from the data presented in this report. Specifically, the following is important to note:

- the overall dominance of big companies,
- high levels of failure in opportunity-based businesses, and
- the relative longevity of survivalist businesses, which indicates an inability of many survivalist businesses to transition out of poverty.

These features in the market create conditions for the perpetuation of a market system unable to generate growth and higher levels of employment. Layered over this are a set of individual or household circumstances that are determined in large measure still by a history of inequality in South Africa, where identities such as race, gender, geography and class matter a great deal.

This paragraphs that follows use the schema proposed by Polski and Ostrom (1999) and Ostrom (2010) in understanding institutions, in this case a set of rules that are at play in the South African economy that reinforce inequality.

The argument thus far has described a process undergoing in the South African economy of an inequality trap, in part determined by the inability of entrepreneurs to capture greater levels of demand due to the market conditions. Consequently, it is argued that a significant hurdle exists for small companies to start and expand at

rates that grow the business and support employment creation, let alone the hockey stick growth envisaged in programmes like the National Gazelles programme. At the highest level of the economy, there are consequently significant challenges to growing a business, as aggregating demand for startups is difficult.

At an intermediate level, there exists environment conditions, and the skill of the entrepreneur to navigate the environment. Here again, the model indicates that asset holdings trump any innate entrepreneurial skills in two senses. First, entrepreneurs with higher asset holdings are better able to access a bundle of resources for starting up and for sustaining a business until profitability. Second, a higher initial asset bundle means a greater possibility to survive the shock of a failed business, and to try once again.

At the lowest level, are the individual attributes of the entrepreneur. The 'rag to riches' stories common in the South African business press, emphasises these individual attributes. The success of these entrepreneurs offers important lessons and provide inspiration. However, they tell the story of an exceptional few, not the reality of the majority of businesses, which (sadly) fail within the first year of existence. Furthermore, they fail to tell the story of survivalist businesses that have been running for long periods of time, but despite the daily grind of hard work have been unable to progress to profitable formal businesses. Here again, the individual attributes of working hard should be noted, and are substantiated by the results from the SESE surveys.

6.2 Reluctant State Offers an Elixir

The presence of an inequality trap is in and of itself important, as it should inform policy choices in government. The range of projects included in the budget covering SMMEs however indicates that government believes that prospects for mobility via business ownership remains highly probable. The activities of the state resemble a concept in critical policy studies called the 'reluctant state'. The term "reluctant state" has become a term to describe a process of the state not merely doing less, but

outsourcing its functions to private citizens, and creating new roles for itself and citizens. Ball (2012)describes the reluctant state as:

> *'post-neo-liberalism' inasmuch that the state is both reluctant and assertive, both shuffling off old responsibilities and defining and distributing new ones*.

This is a richer and potentially more accurate description of a changing role of the state. This is a concept worth exploring, specifically whether small business development is an inadequate substitute for direct forms of interventions to support mobility. This discussion on the reluctant state starts with a description of three moves undertaken by the state. This is followed by exploring why many of the identified codes are often projects, rather than policy. The discussion than moves from understanding what government is doing to understanding inaction. Finally, the section ends by describing a set of distributional conflicts, and how they are resolved in budget allocations, and in turn this provides an understanding of a reluctant tactical state.

6.2.1 Three Suasion Moves By The State

There are three moves undertaken by the state that suggest the changing roles of government in South Africa, that suggest a reluctant tactical state.

First, given the context of inequality the absence of a broader strategy for redistribution is telling. Undoubtedly government is aware of the deep divisions in our society but remains committed to a process largely driven by the current economic structure. It argues that strategies to drive economic growth will create conditions for employment creation, provided that a set of enabling conditions are enhanced and binding constraints are addressed. This is akin to the 'atomistic' approach discussed in the literature review and the findings section. The move is thus about framing the context as amenable to social mobility with tweaks to the system, and not hampered by inequality or indeed poverty traps.

Second, the suasions of government do not find backing in the allocation of resources. It is common for Ministers to propose small business as a sector requiring

support, and often to couch that language in the terminology of 'radical economic transformation'. The small budget allocated to small business and entrepreneurship development indicate a significant gap between the suasions of government officials and the budget in another sense. The suasions extolling small business, sit cheek by jowl with large and consistent transfers and subsidies to large companies. This move involves providing sermons in support of small business, coupled with budgetary allocations; but ultimately still investing more heavily in large established businesses.

Third, entrepreneurship replaces social security. The data on survivalist business incomes and the responses to various attitudinal questions in the SESE provide a strong foundation to argue that the enterprises are survivalist businesses. Moreover, there is a preference for these workers to be employed rather than run a business. Yet, public policy speaks of graduating these enterprises to the formal sector, which is wishful thinking given the scale needed to support mass-based mobility through business ownership. The foundational crises one of unemployment, structural unemployment at that, is thus re-represented as opportunity. It makes virtue of a profound failure in South Africa, which is the absence of any form of universal social security.

The three moves by government serve to reframe a context of an inequality trap as a hopeful context, one with ample and abundant opportunities. Are these moves a ruse, a form of deception? From the reading of the projects and budgets associated with government projects, there is clearly a commitment in key sectors to resolving a range of tough market related challenges, associated with concentration of the industry. To thus simply call this a deception is perhaps a step too far.

If not deception, then what? The analyses proceeded to indicate several features of the data that indicate the state unable to resolve distributional questions and, in that sense, remains a reluctant state. In the sample, this included:

- New entrants in industries like media, arts and even mining related companies. In all of these industries, government officials are acutely aware of the deep problems of economic concentration and the unlikelihood of new

entrants to challenge incumbent firms. Government officials however argue that the odds of new entrants finding niches are enhanced with government support.

- Trying to support informal businesses to run and even 'upgrade' these businesses into formal businesses is a common strategic choice in government. The argument is in fact coherent – in order to access government, support a level of formalisation is needed, as this provides a bases for transferring grants and subsidies, and even accessing subsidies. In fact, some of the credit programmes at SEFA and in commercial banks, are becoming less stringent in requiring formal business registration to succeed. Government departments and even commercial banks are seeking ways to reduce barriers to access services. The challenge is however that the solution being provided is inappropriate for a problem being addressed. The problem is an inequality trap, not just a challenge of access to credit.

Of importance, is that in both the instances cited above, officials in government are making small and incremental changes and seeking to improve performance. These are indeed laudable, and interesting improvements that require evaluation. However, the interventions are over-sold as being able to provide a solution to core developmental context that is labelled in this paper as of 'high inequality-high unemployment'.

6.2.2 Projects Not Policy

Even if the projects are over-sold, do they not inspire more people to make the leap into entrepreneurship? The activity in government would indeed suggest that the government is supportive of an agenda that is focussed on entrepreneurship, and some of the projects – like those in agriculture – intend to support large numbers of entrepreneurs. On closer inspection, even the large-scale projects can be viewed as projects unconnected from markets.

Tania Murray Li (2016), provides the following definition of the project derived from her work in Indonesia:

> *a time bound intervention with a fixed goal and budget, framed within a technical matrix which renders some problems amenable to intervention, while leaving others out of account.*

Li provides a persuasive account of why a focus on projects instead of policy will yield poor development outcomes even if projects are successful. The major reason for the lack of success is that by focussing on projects and the minutia of localised issues, there is a failure to recognise wider structural conditions.

However, the design of these projects is however, not localised, they bring in a range of development experts. In bringing in expertise, the project begins to resemble a 'secluded enterprise'. Seclusion, Li argues, is central to the proliferation of project system:

> *Legitimation may be light and late because, as Richard Freeman observes, projects are 'secluded enterprises' in which negotiation and decision making can be conducted away from public forums (Freeman, nd). Seclusion from political debate is a core element that renders the project system attractive for diverse sets of actors drawn into it. Seclusion is also a key limitation of projects as a vehicle for improving the welfare of rural populations, because it evades critical scrutiny of a project's premises and prescriptions, and an assessment of whether it could – even if perfectly delivered – actually meet the policy objectives of rural development.*

The number of interventions in the sample extracted and the design indicate a wide number of projects across many departments – a distribution labelled as a longtail. Within this longtail are, however, some interventions that meet the criteria of being time bound, have fixed budgets and fixed goals; while other interventions do not meet these project-based criteria. Amongst, the interventions defined as 'projects' there is evidence that the projects are defined and localised.

Usually, having a defined focus and being localised are examples of exemplar development projects. In the case of small business projects, the localisation and definition of interventions at a project level, however poses a significant puzzle for reaching scale. On the one hand, the projects can arguably be stacked to have an impact. Indeed, if it were possible to combine all KPIs, the projects may indeed be stackable, and in that sense provide scale to the overall programme to support small

businesses and entrepreneurs. On the other hand, the design of the majority of the interventions are localised and not replicable in any way, and most importantly it remains doubtful that high success rates will be achievable on project. The puzzle is whether scale can be achieved either through stacking together smaller projects, or if local projects can act as betas for policy reforms, or some combination of the two. In turn if scaling endeavours are not probable, what does that mean for future iterations of support the programme? The analyses conducted suggests that scale is not possible in either sense because they are not linked into a wider set of economic changes needed to support small business.

6.2.3 Inaction And Institutions

The reluctant state, with an operational system of projects, provides a good description of the budget line items analysed in this report. The question that emerges is why government would adopt this approach. This report argues that inequality provides a lens for interpretation.

One line of enquiry offers an important insight. The 'redistributive models of democracy' - to use the term deployed by Haggard and Kauffman (2012) - attempts to understand the role of inequality in shaping democratic transitions, and in so doing provide insights into the development and importance of institutions. This literature provides several insights that are prescient to understanding the emergence of a reluctant tactical state.

First, is the role of elites in the transition to democracy. Boix (2003) argues that one of the variables that may permit highly unequal societies to democratise is that the wealthy are able to move their wealth outside of the country – which he calls 'asset specificity'. He infers that if wealth is mobile, resistance of elites to democratisation lessens. In contrast, Acemoglu and Robinson (2006) argue that transitions are catalysed from below, what they call 'the spark that ignites'. Moreover, in an important insight Haggard, Kaufman and Teo (2013) argue that 'distributive conflict transitions' generate more robust democracies, by which they mean the presence of mass mobilisations and the 'mobilization of redistributive grievances'.

Second, there is increasing emphasis on understanding institutions as being volatile and open to quick changes (Shleifer, 2014). This counters the emphasis of durability and longevity that characterises much of the institutionalist literature (North, 1990). The reasoning behind this argument is that in conditions of high inequality, a series of manoeuvres are needed to assuage redistributive pressures on the one hand and support large incumbent firms on the other hand.

Third, as Ansell and Samuels (2010)argue the conflicts may lie between incumbent and rising elites. They argue that incumbent elites support democratisation and democratic institutions, because they fear the expropriative power of the state, more than they fear the redistributive threat from the poor. Much of the literature on BEE supports this contention.

Fourth, incumbent firms hold an unassailable position. Recent literature has coined the term 'superstar firms'. Autor, Dorn, Katz, Patterson, & Van Reenen (2017) develop an argument in the context of American technology companies increasing dominance of many areas in the economy. The underlying logic is:

> *as product market concentration will rise as industries become increasingly dominated by superstar firms with high profits and a low share of labor in firm value-added and sales.*

The concept resonates in South Africa with high levels of economic concentration and with low share of income going to labour.

Another line of enquiry describes an insider-outsider scenario. The argument is that big business, big government and big labour have created a social compact that favours the continuity in an economic sense with the old order. In this vein, Seekings and Nattrass (2005) argue that:

> *The post-apartheid distributional regime displays strong continuities from its predecessor, the late apartheid distributional regime, because the biggest losers under both have remained politically weak. The unemployed, especially the rural poor without easy access to urban land markets, were unable to use their electoral strength to secure pro-poor reforms, in part because it was unclear precisely what reforms would be pro-poor in the longer term. The powerful political constituencies in post-apartheid South Africa, on the other hand, were able to mobilize*

> *effectively and secure beneficial policies including lowered tax rates and raised wages and salaries for working people with skills (page 375).*

Sandeep Mahajan (2014) makes the same conclusion arguing that the social compact is a 'tightly sealed box' in which big business, government and labour carve out existing rents. Specifically, he views new business entrants as being outside this 'tightly sealed box'. This situation is described as suboptimal equilibrium, and Mahajan argues that changing the way rents are currently allocated is at the 'heart of unlocking the much-desired path of higher, inclusive growth in South Africa' Seekings and Nattrass (2005) motivate for an "outsider-friendly accord", would include labour market reforms to encourage labour-intensive firms and sectors, support to areas that negatively impact on employment, and changes that benefit the unemployed through measures, such public works or a Basic Income Grant.

A third line of argument starts by questioning whether institutional analyses can explain the puzzle. Rodrik, Subramanian and Trebbi (2004) in fact argue that 'institutions rule' in that they trump other factors in development. An important criticism is whether development proceeds from good institutions to higher development, or whether increasing levels of development are a requirement for better institutions (Glaeser, Porta, Lopez-de-Silane, & Shleifer, 2004). This is an important argument as it provides a bases for arguing for greater redistribution as a first step to building inclusive societies.

The three lines of argument cited above – each variants of institution type explanations – provide arguments that the institutions in society are unsupportive to the growth of small business. There is merit in the conclusion, even if one has disagreements with the way these conclusions are reached. In sum, inaction or rather indecisive action by government is due to a set of institutions, that arguably are durable.

Institutional explanations described above however do not readily assess the role and performance of the state. The unanswered question is why government is unable to more fervently support small business. Two answers emerge from the review of data and literature.

First, that government has prioritised macroeconomic reforms over microeconomic reforms. Ha-Joon Chang (2008)argues in his book '*Bad Samaritans'* that the South Korean experience is one heterodox economic policies, over several decades. Specifically, that South Korea focussed building internal capacity for industrialisation rather than following a conventional macroeconomic stabilisation package. The argument in the South African context has merit in that the policy developments on small business and industrialisation have been modest, but macroeconomic management has received the highest policy priority. The point of emphasis here is that policy reforms focussed on creating more inclusive markets have received less priority than macroeconomic management. To be clear, this is however not to underplay the importance of managing the macroeconomy, but rather to indicate that the channel to better fiscal position may lie in building capacities for industrialisation, support new entrants and even extend social security.

Second, are explanations related to the capacity of government to deliver. Picard (2006) offers a scathing critique of public service reform, and argues that the public service is characterised by a 'distorted institutionalism'. Distorted institutionalism is defined by Picard (2005) as:

> *Distorted institutional relationships occur when groups and individuals identify only with their own immediate economic and social interests. This disjointed institutionalism, once installed, is difficult to change and a 'state once institutionalised, has a formidable capacity for its own reproduction across time and in the face of systematic efforts by new regimes to uproot prior forms and build new blueprints'. (Page, 361).*

In some respects, the argument is a forerunner to the characterisation of government as 'state capture'. In this sense, small business development is limited as a policy priority precisely because state capacity is directed to narrow interests.

6.2.4 Budgets and Inequality Traps

The explanations of why a reluctant tactical state has emerged all offer something to understanding the context and the outcome. In this section, a contribution to this literature is provided. Specifically, the contribution links budget information to poor performance of government in supporting small business.

To recap – government programmes and projects to support small business are scattered across many departments. The analyses in this report has proceeded inductively and through that process developed schemas for projects, and quantification of monies available. The concept of a 'reluctant tactical state' is used as a shorthand to describe the data. Three characteristics from the data are of importance:

1. The dispersion of spending across departments;
2. The common assumption in government programmes on the possibility of social mobility via business ownership; and
3. Differences in in the beneficiaries of programmes.

The 'reluctant tactical' state thus has been described as offering an incoherent and incomplete response to an inequality trap.

Drawing on these insights, and the review of possible explanations for a reluctant tactical state, several additional insights on budgets emerge.

First, is the issue of coordination. The data indicates that a significant coordination challenge that supports regular reviews of spending on small business across departments. The problem is partly a technical one requiring improvement in monitoring and evaluation systems. The introduction of the nationwide monitoring and evaluation system is in fact an important step in the right direction (I Goldman & Mathe, 2014; Ian Goldman et al., 2015; Phillips, Goldman, Gasa, Akhalwaya, & Leon, 2014). In the case of spending on small business and entrepreneurship, the coordination problem however requires clearer policy. A clarification of the concept, definition and measurement of a category of spending called 'small business and entrepreneurship development' is a starting point. A separate category or an outcome is justifiable due to the large number of jobs anticipated from the small business sector in various government policies.

Second, various versions of the insider-outsider dichotomy exist that raises significant questions on who benefits from public spending. In this report, the

insider-outsider dichotomy is used in many senses. Some of the distinctions used in government programmes are:

- Men/Women
- Survivalist or Necessity Driven Entrepreneurs / Opportunity Drive Entrepreneurs
- Local entrepreneurs / foreign entrepreneurs
- Small firms / large firms
- Black owned firms / White owned firms
- Firms in TAA / Firms in non-TAA areas
- Firms in services / Firms in manufacturing

The list of distinctions and differences noted above is not meant to be exhaustive, but illustrative of the diverse set of potential beneficiaries of public policy, and that each of these distinctions reflect tensions and trade-offs. One route to better understand these differences, is through concepts and methods being developed under the rubric of intersectionality (Dy, Marlow, & Martin, 2017; Valdez, 2016). The concept is however underdeveloped and under theorised in understanding access to markets, but exciting avenue of further research (Hankivsky & Cormier, 2011; Manuel, 2006).

In terms of public spending on small business in South Africa, such an insight gets to core of central question: Who benefits? More specifically questions can be asked, such as:

- Is it better to support a large black business or a small business owned by white person?
- Should large projects or small projects run by black entrepreneurs receive priority?
- Should a large business run a black female receive priority over startup run by a black male?

- Should identity-based criteria be secondary to the criteria of creating employment? These are all open questions at a national level but can be answered at the level of programmes and projects.

Third, there is however a gaping gap in the suasions supporting small business and the context of high inequality and high unemployment. This report shows that under current allocations, the impact of small business to reducing employment and creating assets for businessowners is likely to be minimal. It raises a devastating critique. The critique is that government is unable to develop a feasible redistribution programme that breaks poverty and inequality traps, and instead offers suasions of market-based mobility. However, as shown throughout this report the possibility of a 'massification' or proliferation of small business is unlikely due to the levels of economic concentration across markets and the current racial and gender profiles of businessowners. The implication is that South Africa requires a feasible redistributive strategy as a higher priority than small business development. In fact, one could argue that the developmental challenge of inequality traps is reframed from a society wide trap to an individualised and atomised problem of hard work and luck at an individual level.

6.2.5 Power and the Market Asset Building Logic

Government's stance has been described as a gaping gap between the advocacy for small business on the one hand, and conditions of inequality in the other. The logic that supports this – inferred from the review of budget data - is that small business is a proxy for the equalisation of assets. In other words, opportunity and equality are linked through a process of businessowners building assets through running businesses.

Michael Sherraden (1991) , one of the leading thinkers about asset building, explains the intent behind asset building, as follows:

> *Income only maintains consumption, but assets change the way people think and interact with the world. With assets, people begin to think in the long term and pursue long-term goals. In other words, while incomes feed people's stomachs, assets change their heads … welfare policy has gone off track in becoming almost exclusively preoccupied with the income protection of the poor.*

> *Policy should seek to empower as well as to protect. Especially policy should take into account the critical role of asset accumulation in economic and social well-being … 'implicitly we seem to believe not only that the poor have no wealth, but that they can have no wealth' (1991:6–9).*

Sherrraden is arguing for the existence of an asset effect, when he says that "assets change heads". Importantly, for Sherraden, working on assets is about creating the ways and means of supporting the transition out of poverty for households.

The work of Sherraden and his colleagues has focussed extensively on the introduction of matched savings schemes, and the introduction of children's savings accounts in United States of America and more recently in Africa (2005). The exact nature of the policy experiments is beyond the scope of this report, here the focus is purely on the underlying logic. The underlying logic of the proposals is that a financial stock of value must be created to enable households to create a new accumulation path. Another important underlying feature is a strong criticism that current social policy and social protection are not aimed at creating assets, and as such are unlikely to provide an exit mechanism out of poverty. Taken together, this perspective on assets is grounded in the view that without building an asset over time, households will remain poor. More importantly, in both matched savings and children's savings accounts, an outside agent is needed to support the intervention. In other words, the arguments are founded on the concept and existence of poverty traps and inequality traps.

The understanding of small business as a type of asset - both in the sense of contributing to household asset accumulation and resilience against shocks - can be seen across various government programmes. The intent is to focus create conditions for building such assets across a range of sectors. The intent is to spur business owners to create assets and in so doing enable them to develop these assets. Many questions arise from such a conceptualisation, even if it arises from the data. Specifically, does this occur in the context of absence - an absence of social security and an absence of sustainable redistributive strategies that widen the lens of meaning? Is business ownership the only route for many South Africans, even if it is

a perilous route? Is an asset effect, as outlined by Sherraden, possible through supporting business ownership?

To understand these questions, let us turn to concepts of power. Such is the complexity of this question; two concepts of power are needed to explain this policy rationale. First, the concept of 'power over' describes a context of large dominant companies, activities associated with state capture and a relatively modest programme to spur business ownership. Second, the concept developed by Clarissa Hayward (2000) on defacing power provides a way to understand what the fields of possibilities for entrepreneurs are . Hayward argues that:

> *'Power's mechanisms are best conceived, not as instruments powerful agents use to prevent the powerless from acting freely, but rather as social boundaries that, together, define fields of action for all actors. Power defines fields of possibility. It facilitates and constrains social action.*

Thus, we have a complexity of power relations, broadly as power over and limiting entry into and sustaining involvement in markets. And a policy logic that seeks to widen power of business owners, and wannabe business owners, that says that opportunity abounds and is within reach.

This raises an important conclusion. Unlike the conceptualisation of Sherraden which seeks to build assets based on poverty and inequality traps, government's intent seeks to support small businessowners which an assumption that market conditions are conducive to upward mobility. Government's logic-in-use suggests that few limits to the fields of actions possible for small businessowners, or that limits are easily resolved without addressing underlying inequality at a household level. In a sense, they are arguing to that there are few constraints to social action.

6.3 Pathways For Policies

Based on this assessment that (a) analysis of budget data indicates a multiplicity of rationales, and that the rationales are competing and (b) that the quantitative analysis indicates significant obstacles to scaling up, the paper explores four policy pathways. These pathways are:

1. Reduction;

2. Acceptance;
3. Dissent; and
4. Escape.

This section starts with the development of criteria on which to assess options, before exploring each of these options.

6.3.1 Criteria

How does one move from an analysis with an inductive start towards options? The bridge is the development of criterion through which to assess options. This study has used the real evaluation question – what works for whom and in what context – as a guide throughout analysis. The analysis indicates a challenging and complex terrain of programmes in an unequal setting and raises question as to what criterion should be used.

A range of criteria were evaluated in preparation for this section and throughout this section. The most important of these, is the ability of SMMEs to catalyse a process of social mobility for business owners and employees, primarily through jobs. This is the criteria used in this section. To state it as a question, how likely is wealth to be more evenly distribute and how likely are jobs to be created via SMMEs?

6.3.2 Understanding options

A broad summary of options available are now presented.

- **In the reduction pathway**, less focus is placed on small business, and greater emphasis placed on competitiveness and economic growth. This may arise from a social accord, or because of economic crises.
- **In the acceptance pathway**, the current programme continues as is. Importantly, the programme as is, may yield good outcomes in terms of performance at a programme level, and in fact might be supported by extensions of social security to ensure continuity of the system.
- **In the dissent pathway**, the core challenges of oligopolistic character of the state are tackled and a set of systemic interventions focussed on

improving the environment are undertaken. The costs and benefits of this pathway are explored, suggesting strong possibilities for restoration of current market arrangements.

- **In the escape pathway**, the feasibility of more egalitarian market-based interventions are explored. At its core are interventions founded on an 'entrepreneurial' role for the state, that undertakes Knightian uncertainty. Specifically, the state advances a set of reforms to strengthen the solidarity economy, supports a maker community, and invests in open source alternatives. These changes expand the social control over society over markets but relies on the market to determine pricing signals and information.

The options should, however, not be read as being the same as the configurations discussed earlier, although there is clearly an overlap. The configurations serve as a basis for developing options but are not options in themselves.

6.3.3 Evaluating options

The options were evaluated against the criteria developed above. The basic guidance from this assessment is outlined below:

Box 6-1: Assessment of options

Option	Jobs	Wealth	Number of firms	Structure of economy
Reduction	Based on experiences, it is unlikely that massive jobs will be created.	Unless the quality of growth improves	Unlikely to result in a proliferation of new and sustainable businesses due to characteristics of the economy.	Relatively unchanged.
Acceptance	Prospects for scaling of current programmes could reach more firms, especially smallholder farming enterprises and individuals. Potentially under an effective agricultural programme jobs in the agricultural sector could be created.	Smallholder farming specifically is selected here, because the number of intended beneficiaries is high. The impact on wealth is difficult to ascertain because it is dependent on whether firms are survivalist or not.	Potentially an increase in the number of firms.	Potentially a wider pool of business owners, but change will be limited to agricultural sector.
Dissent	Unclear at best. The reason being that dramatic changes in ownership lead to job creation and destruction. This pathway may have better prospects of success under conditions of a social compact, inclusive of deconcentration programme	A potential upside and downside. An upside if reforms spur on virtuous cycle of inclusive economic growth, coupled with changes in asset holdings. A downside if response from existing companies and the response from new firms are destructive.	Potentially an increase in the number of firms either with an upside or downside. The question remains whether firms will be profitable.	Impact likely to be large, but impact on economy is difficult to ascertain.
Escape	In this option, the state invests in frontier industries. It both copies technology and creates new technology. Broad reforms on the market are linked to social security reforms. In such a context, the prospects for more jobs are enhanced.	New assets could be created at an individual, firm and economy level.	Depends on technology adoption. This could range from planting of crops to open source software.	Unclear. The prospect for a more equal holding within the economy is however enhanced.

The assessment of options outlined above suggests that the 'escape' option presents the best potential option for South Africa to raise standards of living and create a more egalitarian outcomes within the market. The option calls for at least two high level developments in public policy:

- Extending social security to close the gap from reaching adulthood to retirement and building in asset redistribution mechanisms. Good candidate strategies include an employment guarantee, stakeholder grants or a Basic Income Grant (See Ackerman et al., 2006 for a discussion of options).
- Creating market conditions that support larger numbers of small business owners. This would include interventions in shoring up venture capital, reforming public procurement and building linkages between large companies and smaller suppliers. It would also include the effective usage of technologies to support rapid prototyping and discovery of entrepreneurial opportunities.

The implications for such a set of strategic choices are large for public spending. Simply stated, it would require a radical reprioritisation of the budget, in a manner that equalises starting points and further supports the building of assets. The details of such a programme are a logical and exciting next step for this research.

7 THEORY AND LIMITATIONS

This section provides a high-level summary of theory and limitations of the study. It is a high-level summary to complete this project. Unfortunately, time for the project was not sufficient to undertake a full development of theory. Nonetheless, the theory developed has the benefit of simplicity, and meets other quality guidelines noted in the methodology section.

7.1 TOWARDS A THEORY

This study has emphasised that the process of analysis must be linked to development of alternatives. As such, the theory needs to account for what is currently happening, but also what needs to happen. In a sense, it is a call for a theory of change to be the ultimate product. This is a defensible position simply because it is the work of public policy studies to develop options and alternatives. This study takes an unconventional route to arrive at this point, due to a dissatisfaction with dominant modes of public policy analysis.

7.1.1 EXPLAINING WHAT IS GOING ON

The study identifies that government departments seek to move people towards social mobility with four rationales. These:

1. Atomistic – which assumes that economic growth (and possibly just tax incentives) would be sufficient for wide range mobility.
2. Residual – which assumes that the market can function better and deliver better outcomes, the closer it moves to an idealized competitive market.
3. Relational – which assumes that social mobility will occur under conditions of government facilitating change in the economy.
4. Structural – which argues for a wider structural intervention, usually located in land ownership. It argues for a redistributive start to more equal markets.

In explaining these competing rationales – which are seen through coding process – the questions emerge as to why this situation arises. The study argues that the

explanation of government activities can be understood through inequality, which is an intervening variable to explain government's programme.

Government in a sense responds to this context of inequality with relatively good intentions, and programme designs that are hemmed into budgets and human resources. In turn, government action represents a range of policy instruments and options. The effectiveness of these measures is however questioned as the prospects for reaching scale needed to reach the goals of the NDP cannot be inferred from the current suite of programmes. The state in this context, displays a policy programme that is path dependent – in the specific sense that historical distributions limit the potential for market-based transitions to greater equality. Unequal starting points remain important.

A concept that may prove useful is that of understanding the postcolonial state in highly unequal context – as a ' reluctant tactical state'. It can develop programmes and interventions at a tactical level, offering opportunities and support for specific actors. In turn, however these opportunities reinforce the status quo in terms of distribution of assets and other wealth. The 'tactical state' is a hopeful one, in fact one searching for an 'innovation butterfly' to use a metaphor from complexity theory. The innovation butterfly metaphor in this context describes how change might occur:

- Relatively minor disturbances and changes (called perturbations) at a project level can have impacts and steer projects, and portfolio of projects down an irreversible path of technological evolution and market change.
- These changes are possible due to a connection of markets, states, and firms at one level, and the connections between development policy and wider environment at another level.

Small business policy in South Africa and the perspective of the NDP is based on the prospect of SMMEs being akin to an 'innovation butterfly'.

However, this intend operates in a context of high inequality, coupled with a combination of oligopolistic practice and patronage politics. In such a context, the ' reluctant tactical state' continues with programmes hopeful of change but fails to tackle the underlying conditions.

7.2 EXPLAINING WHAT SHOULD HAPPEN

A theory of what should happen starts with an idea of a 'strategic state'. The 'strategic state' would be characterized by three features:

1. Tackling underlying inequality – This would entail expanding social security where possible but also seeking solutions to distributional challenges. For example, the reform of tenure systems in TAA holds great potential for equalising land ownership and creating new opportunities.
2. New markets – The strategic state would recognize the path dependent nature of current economy and seek to support new markets. It will deliberately seek opportunities for the country and will in this instance adopt a Knightian uncertainty. In this regard, it will not merely create enabling environments but invest in projects that are too large for companies – even big companies. Examples of this may include cheaper prototyping via 3D printers, increasing investment in biotechnology and the hydrogen economy, and aligning education and training systems to a new economy. In doing so, it will recognize that it is not picking winners and losers, but rather running a series of experiments that may yield good outcomes. It will recognize that entrepreneurs and state have different but related roles in finding new opportunities.
3. Old markets – The strategic state would not leave old markets alone. Instead it will seek out ways to utilize the scale in these industries to support new markets and to support small firm entry. It will undertake this through tax system, and through legislative and other means.

The strategic state is thus one that recognises the path dependent nature of development in South Africa and seeks to change this. Importantly, elements of such a stance already exist within government. SMMEs in this context would benefit from a wider environmental change in the economy, with the state playing a role in selecting industries and services for long-term development.

7.3 LIMITATIONS AND TEST OF THEORY

The study is wide in scope and management of time, and data management has proven difficult. A key limitation of the study is that it proceeds without reference to a large body of literature that adopts a mashup between grounded theory and critical realism in general, and specifically around transversal budget analysis. Once one narrows this down even further to small business, the literature and techniques is even less.

A related difficulty is that the process proceeds iteratively and requires testing of techniques, theories and assessing the fit of data. This is a challenging task and one that this researcher found enjoyable, but time consuming. For this reason – and the importance of not paying an additional year's fees – this draft is turned in. However, lessons in this regard have been learned for future reference.

In terms of data, the budget data presented specific challenges that are addressed throughout the paper.

The core limitation is that another process of retroductive reasoning is needed to fully develop a theory of what is going on, and a theory of change.

Nonetheless, the theory developed – arguably – meets the criteria for a 'good theory'. These are:

- **Scope** - the study describes a range of interventions and develops various explanations. This is accomplished in this study.
- **Falsifiable** - the theory developed can be tested and alternative explanations found. In the hands of a different analyst an alternative explanation can be found. This study however meets the requirement of 'inference to the best possible explanation' and is grounded in the data.
- **Parsimony** - the theory and recommendations seek the simplest explanation for both understanding the budget and on developing recommendations. The theory developed focusses on a distinction between tactics and strategy at a state level, and thus offers an understanding that is simple, yet defensible.

- **Utility - practical value**. The study has practical use in the hands of multiple actors. This study calls for a significant change in the way government supports small business, and in so doing has a policy relevance.
- **Heurism** - the theory provokes new ideas, especially on the interactions between markets and inequality. The study by taking the lens of the budget immediately enters new ground, and further develops rationales, configurations, and options. It contributes humbly to the development of new ideas.

Finally, one area that required more attention in this paper, is the xenophobic violence against foreign owned businesses.

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9 APPENDICES

9.1 APPENDIX ONE: DATA USED FOR COMPARING INEQUALITY AND UNEMPLOYMENT

Table 9-1 - Inequality and Unemployment Data for Various Countries

Country Name	Gini	Unemployment
South Africa	63.38	25.1
Haiti	60.79	6.8
Colombia	53.5	10.1
Paraguay	51.67	4.5
Brazil	51.48	6.8
Panama	50.7	4.3
Honduras	50.64	3.9
Chile	50.45	6.4
Rwanda	50.44	0.6
Guatemala	48.66	2.9
Costa Rica	48.53	8.3
Bolivia	48.4	2.7
Mexico	48.21	4.9
Dominican Republic	47.07	15.0
Nicaragua	47.05	5.3
Togo	46.02	6.9
Ecuador	45.38	4.6
Peru	44.14	4.2
Benin	43.44	1.0
Chad	43.32	7.0
Zimbabwe	43.15	5.4
Philippines	43.04	7.1
Argentina	42.67	8.2
Madagascar	42.65	3.6
China	42.16	4.7
Congo, Dem. Rep.	42.1	8.0
El Salvador	41.84	6.2
Uruguay	41.6	7.0
Russian Federation	41.59	5.1
United States	41.06	6.2
Uganda	41.01	3.8
Senegal	40.29	10.0

Turkey	40.18	9.2
Georgia	40.09	13.4
Indonesia	39.47	6.2
Sri Lanka	39.16	4.6
Lao PDR	37.89	1.4
Thailand	37.85	0.9
Tanzania	37.78	3.1
Vietnam	37.59	2.3
Iran, Islamic Rep.	37.35	12.8
Greece	36.68	26.3
Portugal	36.04	14.2
Spain	35.89	24.7
Mauritius	35.84	7.7
Latvia	35.48	10.0
Italy	35.16	12.5
India	35.15	3.6
Lithuania	35.15	11.3
Luxembourg	34.79	6.1
Niger	33.99	5.1
Sierra Leone	33.99	3.3
Estonia	33.15	7.7
France	33.1	9.9
United Kingdom	32.57	6.3
Ireland	32.52	11.6
Croatia	32.51	16.7
Mauritania	32.42	31.0
Poland	32.08	9.2
Mongolia	32.04	4.8
Montenegro	31.93	19.1
Switzerland	31.64	4.5
Armenia	31.48	17.1
Cambodia	30.76	0.4
Tajikistan	30.76	10.9
Pakistan	30.69	5.2
Hungary	30.55	7.8
Austria	30.48	5.0
Germany	30.13	5.0
Denmark	29.08	6.6
Serbia	29.06	22.2
Albania	28.96	16.1
Netherlands	27.99	6.9
Belgium	27.59	8.5
Romania	27.45	7.0

Sweden	27.32	8.0
Finland	27.12	8.6
Iceland	26.94	5.0
Moldova	26.83	3.4
Kyrgyz Republic	26.82	8.1
Kazakhstan	26.33	4.1
Czech Republic	26.13	6.2
Slovak Republic	26.12	13.3
Norway	25.9	3.4
Slovenia	25.59	9.5
Ukraine	24.09	7.7

Source: (The World Bank, 2016)

9.2 APPENDIX TWO: GEMS 2015 DATA

Table 9-2: Global Entrepreneurship Monitor Data, 2015

code	economy	year	Perceived opportunities	Perceived capabilities	Fear of failure rate	Entrepreneurial intentions	Total early-stage Entrepreneurial Activity (TEA)	Established Business Ownership	Entrepreneurial Employee Activity	Motivational Index	Female/Male TEA	Female/Male Opportunity-Driven TEA	High Job Creation Expectation	Innovation	Business Services Sector	High Status to Successful Entrepreneurs	Entrepreneurship as a Good Career Choice
54	Argentina	2015	45.88	61.62	25.8	29.14	17.74	9.49	2.38	1.7	0.79	0.83	18.8	22.18	18.6	52.91	62.06
61	Australia	2015	48.87	48.21	41.67	14.39	12.79	8.72	8.52	5.19	0.65	0.94	29.1	31.67	25.3	70.05	56.38
246	Barbados	2015	54.97	75.03	14.74	21.61	21.05	14.09	1.07	3.71	0.88	0.91	11.8	13.68	10.6	69.78	69.55
32	Belgium	2015	40.26	31.89	48.48	10.85	6.24	3.75	6.13	1.61	0.66	0.63	19.5	39.72	27.5	54.51	54.18
267	Botswana	2015	57.81	74.11	18.86	61.85	33.23	4.6	1.56	1.41	0.82	0.79	31.7	20.27	10.6	82.01	70.12
55	Brazil	2015	42.38	58.27	44.74	24.37	20.98	18.89	0.99	1.11	0.94	0.67	6.8	19.69	5.9	80.08	77.66
359	Bulgaria	2015	15.84	35.17	33.28	5.34	3.46	5.44	0.35	0.87	0.72	1.06	7.3	8.62	8.7	71.51	57.53
226	Burkina Faso	2015	58.1	78.05	17.89	45.87	29.75	27.78	0.58	1.36	0.79	0.86	13	11.63	0.3	83.38	73.79
237	Cameroon	2015	60.75	73.09	23.9	33.09	25.37	12.85	0.67	1.26	0.87	0.91	13.3	14.8	5.4	64.82	61.13
101	Canada	2015	53.19	50.49	39.47	11.64	14.72	8.85	7.06	4.14	0.84	1.08	24.2	36.13	21		
56	Chile	2015	57.35	65.72	28.06	50.03	25.93	8.16	5.23	2.42	0.74	0.76	33.6	54.4	18.7	64.89	69.65
86	China	2015	31.71	27.42	39.96	19.52	12.84	3.12	1.36	1.12	0.67	1.13	35	25.82	8.1	77.62	65.94
57	Colombia	2015	58.26	59.47	33.2	48.22	22.67	5.17	2.31	1.7	0.68	0.97	54.3	29.7	20.6	69.84	72.28
385	Croatia	2015	22.3	47.52	34.42	17.21	7.69	2.81	4.86	1.02	0.59	0.87	30.4	16.95	22.5	42.34	61.46
593	Ecuador	2015	52.71	72.25	28.62	46.32	33.56	17.4	0.88	1.13	0.95	0.92	9.3	27.78	5.9	67.12	61.63
20	Egypt	2015	46.07	41.52	29.5	36.75	7.39	2.9	1.33	0.79	0.33	0.73	25.7	22.28	2.4	79.57	73.56

372	Estonia	2015	51.43	44.02	39.3	16.68	13.14	7.74	6.29	4.17	0.58	1.04	30	39.54	25.9	62.61	53.44
358	Finland	2015	48.62	37.39	32.62	10.86	6.59	10.21	5.83	4.19	0.47	0.85	18.2	19.69	31.4	84.89	33.17
49	Germany	2015	38.27	36.19	42.29	7.18	4.7	4.82	4.51	3.75	0.54	0.92	21	34.24	24.8	75.7	50.77
30	Greece	2015	14.19	46.78	46.86	8.29	6.75	13.09	1.03	1.54	0.79	0.94	4.3	23.96	19.4	67.79	60.93
502	Guatemala	2015	47.89	59.98	31.02	36.85	17.71	8.08	1.24	0.89	0.63	0.72	11.9	37.07	6.8	79.79	95.62
36	Hungary	2015	25.34	38.67	41.82	14.75	7.92	6.49	2.12	2.18	0.53	0.74	31.4	18.62	11.9	68.39	48.35
91	India	2015	37.79	37.84	44.01	9.15	10.83	5.5	0.31	1.81	0.58	1.07	3.5	51.08	1.3	46.65	39.33
62	Indonesia	2015	49.91	65.29	39.49	27.47	17.67	17.15	0.21	1.92	1.01	0.94	3.1	17.27	4.3	81.45	74.38
98	Iran	2015	40.31	61.99	38.1	34.96	12.93	14.04	0.95	1.68	0.48	1	20.6	12.1	13.5	82.3	56.27
353	Ireland	2015	39.35	45.02	40.87	14.57	9.33	5.6	6.6	1.99	0.44	1.16	33	44.79	29.6	80.27	52.62
972	Israel	2015	55.5	41.56	47.76	21.59	11.82	3.9	6.55	3.29	0.65	1.02	23.6	30.78	32.9	86.24	64.48
39	Italy	2015	25.66	30.54	57.46	8.15	4.87	4.51	1.38	1.61	0.43	1.15	5	27.98	19.3	68.99	60.92
701	Kazakhstan	2015	48.72	52.06	75.42	17.49	11	2.39	0.95	0.87	0.84	0.97	34.4	18.35	9.7	83.9	76.91
371	Latvia	2015	34.73	49.08	38.6	22.24	14.11	9.59	3.34	3.01	0.52	0.99	31.4	26.32	19.5	58.18	57.5
961	Lebanon	2015	45.67	69.83	17.41	43.95	30.15	17.96	3.26	2.09	0.69	0.9	11.2	38.36	5.4		
352	Luxembourg	2015	48.18	43.96	42.58	13.48	10.19	3.28	6.43	5.6	0.75	0.98	11.3	48.47	36.1	68.81	44.06
389	Macedonia	2015	37.77	54.44	34.33	23.32	6.11	5.91	2.28	0.51	0.41	0.96	22.2	17.03	11.4	57.07	67.1
60	Malaysia	2015	28.24	27.83	27.13	5.61	2.93	4.78	0.27	4.9	1.05	1	8.6	10.4	13.7	50.98	39.28
52	Mexico	2015	44.73	45.81	36.44	13.69	21.01	6.86	1.17	2.94	0.83	0.91	10.1	18.31	4.1	52.02	49.31
212	Morocco	2015	34.25	47.56	41.08	30.18	4.44	5.16	0.37	1.52	0.47	0.92	16.5	12.58	3.2	54.57	70.63
31	Netherlands	2015	48.36	40.55	33.17	9.43	7.21	9.87	6.27	4.45	0.32	1.17	21	26.39	33.9	64.55	79.2
47	Norway	2015	68.93	30.76	33.41	4.78	5.66	6.53	9.89	6.26	0.51	1.09	15.8	13.97	36.5		
507	Panama	2015	46.51	49.42	23.07	13.94	12.8	4.2	0.5	0.86	0.9	0.97	2	28.13	5.1		
51	Peru	2015	51.36	65.31	25.53	38.56	22.22	6.61	0.73	2.12	1.03	0.86	16	15.86	6.8	69.74	72.27
63	Philippines	2015	53.77	68.99	36.45	37.11	17.16	7.25	2.35	1.62	1.31	0.87	10.2	31.84	2.7	76.15	74.63
48	Poland	2015	32.89	55.92	47.8	19.97	9.21	5.92	4.04	1.65	0.48	0.88	26.1	22.44	24.5	55.69	60.45

351	Portugal	2015	28.07	48.85	40.8	16.17	9.49	7	3.96	1.46	0.54	0.8	17.1	27.21	18.5	62.93	63.43
787	Puerto Rico	2015	25.05	50.37	17.73	11.12	8.48	1.41	0.61	1.65	0.72	0.94	9.8	24.29	5.6	47.57	16.73
40	Romania	2015	33.31	46.33	40.49	29.01	10.83	7.47	4.61	1.21	0.53	1.07	39.8	30	17.6	75.07	72.42
221	Senegal	2015	69.91	89.05	15.91	66.64	38.55	18.82	2.27	1.92	0.91	0.78	22.7	8.21	3.5		
421	Slovakia	2015	26.44	52.38	33.65	15.69	9.64	5.69	3.64	1.65	0.5	0.94	28.5	20.73	32.6	64.23	50.76
386	Slovenia	2015	20.54	48.61	32.39	9.11	5.91	4.21	5.59	1.9	0.39	0.98	20.5	30.71	19.6	70.03	53.69
27	South Africa	2015	40.91	45.44	30.32	10.93	9.19	3.41	0.3	1.13	0.6	0.91	25.7	30.13	8.9	76.14	73.79
82	South Korea	2015	14.39	27.41	38.11	6.62	9.25	6.96	2.4	2.55	0.72	1.01	15.6	31.34	15.7	53.52	37.97
34	Spain	2015	25.97	45.26	39.15	5.59	5.7	7.7	1.09	1.8	0.79	0.93	8.7	23.91	29.3	48.38	53.17
46	Sweden	2015	70.22	36.7	36.45	8.44	7.16	5.2	6.36	5.71	0.51	0.97	16.1	32.74	30.8	69.81	52.66
41	Switzerland	2015	41.79	44	33.8	7.04	7.31	11.33	6.49	6.53	0.54	0.94	19.3	38.47	31.9	66.51	39.99
886	Taiwan	2015	30.22	25.43	43.79	26.09	7.3	9.61	4.07	3.78	0.5	0.91	41.8	16.65	15.1	62.65	74
66	Thailand	2015	41	46.22	46.62	16.73	13.74	24.61	0.72	4.42	1.16	0.9	8.8	19.02	4.2	69.39	71.5
216	Tunisia	2015	48.79	59.93	40.25	28.8	10.13	5.02	1.87	3.56	0.36	0.93	40.1	32.17	15.3	72.1	71.1
44	United Kingdom	2015	41.55	43.57	34.93	8.16	6.93	5.26	4.08	2.14	0.53	1.09	19	36.01	34.5	79.24	57.85
1	United States	2015	46.63	55.71	29.36	12.35	11.88	7.33	6.96	4.82	0.63	0.91	31.7	36.01	31.2		
598	Uruguay	2015	39.18	61.04	24.43	25.44	14.28	2.09	4.2	2.95	0.45	0.94	25.9	27.02	17.8	56.75	58.81
84	Vietnam	2015	56.8	56.83	45.57	22.26	13.65	19.55	0.55	1.55	1.34	0.78	9.5	16.48	3.3	75.77	73.29

Source: GEMS, 2017

Definitions

- **Perceived opportunities** -Percentage of 18-64 population who see good opportunities to start a firm in the area where they live.

- **Perceived capabilities** -Percentage of 18-64 population who believe they have the required skills and knowledge to start a business
- **Fear of failure rate** -Percentage of 18-64 population perceiving good opportunities to start a business who indicate that fear of failure would prevent them from setting up a business
- **Entrepreneurial intentions** -Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years
- **Total early-stage Entrepreneurial Activity (TEA)** -Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.
- **Established Business Ownership** -Percentage of 18-64 population who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.
- **Entrepreneurial Employee Activity** -Rate of involvement of employees in entrepreneurial activities, such as developing or launching new goods or services, or setting up a new business unit, a new establishment or subsidiary.
- **Motivational Index** -Percentage of those involved in TEA that are improvement-driven opportunity motivated, divided by the percentage of TEA that is necessity-motivated.
- **Female/Male TEA** -Percentage of female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, divided by the equivalent percentage for their male counterparts.
- **Female/Male Opportunity-Driven TEA** -Percentage of those females involved in TEA who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver

for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income, divided by the equivalent percentage for their male counterparts.

- **High Job Creation Expectation** -Percentage of those involved in TEA who expect to create 6 or more jobs in 5 years.
- **Innovation** -Percentage of those involved in TEA who indicate that their product or service is new to at least some customers AND that few/no businesses offer the same product.
- **Business Services Sector** -Percentage of those involved in TEA in the Business Services sector Information and Communication, Financial Intermediation and Real Estate, Professional Services or Administrative Services, as defined by the ISIC 4.0 Business Type Codebook.
- **High Status to Successful Entrepreneurs** -Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status.

9.3 APPENDIX THREE: CALCULATION ON THE NUMBER OF FIRMS & JOBS NEEDED

Table 9-3: Estimates on number of firms needed by 2030

	Number of Jobs				
Years	1	2	3	4	5
2012	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2013	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2014	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2015	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2016	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2017	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2018	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2019	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2020	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2021	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2022	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2023	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2024	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2025	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2026	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2027	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2028	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2029	521,053	260,526.32	173,684.21	130,263.16	104,210.53
2030	521,053	260,526.32	173,684.21	130,263.16	104,210.53
Total New Firms	9,900,000	4,950,000	3,300,000	2,475,000	1,980,000
To Reach Jobs Target	9,900,000	9,900,000	9,900,000	9,900,000	9,900,000
Jobs Lost with Failure Rate	1	2	3	4	5
10%	990,000	495,000	330,000	247,500	198,000
20%	1,980,000	990,000	660,000	495,000	396,000
30%	2,970,000	1,485,000	990,000	742,500	594,000
40%	3,960,000	1,980,000	1,320,000	990,000	792,000
50%	4,950,000	2,475,000	1,650,000	1,237,500	990,000
60%	5,940,000	2,970,000	1,980,000	1,485,000	1,188,000
70%	6,930,000	3,465,000	2,310,000	1,732,500	1,386,000

80%	7,920,000	3,960,000	2,640,000	1,980,000	1,584,000
	1	2	3	4	5
0%	9,900,000	4,950,000	3,300,000	2,475,000	1,980,000
10%	10,890,000	5,445,000	3,630,000	2,722,500	2,178,000
20%	11,880,000	5,940,000	3,960,000	2,970,000	2,376,000
30%	12,870,000	6,435,000	4,290,000	3,217,500	2,574,000
40%	13,860,000	6,930,000	4,620,000	3,465,000	2,772,000
50%	14,850,000	7,425,000	4,950,000	3,712,500	2,970,000
60%	15,840,000	7,920,000	5,280,000	3,960,000	3,168,000
70%	16,830,000	8,415,000	5,610,000	4,207,500	3,366,000
80%	17,820,000	8,910,000	5,940,000	4,455,000	3,564,000
Additional Firms Needed					
0%	-	-	-	-	-
10%	990,000	495,000	330,000	247,500	198,000
20%	1,980,000	990,000	660,000	495,000	396,000
30%	2,970,000	1,485,000	990,000	742,500	594,000
40%	3,960,000	1,980,000	1,320,000	990,000	792,000
50%	4,950,000	2,475,000	1,650,000	1,237,500	990,000
60%	5,940,000	2,970,000	1,980,000	1,485,000	1,188,000
70%	6,930,000	3,465,000	2,310,000	1,732,500	1,386,000
80%	7,920,000	3,960,000	2,640,000	1,980,000	1,584,000

9.4 Appendix Four: Presentation of Expenditure Data

9.4.1 Vote 1 The Presidency

No references in the budget documentation was made to small business or enterprise development (National Treasury, 2017b).

The personality and practices of the President, Jacob Zuma, however looms large because of allegations of 'state capture' (Haroon Bhorat et al., 2017). This theme is discussed in the contextual section in more detail as it has an influence over small business development and over the wider economic and social policy.

9.4.2 Vote 2 Parliament

Parliament has chosen not to provide data to the National Treasury, and as such no data was reviewed (National Treasury, 2017m). A request to Parliament for information has been sent, but no information was provided at the time of writing.

9.4.3 Vote 3 Communications

The Department of Communications (National Treasury, 2017l) has two sub-programmes that directly reference small business. These sub-programmes are part of the *Industry and Capacity Development Programme*. The sub-programmes are:

- **Enterprise Development** manages enterprise development; implements policy; manages and supports creative industries and media transformation; compiles skills profiles; and develops skills development programmes, including the development and implementation of broadcasting industry development strategies and plans.
- **Broadcasting Digital Migration** manages broadcasting digital migration with the aim of migrating from analogue to digital broadcasting and plays an important role in creating and supporting small, medium and micro enterprises in the digital domain.

The budget data for these programmes are provided below.

Table 9-4: Budget for selected votes at Department of Communications

Subprogramme	Audited			Adjusted	Average growth rate (%)	Average: Expenditure/ Total	Medium-term			Average growth	Average: Expenditure/ Total (%)
R thousand	2013	201	2015/	2016/17	2013/14 -		201	201	2019/	2016/17 - 2019/20	
Enterprise	5	6	2	2 064	-	18.9%	3	3	3	19.1%	9.8%
Broadcasting	3	3	15	39 128	131.9	70.4%	14	20	13	-30.7%	71.9%
Industry Research	–	–	1	6 500	–	9.5%	2	3	3	-19.7%	13.1%
Inter-	–	–	1	–	–	1.2%	1	2	2	–	5.2%
Stakeholder											
Total	**9**	**9**	**20**	**47 692**	**74.2**	**100.0%**	**22**	**29**	**22**	**-22.6%**	**100.0%**
C h				36 798			9 609	9 958	1 582		

Support to produce content is provided by a range of organisations. Those that report to the Department of Communications are:

- Media Development and Diversity Agency (MDDA)
- Brand SA
- South African Broadcasting Corporation (SABC)

The Media Development and Diversity Agency (MDDA) reports to this department, with an explicit mission to support smaller companies in the media space. In the budget documentation, the MDDA describes its role as:

> *The role of the Media Development and Diversity Agency in assisting community media to harness the power of a rapidly changing telecommunications environment contributes to outcome 6 (an efficient, competitive and responsive economic infrastructure network), outcome 12 (an efficient, responsive and development-oriented public service) and outcome 14 (a diverse, socially cohesive society with a common national identity) of government's 2014-2019 medium-term strategic framework through its approach in supporting and enabling content and production. Over the medium term, the agency's spending focus will be on promoting media development and diversity through the provision of financial and non-financial support to community broadcasting and small commercial print projects; allocating grant funding towards ensuring sustainability, through the strengthening of existing small community print projects and community broadcasting projects; and funding new, small, commercial, community print projects and community broadcasting projects. Spending on these activities is expected to amount to R125 million over the medium term.*

The performance information for the MDDA is presented below, as each has relevance to the small business, especially smaller content producers.

Table 9-5: Performance indicators for the MDDA

Indicator	Past			Current	Projections		
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of community print projects funded per year	9	4	10	16	20	20	20
Number of marketing and communications strategies approved per year		1	1	1	1	1	1
Number of newsletters produced per year			1	2	4	4	4
Number of outreach programmes supported per year			15	15	9	15	15
Number of partnership agreements with accredited learning and training institutions signed per year	4	0[2]	2	4	4	4	4
Number of training interventions conducted per year on financial management and governance		8	3	5	6	6	6
Number of media literacy workshops conducted per year	1	1	1	1	1	1	1
Number of community broadcast projects funded per year[3]	15	34	19	32	25	27	29

Of importance to note is that an explicit indicator referencing small business is not stated, yet the mandate of the MDDA is explicitly to support small and community-based media organisations.

The MDDA however has a specific line item for these activities. This is shown below.

Table 9-6: Budget for MDDA

R thousand	Audited outcome			Revised estimate	Average growth rate (%)	Average: Expenditure/ Total	Medium-term expenditure estimate			Average growth rate	Average: Expenditure/ Total
	2013/1	2014/	2015/	2016/1	2013/14 -		2017/1	2018/	2019/	2016/17 -	
Administration	15 670	13	15	27 441	20.5%	31.2%	22 762	23	24	-	37.0%
Community media and small commercial media	42 089	42	35	33 264	-7.5%	67.2%	40 149	40	41	7.4%	58.0%
Research, and monitoring and evaluation	–	–	1 808	596	–	1.1%	1 500	1 573	1 642	40.2	2.0%
Strategy, policy, advocacy, building	–	–	–	1 191	–	0.5%	2 250	2 329	2 463	27.4	3.1%
Total	**57 759**	**56**	**52**	**62 492**	**2.7%**	**100.0**	**66 661**	**68**	**70**	**3.9%**	**100.0**

Both BrandSA and SABC play roles that are potentially important to small business, but there are no significant references to either small business or to entrepreneurship.

The departmental vote also provides a transfer to the Independent Communications Authority of South Africa (ICASA). ICASA envisages a substantial increase in the number of spectrum licenses in its reporting in Budget 2017. The details of this KPI is provided below.

Table 9-7: Independent Communications Authority of South Africa performance indicators by programme/objective/activity and related outcome

Indicator	Programme/Objective/Activity	Outcome	P			Curre	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/1	2018/1	2019/2
Number of community	Licensing	Outcome 14: A diverse, socially cohesive society with a common national identity	–[1]	40	279	279	285	301	301
Number of channel authorisations per	Licensing		–[1]	12	633	673	650	700	753
Number of electronic	Licensing		–[1]	77	475	492	500	550	595
Number of electronic communications	Licensing		–[1]	75	546	596	636	666	666
Number of new spectrum	Licensing		–[1]	2 972	5 022	7 072	9 172	12 275	12 272
Number of community	Licensing		–[1]	–[1]	5	11	11	27	27

1. No historical data available.

This is particularly important area for small business both directly and indirectly. Directly, each holder of a spectrum license will be some sort of business entity, and as such represents an opportunity for decreasing concentration in the ICT industry. Indirectly, the promise of releasing spectrum is that prices for broadband will be reduced, which will stimulate adoption of technology by companies.

9.4.4 VOTE 4 COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

The Department of Cooperative Governance and Traditional Affairs (CoGTA) has surprisingly little information in its budget documentation on small business and entrepreneurship (National Treasury, 2017ak). It is surprising because it has responsibility for local economic development (LED). There is however no defined budget for LED in the departmental budget vote, since a restructuring occurred.

COGTA however has a programme focussed on providing support to secondary cities. The relevant KPI is provided below.

Table 9-8: Number of secondary cities supported - CoGTA

			Past	Current	Projection		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of secondary cities supported per year to improve spatial and economic planning by implementing the Integrated Urban Development Framework					10	15	25

The theme of supporting spatial and economic planning continues in the reporting from the South African Local Government Association (SALGA), which has an indicator on supporting small towns. This indicator is listed below.

Table 9-9: KPI Number of small towns revitalised - SALGA

			Past	Current	Projections		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of small towns revitalised to effect greater socioeconomic development per year				4	6	8	8

Significantly, the department has responsibility for Traditional Affairs. There is no reference in the budget vote to supporting smallholder farmers, or on development of these areas. These are however covered in budgets related to agriculture, land and rural development. The point of emphasis here is that the institutional arrangements in Traditional Authority Areas (TAA) provides a significant challenge to smallholder farming due to land tenure arrangements.

9.4.5 VOTE 5 HOME AFFAIRS

The Department of Home Affairs plays a crucial role in the formal establishment of foreign owned businesses in South Africa (National Treasury, 2017ai). It is a role that has come of the fore as xenophobic violence has been directed at foreign owned businesses across South Africa. The budget documentation however provides little guidance on what the Department of Home Affairs will be doing in this regard. This theme of foreign owned businesses in South Africa is explored further as the analysis proceeds.

There is no budget data that is directly observable in this instance.

The Department of Home Affairs however has an indicator where it seeks to adjudicate business and work visas within a period of eight weeks. The indicator and its associated results are presented in the below.

Table 9-10: KPI on business and general work visa adjudication - Home Affairs

			Past	Current	Projection		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Percentage of business and general work visa applications per year adjudicated within eight weeks (processed within South Africa)[4]	48.7	66.4	84..7	80	90	95	95

The data however shows an interesting feature. The decline in the number of foreign owned businesses and work visas that are being processed. This is shown in the table below. Based on this measure there has been a substantial decline in the number of applications seeking business and general work visas from 2013/14 to 2015/16.

Table 9-11: Number of applications for business and work visas to Department of Home Affairs (2013/14 to 2015/16)

	2013/14	2014/15	2015/16
Number of Applications	39086	28357	6805
Number resolved in eight weeks	19035	18829	5764
% Processed	48.7003	66.39983	84.70242
Percentage Change		-27.45	-76.00

9.4.6 VOTE 6 INTERNATIONAL RELATIONS AND COOPERATION

No references in the budget documentation was made to small business or enterprise development(National Treasury, 2017aj).

9.4.7 VOTE 7 NATIONAL TREASURY

The National Treasury (NT) (National Treasury, 2017ak) budget vote has several references to small business. This is due to several finance related institutions reporting to it, as well as programmes related to job creation. Moreover, the NT manages the fiscal affairs of South Africa and as such creates an environment in which businesses operate.

Several areas in the NT budget vote are recorded here, but issues on procurement and taxes are discussed separately.

Jobs Fund

The Jobs Fund is an attempt by government to support initiatives that translate into employment. The NT reports that the Jobs Fund will have created 150 000 jobs by the end of the MTEF. Of importance, is the conceptual foundation, which is captured in a call for proposals. It reads as:

> *The idea is adopted from the development world where a "making markets work for the poor (M4P)" approach improves the functioning of a core market to work inclusively for the poor (The Springfield Centre, 2015)1, and in the case of the Fund, for the unemployed (M4U).*

This reference spurred thinking on the development of a conceptualization of interventions, which are described in the discussion section.

The Jobs Fund has a criterion not to support start-up initiatives, and generally supports intermediary organisations, and provides enterprise development support to intermediary organisations. The list of currently funded projects is provided below.

Table 9-12: Beneficiaries of the Jobs Fund Enterprise Window

Applicant	Project Name	Type	Project Footprint	Grant Funding R million	Matched Funding R million
Claremont Farming	AgriBEE Agro Processing Linkage	Private	Eastern Cape	12.06	97.98
A2L Media Corp	Community access to wireless retail technologies	Private	National	78.00	390.12
Eastern Cape Rural Development Agency & Eastern Cape Development Corporation (Rural Agro Initiative)	Trading Up and Rural Agro Industrialisation	Public	Eastern Cape	72.77	49.81
Anglo American Zimele Ltd	Anglo American Zimele Jobs Fund	Private	National	250.00	250.00
Awethu Entrepreneurship Foundation	Awethu Project	NGO	Gauteng	20.00	4.00
Buhle Farmers Academy	Buhle Academy	NGO	National	5,00	8,52
Cape Craft and Design Institute	CCDI Enterprise Development	NGO	Western Cape	11.62	2.91
Council for Scientific and Industrial Research- EC	Development of Cashmere Fibre Industry	Public	Eastern Cape	5.00	1.00
Council for Scientific and Industrial Research- eGoli Bio	Bioprocess Development and Pilot Centre	Public	Gauteng	72.00	18.00
CuraFin Manco	Owner Driver Programme	Private	Gauteng	48.00	81.49
Eksteenskuil Landbou Kooperasie Beperk	Eksteenskuil Raisin Incubator	Private	Northern Cape	18.25	30.62
Hand in Hand Southern Africa	Job Creation through Enterprise Development	NGO	Limpopo, Mpumalanga, KwaZulu Natal, North West	22.44	4.90
Heifer International South Africa	Blouberg Agricultural Development Project	NGO	Limpopo	6.78	1.70
Hot Dog Café	Hot Dog Café Cadet Program	Private	National	17.23	18.60
LIMA	Small Holder Farmer Support Programme	NGO	Limpopo, Mpumalanga, KwaZulu Natal, Eastern Cape	20,11	6,05
LIMA Rural Development Foundation NPC	Manzengwenya - Mbazwana Forestry Development Programme	NGO	KwaZulu Natal	80.25	20.01
Microsoft South Africa	Microsoft Bizspark Programme	Private	National	96.00	96.00
Mondi Zimele Entrepreneurship Foundation	Zimele Project	NGO	Mpumalanga, KwaZulu Natal	70.00	70.00
Newlands Mashu Community Development Centre	Soybean - Edamane Soybean Industry Establishment	Public	KwaZulu Natal	19.00	10.91
Project Preparation Trust KZN	Development of Emerging Micro & Formal Enterprises in eThekwini Municipality	NGO	KwaZulu Natal	5.00	1.00
Shanduka Black Umbrellas	Shanduka Black Umbrellas Business Incubator	NGO	KwaZulu Natal	10.50	8.22
Technoserve	Job Creation through Small Farmer Commercialisation	NGO	National	40.18	10.05
Use-It	Compressed Brick Manufacturing	NGO	KZN	7.76	22.93

Public Investment Corporation

The Public Investment Corporation (PIC) manages investment funds for government and is responsible for investments from the Government Employee Pension Fund (GEPF). The PIC investments have developed instruments to support small businesses, but these are not recorded in the budget documentation. The only reference to small business is a commitment to increasing funding in that area. The PIC summarises its intent as follows:

> *Over the medium term, the corporation is set to spend an estimated R9 billion in investments on property development, including new developments, refurbishments and upgrades; and rural development investments. The value of African and offshore investments is expected to increase to R122.7 million by 2019/20, while contributions towards education, health, housing, and infrastructure and environmental sustainability; small, medium and micro enterprises; priority sector investments; and transformation are expected to amount to R10 billion per year over the medium term.*

The Isibaya Fund is a Developmental Investment Fund managed by the Public Investment Corporation. The Fund was established in 1999 to invest in projects that will have a positive social impact on ordinary people. It is targeted at providing finance for projects that support the long-term economic, social and environmental growth of South Africa and the rest of the African continent. As part of this fund, there is an opportunity for small business, and the information provided below.

Table 9-13: Description of Isibaya Fund

The purpose is to invest in and support Small and Medium Enterprises in a manner which will yield satisfactory financial returns for the investors while contributing positively to the economy particularly in terms of entrepreneurship, new enterprise development and job creation.	Across all sectors except: • Gambling, • Ammunition and • Sin industries.	• Funding for retail starts from R10 million and R100 million for wholesale. Lesser sums may be considered on a case by case basis; • Funding instruments may comprise of equity, preference shares, mezzanine, debt or a hybrid thereof; • Funding will be commercially priced; • Projects that should build or help to build capacity for SME's; • Projects that focus on financing SME's through intermediaries; • Expanding productive capacity of existing SMEs • Funding to start new SMEs • Buy-in or buy-out of SMEs where emphasis is focused on the promotion of entrepreneurship particularly amongst previously disadvantaged individuals. • Applicants for funding shall espouse the aims of BBBEE with a preferred minimum of level 3

The rationale for including the information on the PIC approach to small business here is to highlight an area of investment by a government run organisation that is often over-looked.

Financial Services Board

The Financial Services Board (FSB) argues in the following terms that it will seek to promote new entrants in the financial services industry:

The Financial Services Board plays a meaningful role in promoting growth, employment and poverty reduction through regulating the financial services sector and protecting customers. In line with outcome 4 (decent employment through inclusive growth) of government's 2014-2019 medium-term strategic framework, the board is able to contribute to the area of poverty reduction through promoting access to employment, financial inclusion and education. The NDP envisages that small and new entrepreneurs will account for the creation of the majority of new jobs in the economy. An important strategy for the board is the promotion of new entrants to the financial services industry.

Land and Agricultural Development Bank of South Africa

It is important to pause and provide a reminder on the role of the Land and Agricultural Development Bank of South Africa. In the budget documentation, it explains itself as follows:

The mandate of the Land and Agricultural Development Bank of South Africa, as a development finance institution, is to address agricultural and rural development in South Africa. The bank operates in the agricultural and agribusiness sectors and is regulated by the Land and Agricultural Development Bank Act (2002) and the Public Finance Management Act (1999). Its broader mandate, as expressed in the act, is to promote the equitable ownership of agricultural land, particularly by historically disadvantaged people; agrarian reform, land redistribution or development programmes for historically disadvantaged people; land access for agricultural purposes; productivity, profitability, investment and innovation in agriculture; the growth of the agricultural sector and better use of land; rural development and job creation; and commercial agriculture and food security.

As noted later in this chapter, the Land and Agricultural Development Bank of South Africa is envisaged to play a critical role in the development of smallholder farmers. The numbers are staggering with government attempting to reach between 300 000 and 450 000 smallholder farmers.

The budget documentation provides no guidance on how this will be supported. However, what can be seen is that there is no exponential growth in the funding provided to the Land and Agricultural Development Bank of South Africa. The bank

raises funds from the open market as well, so an analysis of its capacity to support many smallscale farmers cannot be inferred directly from the budget information.

Table 9-14: Statement of Financial Performance - Land Bank

Statement of financial performance	Revised estimate	Average growth rate (%)	Average: Expenditure/ Total (%)	Medium-term			Average growth rate (%)	Average: Expenditure/ Total (%)
	2016/17	2013/14 - 2016/17		2017/18	2018/19	2019/20	2016/17 - 2019/20	
Total revenue	4 150 463	17.0%	100.0%	5 346	6 073	6 791	17.8%	100.0%
Total expenses	3 922 343	21.3%	100.0%	5 049	5 672	6 305	17.1%	100.0%
Surplus/(Deficit)	228 120	(0)		297 204	401 053	485	28.6%	

The summary of revenue and expenses provides a sobering picture, indicating that Land Bank has achieved stability under the NT. However, the question remains whether the revenue increases robustly enough to support the large envisaged support that departments involved in agriculture are proposing. Importantly, support should be a euphemism for credit, but it is a valid assumption that significant increase in sustainable small farms will require an increase in credit.

Neighbourhood development grant

One of the activities that the NT undertakes is the management of the Neighbourhood development partnership grant. Whilst not specifically focussed on small business, the intent is to create partnerships between government and private companies for investments in local areas. It is a theme of spatial investment strategies that is seen across several government departments and is included here as an example of a potential source of funding for small businesses.

Cooperative Banks Development Agency

Cooperatives are included in the definition of SMMEs. The NT oversees the development of the financial sector for cooperative banking, through the *Cooperative Banks Development Agency*. Confusingly, it has a subprogramme of the same name. The relationship is described below:

> *Cooperative Banks Development Agency* (the programme) *facilitates the transfer payment to the Cooperative Banks Development Agency, which provides for the registration,*

supervision and regulation of cooperative banks and the development of cooperative financial institutions, such as savings and credit cooperatives, community banks, village banks and financial services cooperatives, into cooperative banks.

Fiscal stance

The NT is responsible for the fiscal stance of government and this has a direct bearing on the small business. Of significance is the consistent focus on economic growth leading to job creation, which has been a staple ingredient of the NT strategy for over two decades. This theme is taken up in the contextual section of this report.

9.4.8 Vote 8 Planning, Monitoring and Evaluation

The Department of Planning, Monitoring and Evaluation (DPME) has a wide range of responsibilities (National Treasury, 2017al). It has as part of its mandate to conduct an evaluation of government departments and has conducted several important evaluations related to small business and entrepreneurship. The budget vote however makes no specific mention of small business or entrepreneurship.

Of importance, is that the National Youth Development Agency (NYDA) reports to Minister responsible for this department. The NYDA has programmes, budgets and indicators to support youth entrepreneurs. These are now discussed.

The NYDA summarises its goals on supporting youth entrepreneurs as follows:

Over the medium term, the agency plans to provide financial support to 800 new youth entrepreneurs annually, which is expected to contribute to the creation of 6 300 jobs over the medium term. In addition, the agency plans to provide business support services to 18 000 young and aspiring entrepreneurs. Spending under the economic participation programme has increased from R72 million in 2016/17 and will reach R229 million in 2019/20

To reach these goals, it has two indicators which are listed below.

Table 9-15: KPIs on Youth Entrepreneurship - NYDA

			Past	Current	Projections		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of jobs created through supporting entrepreneurs and enterprises per year					2000	2100	2100
Number of jobs sustained through supporting entrepreneurs and enterprises per year					1260	1260	1320

The relevant information regarding budgets is presented below.

Table 9-16: National Youth Development Agency expenditure trends and estimates by programme/objective/activity

	Audited		Revised estimate	Average growth rate (%)	Average: Expenditure/ Total (%)	Medium-term expenditure			Average growth rate (%)	Average: Expenditure/ Total (%)
R thousand	2013/14	2014/15	2016/17	2013/14 - 2016/17		2017/18	2018/19	2019/20	2016/17 - 2019/20	
Enhance the in the economy and benefit from	66 512	79 269	64 553	-1.0%	14.4%	228 036	239 438	251 410	57.3%	42.4%
Total for NYDA	**451 141**	**464**	**451 754**	**0.0%**	**100.0%**	**440 000**	**462 001**	**485 101**	**2.4%**	**100.0%**

9.4.9 VOTE 9 PUBLIC ENTERPRISES

The Department of Public Enterprises (DPE) plays a significant role in overseeing several state-owned enterprises (SOEs) (National Treasury, 2017am). The SOEs reporting to according to its website are:

- Transnet is a public company wholly-owned by government. It is the largest and most crucial part of the freight logistics chain that delivers goods to each and every South African.
- South African Express was founded on the eve of the new democratic South Africa on 24 April 1994.
- Eskom is the world's eleventh-largest power utility in terms of generating capacity, ranks ninth in terms of sales, and boasts the world's largest dry-cooling power station.
- Denel (Pty) Limited is the largest manufacturer of defence equipment in South Africa and operates in the military aerospace and landward defence environment.
- South African Forestry Company (SAFCOL) is the Government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and internationally.
- Alexkor the core business of Alexkor is the mining of diamonds on land, along rivers, on beaches and in the sea along the north-west coast of South Africa.

In playing an oversight role with these entities, the DPE indicates that it will be playing a role in overseeing the supplier development programmes, and specifically those of Eskom and Transnet. It states that it intends to:

> *Oversee Eskom and Transnet's implementation of the competitive supplier development programme*

And again,

Exercise oversight to ensure that Eskom's capital investments support local suppliers by monitoring the implementation of the competitive supplier development programme and assessing progress in the company's quarterly report.

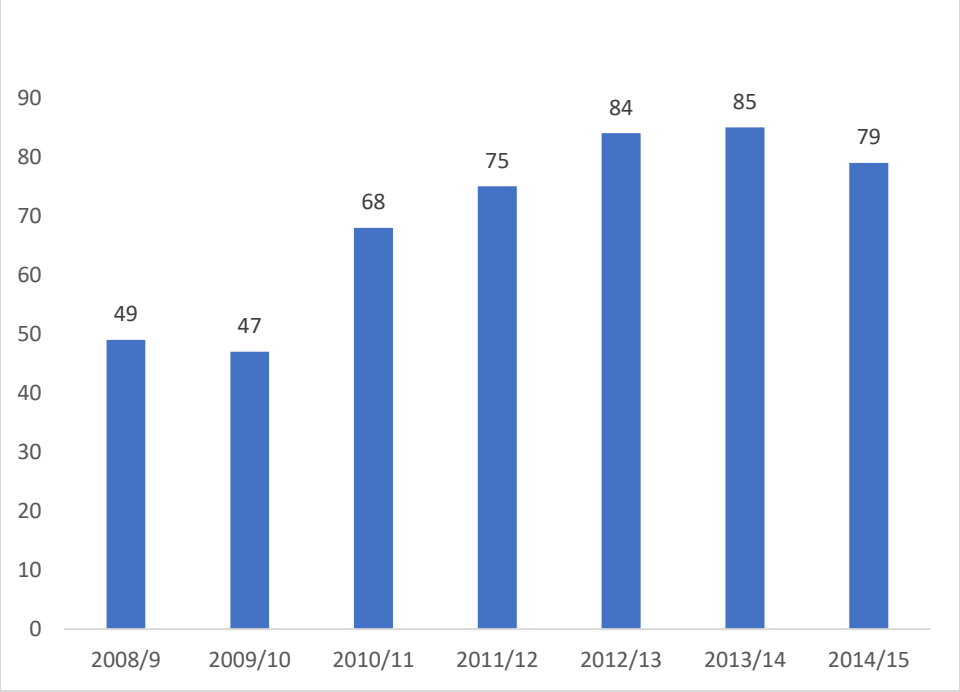
The exercise of these oversight functions is important, as Eskom and Transnet bought have large procurement budgets.

9.4.10 VOTE 10 PUBLIC SERVICE AND ADMINISTRATION

The Department of Public Service and Administration (DPSA) runs an important process that concerns business (National Treasury, 2017c) . This process is the management and monitoring of financial disclosure framework. The intent of the financial disclosure framework is for Senior Managers in the public service to declare their interests in companies, and in so doing avoid conflicts of interest.

Senior managers are required to provide disclosure forms to the Public Service Commission (PSC). The most recent report from the PSC on compliance in this regard is for the 2012/13 financial year. The compliance levels are listed below:

Figure 9-1: Overall percentage of the submission of financial disclosure forms 2 by national and provincial departments by 31 May between 2008/2009 and 2012/2013 financial years



Source: Public Service Commission, 2015 https://pmg.org.za/committee-meeting/21672/

The process is relevant for the development of small business in South Africa as corruption remains a major challenge in South Africa. In managing the relationship between senior managers and market-based opportunities, the DPSA is responding to challenges of corruption on government tenders and seeking to build an ethical public service.

As will be discussed in the following section covering themes, the theme of corruption is a relevant issue that arises when discussing the spending of government, and specifically the broader environment. It is for this reason that this code was included in the data to be reviewed.

Whilst the theme of corruption is important for understanding the development of small business, neither the budget data nor the KPI data has been included. The

reason being is that neither the budget vote nor the KPIs are specific enough for inclusion.

9.4.11 VOTE 11 PUBLIC WORKS

The Department of Public Works has an ambitious programme for transformation of the property industry (National Treasury, 2017d). To quote from the 2017 Estimates of Expenditure:

> *The reviews of the Construction Industry Development Board Act (2000) and Council for the Built Environment Act (2000) aim to ensure the acts align with current policy trajectories such as the National Development Plan and the Broad-Based Black Economic Empowerment Act (2003), and address governance challenges and the slow pace of transformation in the construction industry and built environment. The Council for the Built Environment Bill is expected to be submitted to Parliament in 2017/18, and the implementation of the act is planned for 2018/19. The Construction Industry Development Board Bill is expected to be ready for gazetting in 2017/18. The development of a property management empowerment policy will serve as the overarching framework for the department's empowerment initiatives and programmes in an effort to promote the transformation of the property industry. The department will also review relevant policies, such as the 1997 and 1999 white papers on public works, and consult with the wider public works community in working towards a solid foundation for the proposed public works act, which will focus on the concurrent nature of the public works function, that is, functions that are carried out at both the national and provincial spheres of government, including providing accommodation to national and provincial departments. Once the act is promulgated, the department will be empowered to perform oversight and performance management functions in relation to the activities and programmes of provincial public works departments. To achieve these key objectives, the department's research and policy branch will be funded by the Property and Construction Industry Policy and Research programme.*

These policy developments will have impacts on the property sector and will seek to support small business and black business.

The Construction Industry Development Board (CIBD) reports to the Department of Public Works and runs an extensive programme of development for contractors. Contractors are provided a grade, which indicates the type of work that it will be able to undertake. The CIBD provides several initiatives under its Contractor Development Programme to support contractors moving from one grade to the next. It describes the intent of its programme as:

> *Contractor development aims to create opportunity for emerging contractors to build capacity, capability and sustainability to play a meaningful role in infrastructure development. It also promotes empowerment to redress historical imbalances.*
>
> *An estimated 80% of Government infrastructure spend is concentrated at cidb Grades 7 to 9 level contractors, where projects are accessed by about 11% of cidb registered contractors. Among key drivers of Government procurement and expenditure patterns is the need for delivery efficiency, the complexity of projects and concentration of capacity in higher grades 7 to 9.*
>
> *Contractor development aims to boost the delivery capacity and capability, as well as sustainability of emerging contractors, who constitute an estimated 80% of cidb registered contractors. Sustainability includes improving access by these contractors to Government infrastructure projects.*
>
> *Contractor development is therefore a deliberate Government policy to implement strategies aimed at empowerment of the emerging sector. The cidb spearheads this process by providing the industry with guidelines and standards, forging strategic partnerships with critical stakeholders and by strengthening Government ability to develop and implement targeted contractor development interventions.*

Of importance, here is that the majority of contractors are not yet able to bid for larger government contracts and represents a substantial challenge to government utilising procurement budgets to support smaller businesses in the construction sector.

The CIBD provides an indication of the anticipated graduation process, which is pivotal to smaller contractors bidding for larger contractors. The data is presented below and indicates that a small number of overall contractors will graduate based on these indicators. The indicators themselves do not measure grades, but rather the steps needed to move a grade.

Table 9-17: Construction Industry Development Board performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Percentage of contractors graduating from the contractor	Regulation and advocacy		[1]	[1]	[1]	[1]	5%	20%	30%
Percentage of contractor	Monitoring and evaluation		[1]	[1]	[1]	[1]	50%	40%	30%
Percentage of contractors graduating from contractor development	Technical support and advice	Outcome 12: An efficient, effective and development-oriented	[1]	[1]	[1]	[1]	5%	5%	5%

1. No historical data available.

9.4.12 VOTE 12 STATISTICS SOUTH AFRICA

The absence of a consistent survey that provides data on small business in South Africa is a major concern, as measurement of performance of small business is hampered. Specifically, the survivorship rate for South Africa is a hotly debated topic, with a wide range of estimates being provided. Even though the estimates present a wide range, there is consensus that survivorship rates in South Africa are low.

Statistics South Africa has a line item dedicated to ensuring a database of businesses is however available (National Treasury, 2017e). The description of the line item is:

> *Business Register maintains and improves the sampling frame for economic statistics.*

The absence of the register is vital to note for planning and monitoring purposes as measurements against the NDP goal are difficult to estimate. Statistics South Africa and the DSBD have however started a process to develop a panel on small business in South Africa.

There are however many sources of data, each considered at specific points in this report.

9.4.13 VOTE 13 WOMEN

The budget documentation for the Department of Women does not speak directly to any issues specific to small business and entrepreneurship. The department however has a sub-programme called *Economic Empowerment and Participation*, which develops interventions that allow women to have equal access to opportunities and participate in the mainstream economy (National Treasury, 2017f) .

Despite, the budget data not providing a specific mention of small business, a review of one report – the only review that is available on the departmental website - indicates that the Department of Women plays a role in monitoring impacts of government departments on the specific challenges facing women entrepreneurs. The reporting can however be criticised for providing at best patchy reporting on issues related to women in small business and entrepreneurship.

Whilst a sub-programme has been identified that is of relevance to SMMEs, the data is not included in the aggregation of small business budget votes, as the budget vote serves many important purposes.

The Annual Performance Plan (APP) for the department for 2017/18 provides an indicator that is pertinent to small business. Under the *Economic Empowerment and Participation* sub-programme, it intends to:

> *To undertake an analysis on the share of income of women through employment and their participation in the ownership and management structures of enterprises across ESEID cluster departments on the implementation of the 9 Point Plan activities (page 47).*

This department describes its intent as a "desired performance", in the following words:

% increase and participation of women across all occupational levels and ownership of enterprises and productive assets across ESEID cluster departments on the implementation of the 9 Point Plan activities (page 47)

9.4.14 VOTE 14 BASIC EDUCATION

The need for a strong educational system in South Africa to entrepreneurship is noted in reports. The GEMS report for instance indicates that a rise in entrepreneurship is dependent on improving the overall educational performance of the country. The intent is that through improving education, more young South Africans will have skills required to venture into business. The general linkage between basic education and entrepreneurship is noted here, and the broader theme discussed in the discussion chapter.

The Department of Basic Education (DBE) runs the national school nutrition programme (National Treasury, 2017g). The scale of the programme is important to note. On the 15 March 2017, Cabinet reported this programme as follows:

6 784 179 learners from 10 300 (quintile 1-3) primary and secondary schools benefitted from the National School Nutrition Programme. 5 408 service providers (1 142 Community Base Co-operatives, 3 112 SMMEs and 1 154 retail/ wholesalers) have been contracted to supply food products to schools. 541 121 youth and 291 304 women benefitted from the interventions implemented in the rural areas in this quarter.
http://www.gov.za/speeches/statement-cabinet-meeting-15-march-2017-16-mar-2017-0000

The programme provides daily meals to school learners, involving a range of service providers. Of particular interest is that over 3000 SMMEs participate in this

programme. In addition, over 52 000 volunteer food handlers, who receive a stipend from government participate in the programme (Motshekga, 2017).

Two themes emerge from this programme, that are applicable to the wider social sector. First, the possibility of sustaining SMME cashflow through the provision of social services. Second, the feasibility of growing enterprises beyond state contracts.

The budget data for the National School Nutrition Programme is presented. The data used in these tabulations are for conditional grant that is delivered to provinces. The reason being that these budget items would exclude administrative costs. It thus reflects a more accurate value for the budget that will be spend on actual projects.

Table 9-18: Education budget - exemplar of calculations

National School Nutrition Programme (Conditional Grant)							
Budget Data (R Million)							
	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
Years	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budget Amount Identified Budget	5,173.08	5,461.92	5,685.38	6,059.66	6,426.31	6,802.08	7,185.72
Departmental Total	17,011.09	19,528.90	20,796.13	21,626.84	23,408.62	24,795.33	26,195.96
Deflators	84.13	88.87	93.46	98.81	104.44	110.40	116.80
Real Identified Budget	6,421.80	6,419.22	6,353.56	6,405.06	6,426.31	6,435.27	6,425.54
Real Total Budget	21,117.38	22,951.70	23,240.22	22,859.57	23,408.62	23,458.21	23,424.68
Percent of Identified Budget Compared to Total Departmental Budget							
% of total	30.41	27.97	27.34	28.02	27.45	27.43	27.43
Year on Year Change Real and Nominal							
Year on Year Change							
Nominal Identified Budget		5.58	4.09	6.58	6.05	5.85	5.64
Nominal Total Budget		14.80	6.49	3.99	8.24	5.92	5.65
Real Identified Budget		-0.04	-1.02	0.81	0.33	0.14	-0.15
Real Total Budget		8.69	1.26	-1.64	2.40	0.21	-0.14
Percentage Actual and Projected Changes							
Change	Actual Percentage Change (2013/14 to 2016/17)				Projected Percentage Change (2016/2017 to 2019/20)		
Nominal Identified Budget	17.14				18.58		
Nominal Total Budget	27.13				21.13		
Real Identified Budget	-0.26				0.32		
Real Total Budget	8.25				2.47		

Whilst performance data exists for the programme no identifiable performance indicator related to SMME development was identified. A review of available programme documents did not yield any additional information.

9.4.15 VOTE 15 HIGHER EDUCATION AND TRAINING

The Department of Higher Education and Training (DHET) undertakes a range of programmes that potentially support small business development. One of these programmes is the artisan development programme. This programme provides training to South Africans to enter a range of occupations, and potentially start businesses (National Treasury, 2017h). The indicators suggest a programme that has seen rapid growth and is yielding results:

Table 9-19: KPIs on Artisan Development - DHET

			Past	Current	Projections		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of new artisans registered for training each year	27670	28301	28640	30750	31750	32750	33750
Number of artisan learners qualified each year	13000	14389	16114	21110	22110	23110	24000
% change new artisan registrations year-on-year		2.3	1.2	7.4	3.3	3.1	3.1
% change qualified artisans year-on-year		10.7	12.0	31.0	4.7	4.5	3.9

Of significance is that the DHET has placed SMME's as a priority area for the National Skills Fund. The DHET indicates this strategic change as follows:

Over the medium term, the National Skills Fund will continue supporting quality and growth in the post-school education and training system by funding national priority skills initiatives such as artisan development and creating greater opportunities for out-of-school youth. The fund will also focus on supporting small, medium and micro enterprises and cooperatives on learner and worker education and training, skills infrastructure development, skills development research, innovation and communication, and projects aimed at expanding, integrating and improving the effectiveness of the post-school education and training system. This is in line with outcome 5 (a skilled and capable workforce to support an inclusive growth path) of government's 2014-2019 medium-term strategic framework.

The National Skills Fund which reports as a separate entity, has the following performance indicator:

Table 9-20: Number of SMME's benefiting from the National Skills Fund

			Past	Current	Projections		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of small, medium and micro enterprises and cooperatives that benefited from the fund's skills development initiatives per year				100	150	200	250

9.4.16 VOTE 16 HEALTH

No references in the budget documentation was made to small business or enterprise development (National Treasury, 2017h).

9.4.17 VOTE 17 SOCIAL DEVELOPMENT

The Department of Social Development (DSD) is tasked with several tasks, the most prominent of these is the payment of social grants (National Treasury, 2017i). The DSD however also plays a major role in Early Childhood Development (ECD). The DSD has identified the expansion of ECD as a priority area. This has implications for business ownership in South Africa, as the expansion provides will be interesting to observe.

The vast majority of ECD centres are publicly owned, but around 18% are privately held. The graphic below provides an estimation of the ownership between public and private ownership of ECD centres.

This expansion is important to note in itself, but also for the wider question on the choices between what is described as the solidarity economy, and a more conventional private ownership model. This must be read within the context of what the DSD describes how it will utilise budgets to support an expansion of good quality ECD services:

> *At the end of 2015/16, approximately 1.5 million children were accessing ECD services, of whom 593 405 were receiving an ECD subsidy. Government aims to provide the subsidy to all children accessing ECD services in registered centres. Over the MTEF period, R1.1 billion is allocated to ensure an estimated 113 889 more children receive the subsidy. Many ECD facilities find it difficult to meet the minimum infrastructure requirements to become fully registered in terms of the Children's Act (2005). Over the MTEF period, R230.6 million is allocated for minor upgrades to facilities that are conditionally registered to allow them to comply with norms and standards, and improve the quality of their services. Approximately 1 993 facilities will be targeted for minor upgrades by 2019/20. The expansion of subsidies and the upgrades to ECD centres will be funded from 2017/18 through a new conditional grant to provinces, the early childhood development grant. The grant is expected to increase spending in the Children subprogramme within the Welfare Services Policy Development and Implementation Support programme at an average annual rate of 99.8 per cent over the medium term. It also*

accounts for the significant growth in transfers to provinces and municipalities over the period effective from 2017/18.

9.4.18 VOTE 18 CORRECTIONAL SERVICES

No references in the budget documentation was made to small business or enterprise development (National Treasury, 2017j).

9.4.19 VOTE 19 DEFENCE AND MILITARY VETERANS

The Department of Defence and Military Veterans has two interesting features in the review of its budget and plans (National Treasury, 2017k). First, it has a signed a memorandum of understanding with the DSBD to procure up to 75% from small business. Of interest is that this is codified in a memorandum of understanding between the DSBD and the Department of Defence and Military Veterans. The Department of Defence and Military Veterans has reported that already reported that its procurement from SMME's and co-operatives is over 50%. In response to a question in parliament on this issue, the Minister responded as follows:

The following percentage of the total procurement of (a) the Minister for Defence and Military Veterans department and (b) every entity reporting to her went to (i) SMME's and (ii) co-operatives from 1 April 2015 to 26 February 2016 was ***50.7%.*** ***(Source: Minister reply to questions.*** *https://pmg.org.za/committee-question/2762/)*

Second, it intends developing a special purpose vehicle for investments that will support military veterans. Details on what this investment vehicle will do are not available but has a potential role in either venture capital or supporting military veterans in starting businesses.

9.4.20 VOTE 20 INDEPENDENT POLICE INVESTIGATIVE DIRECTORATE

No references in the budget documentation was made to small business or enterprise development (National Treasury, 2017n).

9.4.21 VOTE 21 JUSTICE AND CONSTITUTIONAL DEVELOPMENT

No references in the budget documentation was made to small business or enterprise development (National Treasury, 20170).

9.4.22 VOTE 22 OFFICE OF THE CHIEF JUSTICE AND JUDICIAL ADMINISTRATION

No references in the budget documentation was made to small business or enterprise development(National Treasury, 2017p).

9.4.23 VOTE 23 POLICE

The South African Police Service plays a crucial role in supporting economic development. Across several surveys – reported on in the contextual analysis – crime is raised as a major concern for small business. The South African Police Service has targets for commercial crimes, but these are focussed on large commercial crimes (National Treasury, 2017q). The Private Security Industry Regulatory Authority (PSIRA), which reports to the Minister of Police plays a role in monitoring the work of private security businesses. It has performance indicators for these areas, and an attempt to ensure that the sector is regulated. This KPI is listed below for completeness but is important as the private security industry has been a growth sector.

Table 9-21: KPI - Inspection of security businesses

			Past	Current	Projections		
Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of security businesses inspected to assess and enforce compliance with the Private Security Industry Regulation Act -2001 and other relevant legislation per year.	4283	4114	5375	4690	5160	5680	6200

The PSIRA Annual Report 2015/16 indicates that there 8692 registered private security businesses. It further reports that just over 42% of all inspections occur in small businesses.

Table 9-22: Number of private security company inspections by size of business (2015/16)

Number of inspections				
Region	Small businesses	Medium businesses	Large businesses	Infrastructure & capacity
Head Office	754	221	395	1178
Western Cape	614	99	126	223
Eastern Cape	396	42	50	144
KwaZulu-Natal	504	127	193	309
TOTAL	2268	489	764	1854
% of Total	42.20	9.10	14.21	34.49

Source - Annual Report PSRI[5], page 22

9.4.24 VOTE 24 AGRICULTURE, FORESTRY AND FISHERIES

[5] Not in references?

The Department of Agriculture, Forestry and Fisheries (DAFF) covers three related but distinct sectors of the economy (National Treasury, 2017r). In each of the three sectors (i.e. agriculture, forestry and fisheries) programmes to support SMMEs and entrepreneurs are available. This analysis proceeds with a discussion under each of the headings.

Agriculture

The intent of the department is large, with a focus on supporting 435 000 smallholder farmers.

> *Over the medium term, the department plans to support around 435 000 subsistence and smallholder farmers through: providing farm equipment, fencing, fertilisers, seedlings and other essentials; disbursing a grant through the comprehensive agricultural support programme; and repairing flood-damaged infrastructure. The department will support the agri-park initiative, in collaboration with the Department of Rural Development and Land Reform. The initiative aims to establish and maintain producer support infrastructure such as markets and agro-processing facilities; create networks and provide logistical services for producers and input suppliers; and coordinate activities for producer support and development to create jobs and develop rural economies. Through the R5.3 billion comprehensive agriculture support programme grant, the department will play a crucial role in supporting smallholder farmers who will supply produce to agri-park initiatives across South Africa. The department will also provide support to farmers by putting 1 million hectares of land into production, and provide farmers with advisory services and training on the basic components of food security.*

It commits financial support through the Land and Agricultural Development Bank of South Africa.

> *The department plans to increase financial support to emerging producers by R370 million over the medium term, which will be accessed through the Land and Agricultural Development Bank of South Africa.*
>
> *This amount has been reprioritised from funding for provincial conditional grants, and will provide loans to qualifying producers.*

> *The loans will improve producers' access to production inputs (such as fertilisers, seeds, seedlings and chemicals) and farm infrastructure, to increase the participation of emerging producers in the agriculture, forestry and fisheries sectors.*

It also notes that information on the sector remains outdated and commits to a census of agriculture.

> *The department plans to spend R241 million on an agricultural census in collaboration with Statistics South Africa. The census will create a registry of subsistence, smallholder and commercial farmers, and gather baseline information. The gathered information will be used to properly target support to farmers, avoid duplicating support to emerging farmers, and allow for a proper ratio of extension officers to ensure the productivity of emerging farmers.*

Furthermore, it will provide veterinarian support services by deploying 150 150 veterinarians each year over the medium term. This involves both employment of or contracting of veterinarians over the next three years and will cost R 403 million over the MTEF.

> *The department aims to deploy at least 150 veterinarians each year over the medium term, to strengthen primary animal health care, support smallholder animal production, and contribute to productivity and food security. This initiative will be supported by an allocation of R403 million over the medium term, in the Agricultural Production, Health and Food Safety programme.*

The core performance indicator for agriculture is the number of subsistence and smallholder producers supported each year.

Table 9-23: Performance indicators by programme and related outcome (DAFF)

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of animal and plant improvement schemes for	Agricultural Production, Health and Food Safety	Outcome 7: Comprehensive rural development and land reform	—[1]	4	4	4	4	4	4
Number of surveillances on plant diseases	Agricultural Production, Health and		1	1	1	1	1	1	1
Number of surveillances on animal diseases	Agricultural Production, Health and		2	2	2	2	2	2	1
Number of mobile veterinary clinics provided to improve	Agricultural Production, Health and		27	41	18	32	—[2]	—[2]	—[2]

Number of veterinary graduates deployed for the compulsory	Agricultural Production, Health and Food Safety		–[1]	–[1]	126	140	150	150	170
Number of subsistence and smallholder	Food Security and		56 000[3]	156 500	145 000	145 000	145 000	145 000	145 000

An additional indicator references support to agro-processing entrepreneurs.

Table 9-24: Indicator on the number of agro-processing entrepreneurs

Number of agro-processing entrepreneurs trained in processing norms	Trade Promotion and Market Access	Outcome 7: Comprehensive rural development and land	–[1]	–[1]	–[1]	12	14	18	18

Beyond providing support, DAFF is aiming to support access to export markets for smallholder farmers. Under the *Trade Promotion and Market Access Programme* it will seek to:

- *Increase market access to the processing of agriculture, forestry and fisheries by 2019/20 by:*
  - *certifying and accrediting 50 smallholder producers' access to markets by 2019/20*
  - *providing training to 50 agro-processing entrepreneurs on norms and standards for agro-processing by 2020*
  - *monitoring the implementation of the AgriBEE Sector Charter and Forestry Sector Transformation Charter over the medium term.*
- *Provide technical sector leadership in trade negotiations and implement trade agreements to improve market access to high value markets by 2019/20.*
- *Implement the building of national skills capabilities in international market research by providing marketing skills transfers to small and medium agro-processing entrepreneurs by 2019/20.*

Forestry

The budget information provides little information that is of relevance of small business. DAFF is in the process of settling land claims in state owned forests, and

this potentially provides a pathway for creating communal ownership scheme, smaller forest related businesses or to provide compensation. These are however all speculative, and the budget documentation provides no detailed information.

Fisheries

The fisheries section of DAFF has been active in changing the license conditions for fishing in South Africa. The strategy is to link smallscale farmers into value chains that will emerge once Operation Phakisa is implemented. DAFF argues that:

> *The ocean economy Operation Phakisa is expected to increase the production of fish from 4 000 tonnes per year to 20 000 tonnes per year, over the medium term. This is expected to create 2 500 direct new jobs and 15 000 jobs in the fisheries value chain by 2020. Over the medium term the department will spend R121 million in the Aquaculture subprogramme in the Fisheries programme to support Operation Phakisa initiatives. An additional 1 674 jobs in the fisheries sector are expected to be created over the medium term, in the expanded public works programme through the Working for Fisheries project, which is implemented by the Marine Living Resources Fund. An additional amount of R29.7 million over the period has been allocated to support this.*

The funding is channelled through the *Marine Living Resources Fund*. The fund indicates that it will as part of its objectives:

- Ensure increased production and productivity in prioritised areas, and value chains by:
  - supporting 24 Operation Phakisa aquaculture projects by 2019/20
  - conducting two new research studies on genetics and nutrition for aquaculture species by 2019/20.
- Lead and coordinate government food security initiatives by:
  - developing sector-specific policies and allocating rights to nine fishing sectors by 2019/20
  - allocating rights to registered small-scale fisheries cooperatives by 2019/20
  - implementing the cooperative development and support programme by 2019/20.

Importantly, the Land and Agricultural Development Bank will be able to assist fishing companies. The Land and Agricultural Development Bank budget is however not contained in this budget vote and is reporting on the National Treasury budget vote.

9.4.25 VOTE 25 ECONOMIC DEVELOPMENT

The Department of Economic Development (EDD) has responsibility for a range of activities, ranging from infrastructure planning to small business finance. The EDD has however two areas that are of significance to small business (National Treasury, 2017s). One subprogramme directly references entrepreneurship and is noted below.

- *Development Investment, Industrial Funding and Entrepreneurship* focuses on unblocking productive investments and overseeing the development finance institutions that fall under the department.

This subprogramme covers oversight of the Industrial Development Corporation (IDC) and the Small Enterprise Finance Agency (SEFA). Taken together these two institutions provide a range of products and services to enterprises in the economy. One distinction is important to note. The IDC provides funding services to larger and more established companies, while SEFA is focussed on smaller businesses.

Competition Policy

Competition Policy is a crucial aspect of sustaining small business. The Competition Commission describes its brief as follows:

> *The NDP recognises that the country would benefit from competition regulation that supports a growing and inclusive economy characterised by greater employment and participation of small, medium and micro enterprises, and more diverse ownership of production. Outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium-term strategic framework identifies monopoly pricing on intermediate goods as an impediment to making local manufacturing more competitive and supporting infrastructure investment. Guided by this, the commission plans to focus over the medium term on ensuring that competition regulation has a positive long-term effect on the economy by enforcing competition laws that respond to the adverse effects of monopolisation.*

The Commission undertakes a range of activities, including investigations into dominance and cartel behaviour. Interestingly, the Commission has reported that it has handled over 70 cases related to cartels. This aspect is crucial to remember as the analysis proceeds.

The Competition Tribunal – the appeal structure to the Competition Commission – also sets a KPI for resolving smaller mergers quickly.

Small Business Finance – SEFA

SEFA provides credit facilities to both retail and wholesale customers. SEFA combined Khula Enterprise Finance, the South African Micro-Finance Apex Fund and the Industrial Development Corporation. The agency is a wholly owned subsidiary of the Industrial Development Corporation and derives its mandate from the Industrial Development Act (1940), particularly the objectives in the act related to small, medium and micro enterprise development. The reason for SEFA reporting to the EDD in terms of budget to EDD and not the Department of Small Business Development (DSBD) is that it is a subsidiary of the IDC.

Table 9-25: Small Enterprise Finance Agency performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Pa			Curre	Projections		
			2013/1	2014/1	2015/1	2016/1	2017/1	2018/1	2019/2
Value of finance	Administration	Outcome 4: Decent employment through inclusive growth	R367 m	R485 m	R407 m	R229m	R628 m	R677 m	R732
Value of finance	Administration		R261 m	R388 m	R393 m	R212m	R596 m	R644 m	R695
Number of small, medium and	Administration		209	1 212	275	163	774	928	1 114
Number of jobs created	Administration		2 459	5 604	6 119	817	3 870	4 640	5 221
Value of	Administration		R532 m	R283 m	R575 m	R246m	R400 m	R472 m	R596 m
Value of	Administration		R226 m	R181 m	R507 m	R164m	R236 m	R279 m	R329 m
Number of small, medium and	Administration		608	406	962	216	176	208	265
Number of jobs financed	Administration		3 184	852	1 1207	1 190	1 133	1 436	1 498
Value of finance	Administration		R167 m	R120 m	R164 m	R97m	R110 m	R131 m	R154 m

Indicator	Programme/objective/activity	Outcome	Pas			Curre	Projections		
			2013/1	2014/1	2015/1	2016/1	2017/1	2018/1	2019/2
Value of	Administration	Outcome 4: Decent employment through inclusive growth	R62m	R54m	R238 m	R213	R63m	R74m	R87m
Number of small, medium and micro	Administration		45 590	36 000	52 000	46 200	39 690	41 675	43 758
Number of jobs financed	Administration		40 759	50 400	60 521	69 300	55 566	58 344	61 262

The growth in value of funds disbursed is an encouraging sign. The reporting however suggests that the largest gains in jobs will be through the micro-finance lending sector, estimated at over 50 000 per year. Smaller gains in terms of jobs are envisaged through direct lending to SMMEs, or through lending for instance in the wholesale sector.

Industrial Development Corporation

The IDC as noted earlier is not targeted at the SMME sector. It is however included for analysis as its offering begin to suggest a gap between what SEFA offers and what the IDC offers.

9.4.26 VOTE 26 ENERGY

The Department of Energy provides support to SMMEs through two distinct programmes in the energy sector(National Treasury, 2017t). The first programme is the solar water heater programme. The

> *Over the medium term, the department will accelerate the implementation of the revised solar water heater programme as part of the load reduction strategy to reduce reliance on the national grid. Recent changes to the programme will allow the industry value chain to mature through revised localisation targets and the development of small businesses. Spending on the solar water heater programme is set to increase from R478 million in 2017/18 to R534.1 million in 2019/20, and 141 000 solar water heater units are expected to be produced and installed. This includes spending on the transportation and warehousing of solar water heating systems. The initiative is funded through the Energy Efficiency subprogramme in the Clean Energy programme.*

The second programme sits with the National Energy Regulator (NER) provides access to storage facilities. In the budget documentation, it explicitly indicates that in performing this function it supports emerging petroleum companies.

> *The Petroleum Pipelines Act (2003) requires owners of storage facilities to inform the regulator of excess capacity in their facilities. The regulator ensures that these facilities are made available to third parties, especially emerging petroleum companies that do not have funds for investment in infrastructure, thereby reducing barriers to entry in this capital-intensive sector.*

9.4.27 VOTE 27 ENVIRONMENTAL AFFAIRS

The Department of Environmental Affairs has two initiatives that are of relevance to small business in South Africa (National Treasury, 2017u). First, it has a recycling programme.

Established in April 2016, the Waste Management Bureau works to reduce waste through recycling. The bureau monitors recycling plans, and provides specialist services to government and recycling companies. Over the medium term, the bureau plans to introduce tyre recycling initiatives, which are set to receive operational funding of R210 million in 2017/18, R230 million in 2018/19 and R245 million in 2019/20. The bureau also plans to introduce the recycling enterprise support programme, which will provide support services, training and advice to transporters, storage depot operators and tyre recyclers. An amount of R155 million over the medium term is allocated to the plastics programme, which will promote waste minimisation, create awareness in the plastics industry, expand collector networks and support rural collection through building the capacity of small, medium and micro enterprises. The National Regulator for Compulsory Specifications also receives transfers of R22.5 million over the period to implement compulsory specifications for plastic bags. The allocations for these new initiatives contribute to the projected growth in the Chemicals and Waste Management programme at an average annual rate of 59.5 per cent over the medium term.

Second, the department participates in the Green Fund, which is a public-private partnership between government and the private sector. The Green Fund provides catalytic funding for project undertaken in the private sector.

9.4.28 VOTE 28 LABOUR

The Department of Labour (DoL) has two agencies that have indicated that they will provide a role in supporting SMMEs (National Treasury, 2017v). These agencies are:

- Unemployment Insurance Fund (UIF)
- Productivity SA

The UIF has an investment portfolio and it indicates that 20% (around R 24.6 billion) its intent as follows:

Over the medium term, the fund will contribute to job creation by supporting and implementing labour- activation initiatives targeted at unemployed youth and beneficiaries, and focus on providing skills development, enterprise development and funding for small, medium and micro enterprises. A total of R24.6 billion, accounting for 20 per cent of the fund's investment portfolio, has been set aside for socially responsible investment in sectors such as agriculture, agro-processing, mining and beneficiation, tourism, construction, transport and logistics, manufacturing, textiles, and home industries. This investment is set to increase in line with the projected increase in net surpluses and portfolio growth.

The UIF continues to indicate that:

This investment is set to increase in line with the projected increase in net surpluses and portfolio growth. In an effort to retain an estimated 10 000 jobs per year, the fund will allocate R250 million over the medium term to Productivity South Africa's turnaround solutions programme to assist between 150 and 200 companies in distress.

Productivity SA has a reference to small business, and associated indicators. Productivity SA indicates support for SMMEs through its workplace challenge the programme. The excerpt from the Estimates of Expenditure is quoted below:

The workplace challenge programme will focus on enterprise development and workplace transformation programmes, including manufacturing and competitiveness enhancement programmes aimed at advancing beneficiation or adding value to sectors such as automotive and components, and metals fabrication. In partnership with the Department of Trade and Industry, state-owned enterprises and development finance institutions, the entity will aim to enhance the productive capacity, operational efficiency and competitiveness of businesses through the black industrialists programme; and aim to revitalise the agriculture and agro- processing sectors in partnership with the Department of Agriculture, Forestry and Fisheries. The entity will prioritise unlocking the potential of small, medium and micro enterprises, cooperatives, and township and rural enterprises by partnering with the Department of Small Business Development to implement the informal sector support policy, which includes the provision of business training. Funding for the workplace challenge programme will come from the Department of Trade and Industry, amounting to R278.7 million over the period ahead.

Productivity SA has KPIs focussed on SMMEs and black industrialists. These are noted below:

Table 9-26: Productivity South Africa performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of education and training development service providers trained	Productivity organisational solutions	Outcome 4: Decent employment through inclusive growth	647	894	642	200	200	200	200
Number of emerging entrepreneurs trained in productivity improvement	Productivity organisational solutions		4 796	5 683	4 837	5 500	5 500	5 500	5 500
Number of black industrialists supported through productivity and competitiveness	Workplace challenge		_1	_1	_1	_1	200	201	202
Number of future forums established at companies with	Turnaround solutions		56	23	39	200	150	200	220
Number of jobs saved at companies with turnaround solutions per year	Turnaround solutions		3 417	1 589	6 976	10 000	7 500	10 000	11 000

1. No historical data available.

9.4.29 VOTE 29 MINERAL RESOURCES

The Department of Minerals Resources (National Treasury, 2017w) has responsibility for mining sector. It states an explicit economic transformation goal:

> *Over the MTEF period, the department will focus on accelerating transformation and empowerment in the mining sector by: eradicating barriers to the socioeconomic development of mining communities; providing technical support to beneficiation projects; increasing the participation of small-scale miners; and fostering greater value chain integration. Further focus areas include ensuring the health and safety of miners and mining communities, protecting and rehabilitating the environment, ensuring the best use of mineral resources, and attracting investment in the minerals and upstream petroleum sectors.*

SMMEs are included in two specific ways in two specific ways.

First, as part of the implementation of Broad-Based Socioeconomic Empowerment Charter for the South African Mining Industry, 240 SMMEs are identified for support. It describes this process as follows:

> *The department will facilitate transformation in the mining and minerals sector through developing and reviewing relevant legislation. Over the medium term, a mining industry transformation strategy will be developed, based on the revised mining charter, and implemented in consultation with mining stakeholders. Mining rights and permits will be granted to 450 historically disadvantaged South Africans, and 636 social and labour plan verification inspections will be conducted over the medium term. The department will also monitor and enforce compliance with the statutory obligations of the Broad-Based Socioeconomic Empowerment Charter for the South African Mining Industry. As transformation forms part of the overall activities of the department, the expenditure for these services is included in the compensation of employees and goods and services budget. Over the medium term, the department aims to support 240 SMMEs, particularly those involved in small-scale mining, by providing financial and technical support. An estimated budget of R91.5 million has been set aside for this, with a view to create decent employment and sustainable small businesses.*

Second, under the *Mineral Regulation Programme* the Department of Mineral Resources issues mining licenses. It states under this programme, that it intends to:

> *Promote job creation through the development of SMMEs by facilitating the implementation of 636 social and labour plan projects by mining companies through income-generating initiatives, over the medium term.*

The Department has an explicit KPI for small business, which are listed below. The department intends supporting 240 enterprises. In order to reach these SMMEs and the wider mining sector, a series of events, forms and workshops are planned.

Table 9-27: Performance indicators by programme and related outcome (minerals resources)

Table 29.1 Performance indicators by programme and related outcome

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of small, medium and micro enterprises (SMMEs) supported (new	Mineral Policy and Promotion	Outcome 7: Comprehensive rural development and land	81	87	125	80	80	80	80
Number of investment promotion	Mineral Policy and	Outcome 4: Decent employment through	[1]	30	38	55	55	46	46

1. No historical data available.

9.4.30 VOTE 30 SCIENCE AND TECHNOLOGY

The Department of Science and Technology (DST) plays a significant role in supporting innovation in the South African economy (National Treasury, 2017x). The *Technology Innovation Programme* of the DST has a direct link to the economy, seeking out new sectors where growth and employment may occur. It describes its work as:

> *Enable research and development in space science and technology, energy security and the bioeconomy, and in the emerging and converging areas of nanotechnology, robotics, photonics and indigenous knowledge systems, to promote the realisation of commercial products, processes and services. Promote the protection and utilisation of intellectual property, technology transfer and technology commercialisation through the implementation of enabling policies and interventions along the entire innovation value chain.*

This programme is not directly linked to SMMEs, but what is important is the role played in a range of sectors that may yield new insights. This role is discussed extensively in the recommendations sections of this study.

The departmental vote however has another clearly defined area which impacts on SMMEs. This is the *Technology Innovation Programme* and transfers to the *Technology Innovation Agency (TIA)*. Budget information indicates that the TIA plans to:

> *The agency has allocated R719 million of this transfer to technology innovation funding for small and medium enterprises to help them commercialise new technological products and services.*

The TIA has several budget and performance indicators that are considered below. The TIA describes its role as:

> *The Technology Innovation Agency was established in terms of the Technology Innovation Agency Act (2008). The agency serves as the key institutional intervention to bridge the innovation gap between research and development outcomes from higher education institutions, science councils, public entities and private companies, thus intensifying the effect of technological innovation in the economy.*

The TIA hopes to reach 2 200 SMMEs that will receive support from it station and the tooling initiative. In addition, in hopes to assist another 50 firms a year who will receive funding and/or support.

Table 9-28: Technology Innovation Agency performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of technologies, products, processes and	Provide customer-centric early stage commercialisation for technology development	Outcome 5: A skilled and capable workforce to support an inclusive growth path	–[1]	8	6	12	13	14	15
Number of technologies, products, processes and	Provide customer-centric early stage commercialisation for technology development		8	6	4	14	10	11	12
Amount of third-party funding received in the	Provide customer-centric early stage commercialisation for technology development		R74.4m	R30m	R75m	R59m	R66m	R94m	R105m
Amount of external income raised per year	Provide customer-centric early stage commercialisation for technology development		–[1]	–[1]	R98m	R124m	R141.8m	R146.2m	R150.2m
Number of knowledge innovation products (prototypes	Provide an enabling environment for technology innovation	Outcome 6: An efficient, competitive and responsive infrastructure network	–[1]	38	30	45	54	65	72
Number of third-party funding opportunities (follow-on funding, co-funding, co-development) secured as a result	Provide an enabling environment for technology innovation		–[1]	8	7	25	25	25	25
Number of small and medium enterprises receiving technology support from the technology	Provide an enabling environment for technology innovation		–[1]	2 188	2 000	2 200	2 200	2 200	2 200
Number of small to medium enterprises owned by previously disadvantaged individuals receiving funding,	Provide an enabling environment for technology innovation		–[1]	–[1]	–[1]	35	40	45	50
Number of technology innovations	Provide an enabling environment for technology innovation		–[1]	–[1]	–[1]	10	12	14	16

1. No historical data available.

In explaining these indicators, the TIA emphasis is: Over the medium term, the focus of the agency will be on supporting strategic technology innovation, emerging technologies and knowledge innovation products (prototypes, patents, technology demonstrators and technology transfers); commercialising technology-based services, processes and products, for which R719.2 million has been set aside; providing support through funding of R491.9 million to small and medium enterprises through the technology station and technology platform programmes; and supporting young innovators. These initiatives are expected to produce 151 innovation products and assist 6 600 small and medium enterprises with product development, and in

the process, support the creation of an estimated 900 sustainable jobs. To ensure that the number of knowledge innovation products increases from 54 in 2017/18 to 72 in 2019/20, R673 million is allocated over the medium term. The development of these technologies will lead to increased efficiency and market access for new innovations in IT, biological sciences, material sciences and energy.

The agency has also identified the need for innovators to have access to an environment that is conducive for knowledge sharing and networking. To service this need, the agency aims to reach entrepreneurs from different backgrounds to identify new innovations. As a result, the number of small and medium enterprises receiving support from technology stations and the institute is expected to be maintained at 2 200 through an allocation of R234 million over the medium term. In recognising the importance of investing in the youth, the youth technology innovation programme, with an allocation of R15 million over the medium term, will assist young innovators with funding, mentorship and business support.

An interesting side note is that the National Space Agency has a KPI on contract expenditure of SMMEs, which is indicated below. Based on the KPI around 20% of contract expenditure is identified to be spend in the SMME sector.

Table 9-29: South African National Space Agency performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total contract expenditure to small, medium and micro enterprises for core	Space engineering		–[1]	–[1]	R8m	R12m	R13m	R15m	R15m
Total contract expenditure to the broad space-related industry for core space	Space engineering	Outcome 6: An efficient, competitive and responsive	–[1]	–[1]	R98m	R55m	R65m	R69m	R73m

1. No historical data available.

9.4.31 VOTE 31 SMALL BUSINESS DEVELOPMENT

The Department of Small Business Development (DSBD) (National Treasury, 2017y) defines its mandate as follows:

> *Promote the development of small businesses and cooperatives that contribute to inclusive economic growth and job creation*.

In greater detail, it sees it mandate as follows:

> *The Department of Small Business Development's work supports the realisation of the National Development Plan's goal of supporting small enterprises to transform the economy and make it more inclusive. It also contributes directly to outcome 4 (decent employment through inclusive growth) of government's 2014-2019 medium-term strategic framework, which sets the department the task of identifying the institutional and regulatory changes required to accelerate growth of the small business sector and increase its contribution to job creation. Over the medium term, the department plans to evaluate the strategy for the development of small enterprises and entrepreneurship, increase its support for small enterprises, develop and provide incentives to cooperatives, and support incubators for small enterprises. The department's total budget allocation, which includes transfers to the Small Enterprise Development Agency, is expected to increase at an annual rate of 7.1 per cent, from R1.2 billion in 2016/17 to R1.6 billion by 2019/20.*

The DBSD runs three programme (excluding administration) which are summarised below:

- Small, Medium and Micro Enterprises and Cooperatives Policy and Research: Formulate policy and conduct research for the development and growth of sustainable small businesses and cooperatives that contribute to the creation of employment and economic growth.
- Small, Medium and Micro Enterprises and Cooperatives Programme Design and Support Create an enabling environment for the development and growth of sustainable small businesses and

cooperatives that contribute to the creation of employment and economic growth.

The inclusion of cooperatives is because cooperatives are included in the definition of small business. This study however does not focus on this aspect. The KPIs for the DBSD is listed below:

Table 9-30: Performance indicators by programme and related outcome – Department of Small Business Development

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of black small, medium and micro enterprises (SMMEs) financially assisted through the black business supplier development	Small, Medium and Micro Enterprises and Cooperatives	Outcome 4: Decent employment through	1 066[1]	1 872[1]	480	600	641	677	715

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of cooperatives supported through training per year	Small Medium and Micro Enterprises and Cooperatives	Outcome 4: Decent employment through	–[2]	–[2]	350[3]	370[3]	270[3]	286[3]	302[3]
Number of cooperatives financially assisted through the cooperative incentive scheme per	Small Medium and Micro Enterprises and Cooperatives	Outcome 7: Vibrant, equitable, sustainable rural communities contributing towards food security for all	243	431	350[3]	370[3]	270[3]	286[3]	302[3]
Number of informal business infrastructure funded through the shared economic infrastructure	Small Medium and Micro Enterprises and Cooperatives		–[2]	–[2]	–[2]	–[2]	6	6	6
Number of informal enterprises financially assisted through the national informal business	Small Medium and Micro Enterprises and Cooperatives		–[2]	–[2]	–[2]	1 666	1 696	1 807	1 942
Number of incubators established through the enterprise incubation programme per year	Small Medium and Micro Enterprises and Cooperatives	Outcome 5: A skilled and capable workforce to	–[2]	–[2]	–[2]	1	4	4	4

1. *Target was reduced to align with available funds.*
2. *No historical data available.*
3. *This indicator was incorporated within "Number of cooperatives financially assisted through the cooperative incentive scheme per year". It should be noted that the training is the prerequisite of financial assistance, hence target for the two are the same.*

An important feature of these KPIs is that it combines SMMEs in the formal and informal sector and includes indicators for cooperatives.

Key policy initiatives included are a review of the National Small Business Act (1996) and a review of the 2005 strategy for the development of SMMEs. The major initiatives it has engaged in are:

- Review of procurement legislation to introduce a set-aside for small businesses
- Introduction of the National Gazelles programme.

Overall, the departmental budget vote provides little indications of an agenda for small business. It is a matter compounded with the DBSD not having any updated information available on its website since 2015.

Small Enterprise Development Agency

SEDA describes its role as

> *The Small Enterprise Development Agency was established in December 2004 in terms of the National Small Business Amendment Act (2004). It is mandated to implement government's small business strategy, design and implement a standard and common national delivery network for small enterprise development, and integrate government-funded small enterprise support agencies across all tiers of government.*

Selected performance indicators are important and listed below.

Table 9-31: Small Enterprise Development Agency performance indicators by programme/objective/activity and related outcome

Indicator	Programme/Objective/Activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of small enterprises assessed and provided with	Improve the sustainability of small enterprises and	Outcome 4: Decent employment through inclusive growth	10 619	10 697	10 679	10 830	10 290	9 776[1]	9 287[1]
Number of clients assisted in the supplier development programme per year	Improve the sustainability of small enterprises and cooperatives		—[2]	—[2]	83	150	225	300	325
Number of clients supported through the trade facilitation	Improve the sustainability of small enterprises and		—[2]	—[2]	147	100	125	150	175
Number of clients supported through mentorship and coaching programmes per	Improve the sustainability of small enterprises and cooperatives		—[2]	—[2]	94	100	125	150	175
Number of clients trained on national and	Improve the sustainability of small enterprises and		825	696	609	563	591	621	660
Number of secondary marketing cooperatives	Improve the sustainability of small enterprises and		28	35	40	45	54	63	80
Number of primary cooperatives	Improve the sustainability of small enterprises and		—[2]	—[2]	166	90	90	90	120
Number of clients assisted in the National Gazelles	Improve the sustainability of small enterprises and		—[2]	—[2]	—[2]	200	200	200	200
Number of partnerships for small business development and support per year	Maximise support offered to agency clients through stakeholder contribution		—[2]	—[2]	—[2]	20	25	25	30
Number of incubators supported per year	Assist SMMEs with technology through the organisation's technology		43	48	57	55	57	58	60
Number of clients placed in business incubators per year	Assist SMMEs with technology through the organisation's technology		1 587	3 016	2 492	2 069	2 276	2 503	2 600
Number of clients supported through technology transfer	Assist SMMEs with technology through the organisation's technology		42	42	67	69	72	75	78

Key areas that SEDA has highlighted are listed in full below:

Over the medium term, the agency will support and promote small business enterprises through business incubation initiatives, participate in interventions directed towards small and medium enterprises, assist cooperatives, and prioritise the growth of the manufacturing, agro-processing and ICT sectors. This includes providing an estimated 850 clients with support over the medium term through the supplier development programme, which is a collaboration with state-owned enterprises and public and private institutions. The programme assists small enterprises in securing opportunities to become suppliers to the private and public sectors, and builds their capacity to deliver.

The agency's enterprise development fund will also provide non-financial support to SMMEs and cooperatives. This includes services such as business advice, training, mentorship and product testing, which will be provided to an estimated 29 353 small enterprises and cooperatives over the medium term. The technology transfer programme is set to stimulate economic growth and development by facilitating technological innovation, and increasing accessibility of financial and non-financial technology transfers, business incubation and quality support services for small enterprises. The programme offers financial assistance of up to R600 000 per project as a non-repayable grant. A projected R603.2 million will be spent on this programme over the medium term.

The National Gazelles programme proposes an innovative approach to small business development through identifying and strengthening potential high growth businesses that add value and have a manufacturing focus. The programme facilitates access for selected enterprises to business support and incentives to ensure that they realise their potential. The programme will support a projected 600 small enterprises over the medium term. The budget for the gazelles programme is included within the allocation for the objective 'improve the sustainability of small enterprises and cooperatives'. This objective is allocated R609.7 million over the medium term.

Providing assistance to small enterprises and cooperatives, and maintaining branches nationwide is expected to drive expenditure on goods and services to reach R1.3 billion, or 57 per cent of total expenditure, over the medium term. It is also expected to increase spending on compensation of employees from R292.6 million in 2016/17 to R359.5 million by 2019/20, at an average annual rate of 7.1 per cent.

The DBSD continues to indicate that:

> *Over the medium term, to the agency. The transfers are provided for in the Small, Medium and Micro Enterprises and Cooperatives Programme Design and Support programme.*
>
> *The department will continue to support small, black-owned enterprises through the black business supplier development programme, which is allocated R813.8 million over the medium term in the Small, Medium and Micro Enterprises and Cooperatives Programme Design and Support programme. The black business supplier development programme is a cost-sharing grant offered to small, black-owned enterprises to acquire tools, machinery, equipment and training to the maximum of R1 million per applicant. An estimated 2 033 SMMEs are set to receive support through the programme over the medium term.*
>
> *Small enterprises will also benefit from the national informal business upliftment scheme, which is allocated R311.5 million over the medium term. The scheme aims to develop and grow 5 445 informal businesses and cooperatives by providing financial and non-financial support services to improve competitiveness, facilitate market access, and leverage public and private procurement. Spending on the scheme falls under the Competitiveness Support subprogramme in the Small, Medium and Micro Enterprises and Cooperatives Programme Design and Support programme.*
>
> *The shared economic infrastructure facility is the main implementation pillar of the national informal business upliftment scheme. The facility provides a 50-50 cost-sharing grant for public-private sector investments in economic infrastructure. The grant targets mainly infrastructure projects that create an enabling environment for small businesses in townships, rural areas and inner cities. The department plans to support 18 informal business structures through the shared economic infrastructure facility over the medium term.*
>
> *The department plans to continue improving coordination between all spheres of government to strengthen support for cooperatives through the cooperative incentive scheme. The incentive is a 100 per cent grant for registered primary cooperatives, and is aimed at improving the viability and competitiveness of cooperative enterprises by lowering the cost of doing business. Funding for the cooperative incentive scheme is expected to increase at an annual average rate of 5.6 per cent over the medium term, from R75 million in 2016/17 to R88 million in 2019/20. However, the number of cooperatives accessing funding through the scheme will*

decrease from 370 in 2016/17 to 302 by 2019/20 due to budget constraints. The activities around cooperatives policy development will amount to R25.6 million over the medium term, budgeted for in the Cooperatives Development subprogramme in the Small Medium and Micro Enterprises and Cooperatives Programme Design and Support programme.

It finally alludes a programme around incubators:

Over the medium term, the enterprise incubator programme plans to encourage public-private sector partnerships in support of incubators, and improved infrastructure facilities for SMMEs and cooperatives. The programme will incentivise market-driven incubators that will nurture small enterprises and cooperatives to gain competitive technical and business development skills, and mentorship for the fulfilment of supply-chain quality requirements. The department has allocated R193.5 million over the medium term, of which 83.8 per cent or R162.2 million will fund the establishment of incubators, to the Market Development subprogramme within the Small, Medium and Micro Enterprises and Cooperatives Programme Design and Support programme. The department plans to support 12 incubators over the medium term. In partnership with other stakeholders, the department will develop programmes aimed at improving the quality of products and services; and assist local suppliers in expanding production capacity, identifying market access opportunities, and facilitating market opportunities internationally.

9.4.32 VOTE 32 TELECOMMUNICATIONS AND POSTAL SERVICES

The Department of Telecommunications and Postal Service notes that the Electronic Communications Act (2005) allows the Minister to:

The act also allows the minister to promote the participation of small businesses in the ICT sector and oversee and strengthen the capacity of state-owned enterprises.

In fulfilling this role to support SMMEs, the department has a range of initiatives. The core activities are included in the Programme 4: ICT Enterprise Development and Oversight Programme (National Treasury, 2017z). The full programme description is reproduced below to show the range of activities that are being undertaken:

Programme purpose

Oversee and manage government's shareholding interest in the ICT public entities and state-owned companies. Facilitate growth and development of small, medium and micro enterprises in the ICT sector.

Objective

- *Improve the performance of state-owned companies through proactive and stringent oversight by:*
  - *facilitating the establishment of the ICT sector regulator by March 2020*
  - *facilitating the establishment of the digital development fund by March 2020*
  - *implementing the recommendations of the state-owned companies rationalisation report by March 2020*
  - *facilitating the licensing of Postbank by March 2018*
  - *developing the iNesi Bill by March 2018*
  - *monitoring and evaluating performance and compliance of state-owned companies against strategic plans and relevant prescripts, and developing quarterly state-owned company reports on an ongoing basis.*

Subprogrammes

- *Public Entity Oversight provides oversight on state-owned enterprises by managing government's shareholder interests in public enterprises. This includes facilitating enterprises' corporate plans and ensuring that planning cycles are aligned with and comply with guidelines.*
- *Small, Medium and Micro Enterprise Development facilitates the growth and development of ICT small, medium and micro enterprises. This subprogramme hosts an e-commerce platform and will produce content that covers the agriculture, tourism, arts and craft sectors.*
- *ICT Support administers and manages the transfers to the .za domain and hosts the 112-emergency call centre programme.*

The reason for including the full programme description is to highlight the discrepancy between objectives -which make no mention of SMMEs – and a defined line item for SMMEs.

An additional area mentioned, is the participation of SMMEs in international partnerships reached by the department. It states that:

> *securing two partnerships for the digital economy towards ICT enterprise development, and small, medium and micro enterprise growth and innovation by March 2018.*

The budget for the ICT Enterprise to highlight several trends, specifically the reduction of the budgets for SMMEs.

Table 9-32: 14 ICT Enterprise Development and Oversight expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted	Average growth rate	Average: Expenditure/ Total (%)	Medium-term expendi			Average growth rate	Average: Expenditure/ Total (%)
R thousand	2013/14	2014/1	2015/16	2016/17	2013/14 - 2016/17		2017/18	2018/1	2019/20	2016/17 - 2019/20	
Public Entity Oversight	163 042	239	480 088	873 028	74.9%	97.6%	238 592	251	266 540	-32.7%	96.8%
Small, Medium and Micro Development	7 123	2 078	2 545	5 759	-6.8%	1.0%	4 789	5 071	5 346	-2.4%	1.2%
ICT Support	6 358	6 001	6 326	7 821	7.1%	1.5%	7 734	8 207	8 660	3.5%	1.9%
Total	**176 523**	**247**	**488 959**	**886 608**	**71.3%**	**100.0%**	**251 115**	**265**	**280 546**	**-31.9%**	**100.0%**
Ch				(5 193)			(9 102)	(14 397)	(15 398)		

There are no KPIs included in the budget documentation on SMMEs.

9.4.33 VOTE 33 TOURISM

The Department of Tourism has as a goal supporting SMMEs in the tourism sector (National Treasury, 2017aa). A core part of the support initiatives is carried out through *Programme 4: Enterprise and Visitor Support Services Programme*. This programme defines its role as:

> *Enhance transformation of the sector, increase skills levels and support enterprise development to ensure that South Africa is a competitive tourism destination.*

The objectives of the programme are listed to indicate the wide range of objectives being pursued.

Objectives

- *Accelerate the transformation of the tourism sector by:*
  - *monitoring the implementation of the amended tourism broad-based black economic empowerment sector code over the medium term*
  - *maintaining the tourism portal for black-owned enterprises to accelerate the*

empowerment of small, medium and micro enterprises in the tourism sector over the medium term
  - *facilitating four social tourism initiatives that promote open access to selected government-owned attractions over the medium term.*
- *Facilitate the development and growth of tourism enterprises to contribute to inclusive economic growth and job creation by:*
  - *supporting the development of 400 enterprises in 2017/18*
  - *supporting two existing incubators and establishing one new incubator implementing the enterprise development programme focusing on incubators in 2017/18*
  - *implementing four incentive programmes (tourism grading, market access, energy efficiency and universal access) in 2017/18.*
- *Facilitate tourism capacity building programmes by:*
  - *training 577 chefs, 300 sommeliers, 2 000 hospitality service agents and 500 food safety inspectors in 2017/18*
  - *implementing the local government tourism induction programme, focusing on rural areas with tourism potential in eight district municipalities, in 2017/18*
  - *implementing the tourism human resource development strategy in 2017/18*
  - *placing 20 black female managers of tourism enterprises at institutions of higher learning in 2017/18 for management training*
  - *developing and implementing two skills development programmes for tour guides in 2017/18.*
- *Diversify and enhance tourism offerings by:*
  - *implementing the service excellence integrated support programme for five tourism products in 2017/18*
  - *implementing the national strategy for responsible tourism in 2017/18*
  - *developing capacity building programmes and supporting tools for tourism business in 2017/18*
  - *training 60 youth on resource efficiency assessments methodology at the National Cleaner Production Centre of South Africa over the medium term*
  - *conducting universal accessibility audits at selected state-owned parks in five provinces and implementing universal accessibility interventions at the selected parks in two provinces in 2017/18*
  - *supporting the development and improvement of six community-based tourism initiatives over the medium term*
  - *maintaining and enhancing two national tourism information gateways in 2017/18*
  - *opening one national tourism information gateway in Cape Town International Airport*
  - *implementing the national visitors support services framework in 2017/18*
  - *auditing the tour guide register framework for the security upgrade features of tour guide badges in 2017/18*
  - *referring all tourist complaints to appropriate authorities for resolution within the agreed timeframes over the medium term.*

Within this programme, a specific subprogramme has a direct mandate for supporting enterprise development. This *Enterprise Development and Transformation* describes its role to "facilitates inclusive participation and sustainability in the tourism sector". In describing the intent specifically for SMMEs the following is noted:

> *The department will also spend a further R124.8 million through the Enterprise Development and Transformation subprogramme, which aims to transform and increase the geographical spread of the tourism sector, to provide developmental support to 1 400 rural tourism enterprises over the medium term.*

The intent is thus to extend tourism opportunities to rural areas, and in doing so support 1400 rural tourism enterprises.

The relevant KPIs for the department and sub-programme are presented below:

Table 9-33: Performance indicators by programme and related outcome - Tourism

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of rural enterprises supported for development per year	Enterprise and Visitor Support	Outcome 7: Comprehensive rural development	891	466	250	100	400	500	500
Number of capacity building programmes implemented per year	Enterprise and Visitor	Outcome 4: Decent employment through inclusive growth	–[1]	–[1]	–[1]	4	4	6	6
Number of incentivised programmes implemented per year	Enterprise and Visitor		–[1]	–[1]	3	3	4	5	5

. *No historical data available.*

A key reprioritisation within this budget vote should also be noted. The reprioritisation is from a general tourism incentive to supporting meetings, conventions and events. The move in this budget for *South African Tourism* is described as follows:

> *The department relies on South African Tourism to market South Africa and transfers a projected 53.2 per cent of its budget over the medium term to the organisation for this purpose. South African*

> *Tourism is mandated to grow local and overseas tourist numbers and tourist spending, which in turn supports jobs and economic growth. Additional funding of R174 million has been allocated to the organisation over the medium term to increase marketing in established and emerging markets. Cabinet also approved the reprioritisation of R20 million in 2017/18, R30 million in 2018/19, and R40 million in 2019/20 from the Tourism Incentive Programme subprogramme to the South African National Convention Bureau. The funding is intended to allow the bureau to grow tourism from meetings, incentives, conventions and events. The bureau assists organisers of this type of tourism to secure hosting rights. Between 2013 and 2016, the bureau supported between 50 and 55 event organisers each year with bid submissions to host events. Up to R1 billion per year has been generated from delegates' spending while attending conferences.*

As can be seen in the budget data presented below, the move means that the *Tourism Incentive Programme* still grows rapidly. The *Tourism Incentive Programme* aims to

> *creates direct linkages between South African inbound tour operators with international tourism companies by assisting South African tour operators in exhibiting their products at trade shows across the world.*

The budget for the *Enterprise and Visitor Support Services* is presented below.

Table 9-34: Enterprise and Visitor Support Services expenditure trends and estimates by subprogramme and economic classification

Subprogramme											
	Audited outcome			Adjusted	Average growth rate	Average: Expenditure/ Total (%)	Medium-term expend			Average growth rate	Average: Expenditure/ Total (%)
R thousand	2013/14	2014/1	2015/1	2016/17	2013/14 - 2016/17		2017/18	2018/1	2019/20	2016/17 - 2019/20	
Tourism People Management	9 128	7 917	9 215	9 779	2.3%	5.3%	9 728	10 097	10 177	1.3%	3.6%
Tourism Human Development	15 841	17 356	18 058	22 882	13.0%	11.0%	25 691	26 058	27 405	6.2%	9.2%
Enterprise Transformation	37 973	39 513	33 351	34 272	-3.4%	21.5%	41 472	41 702	41 656	6.7%	14.3%
Visitor Services	10 080	10 486	16 176	14 080	11.8%	7.5%	19 621	20 087	21 736	15.6%	6.8%
Tourism Incentive	265	18 046	166	185 291	787.6%	54.7%	171 889	202	173 545	-2.2%	66.1%
Total	**73 287**	**93 318**	**242**	**266 304**	**53.7%**	**100.0%**	**268 401**	**300**	**274 519**	**1.0%**	**100.0%**
Ch				(178 435)			(172 884)	(160 319)	(212 097)		

9.4.34 VOTE 34 TRADE AND INDUSTRY

The Department of Trade and Industry (DTI) (National Treasury, 2017ab) describes its mandate as follows:

> *Lead and facilitate access to sustainable economic activity and employment for all South Africans through an understanding of the economy, knowledge of economic opportunities and potential, and anticipation of future economic trends. Catalyse economic transformation and development, and provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens. Contribute to achieving government's vision of an adaptive and restructured economy, characterised by accelerated economic growth, employment creation and greater equity.*

Incentives

In furtherance of this mandate the DTI undertakes a range of activities, the most important of which is the administration of incentive programmes, which account for 45% of the DTI's budget.

> *The department's incentive programmes to stimulate and facilitate the development of sustainable, competitive enterprises are allocated R12.7 billion over the medium term, or 45 per cent of the department's total budget, in the Incentive Development and Administration programme. However, expenditure in the programme is set to decrease by 8.1 per cent in the medium term due to the economic competitiveness and support package being under review. Spending on incentives will increase manufacturing competitiveness, broaden the participation of black industrialists in the mainstream economy, and support the services industry in increasing investment from qualifying private-sector partners.*
>
> *The department's largest incentive programme is for manufacturing. The incentive provides manufacturing companies with financial support to upgrade facilities, processes and products, and upskill workers. The programme has a budget of R9.6 billion over the medium term, including an additional R1.3 billion in 2018/19 to contribute to leveraging the estimated private-sector investment of R45 billion for sector-specific instruments in agro-processing, metals fabrication and generic manufacturing support. An estimated 200 000 jobs have been created and sustained since the start of the programme. The*

department expects to provide the financial support to be provided to 1 450 companies over the medium term that will assist in creating additional jobs.

The implementation of the Broad-Based Black Economic Empowerment Amendment Act (2013) is one of the department's key considerations in promoting empowerment and equity in the economy. The department will work to strengthen measures for broad-based black economic empowerment (BEE), such as establishing a BEE commission over the medium term to monitor compliance with the act. An amount of R60 million over the medium term has been allocated to this in the Special Economic Zones and Economic Transformation programme.

One of the features of the NDP is the separation between activities that are needed for competitiveness, and those needed for creating jobs. The DTI reflects this tension in how it will approach the development of new incentives. It argues for balance in support for large companies and small companies as follows:

The department plans over the medium term to develop and implement products for target markets, in collaboration with stakeholders such as export councils, trade and investment provincial agencies, and other national and provincial government departments in the export value chain. It aims to provide financial assistance to 3 290 companies in the medium term to strengthen their export capabilities, including facilitating their participation at national pavilions, trade missions, and trade and investment initiatives. In providing this assistance, the department plans to balance supporting large, leading and dynamic companies with maintaining support provided to emerging exporters, small, medium and micro enterprises (SMMEs), and black industrialists. Spending on financial assistance is projected to be R680.7 million over the medium term in the Incentive Development and Administration programme.

The potential for SMMEs to access these incentives is questionable. This is because the criteria used is usually well beyond the scope of small companies, and larger companies. At an aggregated level, the Annual Financial Statements indicate that the majority of incentives and grants from government go to large companies.

Black Industrialist Programme

Surprisingly, there is little budget information for the high-profile black industrialist programme. The major reference is to link the black industrialist programme to a sub-programme as follows:

> *Equity and Empowerment promotes B-BBEE and the growth of the economy through the black industrialists programme.*

Black Economic Empowerment

The DTI has introduced new codes for black economic empowerment. A significant feature of these codes is the weighting provided to enterprise and supplier development, which goes from 15% (2003) to 40% (2015). The change in the weighting provides an important avenue to link small and large companies. The incentive is that large companies will score points on the generic scorecard if they engage in enterprise and supplier development.

An additional feature is the lessening of requirements for small companies to qualify for BEE points, with the introduction of a generic scorecard for Qualifying Small Enterprises (QSE's).

Spatial Initiatives- Special Economic Zones

A major focus of the DTI is the establishment of Special Economic Zones (SEZs). This initiative is described as follows:

> *The department will contribute towards the spatial transformation of the economy through planning, developing and managing special economic zones within the legal framework of the Special Economic Zones Act (2014). The special economic zones programme attracts foreign and domestic direct investment in designated zones and regions to build strategic industrial capabilities that promote industrial development, investment, competitiveness and employment creation. At least one new zone will be designated in 2017/18 and the zones collectively are expected to increase value-added exports throughout the country over the medium term. To attract foreign and direct investment, the department plans to provide a one-stop shop and aftercare support for investors over the medium term to facilitate doing*

business in South Africa. These activities are funded in the Investment South Africa programme, which is allocated R156.5 million over the medium term.

The programme focusses on larger companies, but remains important to small businesses which potentially may link into export value chains.

In addition, the DTI has a mandate to review regulatory issues related to small business, and the wider economy. Specifically, it describes its activities as follows:

Increase access to economic opportunities for small businesses and historically disadvantaged citizens by

developing and reviewing policies, bills and regulations; and conducting assessments of the impact of the

regulations on businesses and economic citizens by 31 March 2020.

9.4.35 VOTE 35 TRANSPORT

The Department of Transport (DoT) has one reference to small business (National Treasury, 2017ac). This is a regular transfer that the government provides to the South African National Taxi Council (SANTACO). Arguably, taxis remain within the small business sector, although there is significant differentiation between small single vehicle businesses, and larger businesses with many vehicles and drivers.

The amounts provided to SANTACO are shown below:

Table 9-35: Transfers to SANTACO over MTEF

Subprogramme R thousand	**Audited outcome**			**Adjusted appropriation**	**Average growth rate (%)**	**Average: Expenditure/ Total (%)**	**Medium-term expenditure estimate**			**Average growth rate (%)**	**Average: Expenditure/ Total (%)**
	2013/	**2014/**	**2015/**	**2016/17**	**2013/14 - 2016/17**		**2017/**	**2018/**	**2019/**	**2016/17 - 2019/20**	
	17	17	19	20 275	5.3%	0.2%	21	22	23	5.5%	0.2%

The DoT also takes responsibility for monitoring of the taxi recapitalisation programme. The largest transfer is however for public transport, usually private bus companies, that provide a range of services for government. There is no identifiable

way to distinguish between spending by the size of companies, but the subsidy is included for further analysis. In addition, spending on rural and scholar transport potentially represents an area through which small business may receive a subsidy from government.

Table 9-36: Public Transport expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited			Adjusted	Average growth	Average: Expenditure/ Total (%)	Medium-term expen			Average growth	Average: Expenditure/ Total (%)
R thousand	2013/14	2014/15	2015/1	2016/17	2013/14 - 2016/17		2017/18	2018/19	2019/20	2016/17 - 2019/20	
Public Transport	12 930	13 970	15 189	34 852	39.2%	0.2%	34 981	36 320	38 713	3.6%	0.3%
Rural and Scholar	7 216	13 744	8 591	48 121	88.2%	0.2%	48 743	51 260	54 337	4.1%	0.4%
Public Transport Industry	111 678	118	123	173 722	15.9%	1.2%	161 283	167 946	176 457	0.5%	1.3%
Public Transport Oversight	10 350	11 021	11 160	11 366 700	3.2%	98.2%	12 292	13 007	13 746	6.5%	97.8%
Public Transport	18 669	21 826	14 224	14 888	-7.3%	0.2%	12 753	13 397	14 219	-1.5%	0.1%
Public Transport Network	4 338	6 620	7 237	17 107	58.0%	0.1%	17 752	18 680	19 867	5.1%	0.1%
Total	**10 505**	**11 195**	**11 328**	**11 655 390**	**3.5%**	**100.0%**	**12 568**	**13 294**	**14 050**	**6.4%**	**100.0%**
Ch							(232 692)	(245 342)	(249 321)		

9.4.36 VOTE 36 WATER AND SANITATION

The Department of Water and Sanitation (National Treasury, 2017ad) has traditionally had a dedicated line item for what it describes as resource poor farmers. In the 2016 Budget Review, it in fact had a clear indicator for support for resource poor farmers. In 2017/18 financial year, dedicated funding for resource poor farmers no longer has a dedicated line item and is instead incorporated into the *Accelerated Community Infrastructure Programme*. The programme is described as:

> *Accelerated Community Infrastructure Programme provides for rapid emergency interventions related to the refurbishment of wastewater treatment infrastructure, water conservation and water-demand management, and municipal water supply; and supports resource-poor farmers.*

However, when looking at the budget details the funding specifically earmarked for resource poor farmers is no longer budgeted for.

9.4.37 VOTE 37 ARTS AND CULTURE

The Department of Arts and Culture has an extensive set of interventions aimed at growing what it terms the "Mzansi Golden Economy" (National Treasury, 2017ae). The developments of these interventions have had a long preparatory period. The Department of Arts and Culture describes this background as follows:

> ***Overview***
>
> *Government commitment envisages the creation of 5 million jobs over the next 10 years by:*
>
> - *Identifying areas where employment creation is possible on a large scale, as a result of substantial changes in conditions in South Africa and globally.*
> - *Developing a policy package to facilitate employment creation in these areas, above all through:*
>   - *A comprehensive drive to enhance both social equity and competitiveness;*
>   - *Systemic changes to mobilise domestic investment around activities that could create sustainable employment;*
>   - *Strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities.*
>
> *The 2011 National Consultative Summit provided a revised strategy and plan, including new large-scale interventions to–*
>
> - *reinforce the Arts, Culture and Heritage (ACH) Sector as an economic growth sector, and*
> - *introduce programmes that contribute to large-scale employment. The approach is:*
> - *General continuity and the introduction of new initiatives that, build on and expand existing initiatives as far as possible;*
> - *Skills development for excellence and high performance in the ACH Sector;*
> - *Large-scale interventions aimed at optimising growth and the employment potential of the Sector;*

- *Expansion and coordination of supply and demand in the Sector;*

- *Enhancement of existing production and creation of new business opportunities to match demand;*

- *Monitoring and evaluation to guide investment and coordination of current and future resources for the sector.*

The following is a list of the large-scale projects/work streams of Mzansi Golden Economy (MGE), as a strategic response:

- *Cultural events,*

- *Touring Ventures,*

- *Legacy projects,*

- *Cultural precincts,*

- *Public Art,*

- *Art Bank,*

- *Sourcing enterprise/information centres,*

- *National Academy for Cultural & Creative Industries of SA (NaCISA),*

- *Artists in Schools,*

- *Cultural Observatory.*

The budget information and KPI information is well documented and is presented below.

Table 9-37: Performance indicators by programme and related outcome - Arts and Culture

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of community conversations on social cohesion and nation	Institutional Governance	Outcome 14: A diverse, socially cohesive society with a common national identity	–[1]	45	33	33	33	33	33
Number of flagship cultural events	Arts and Culture Promotion and		27	22	25	27	20	20	18
Number of community arts	Arts and Culture Promotion and		–[2]	9	100	150	200	200	200
Number of language practice bursaries awarded	Arts and Culture Promotion and		280	284	463	320	320	300	300
Number of artists placed in schools per year	Arts and Culture Promotion and	Outcome 1: Quality basic	200	240	352	340	340	380	420
Number of bursaries in heritage studies	Heritage Promotion and	Outcome 14: A diverse, socially cohesive society with a common national identity	50	73	71	65	65	65	65
Number of flagpoles and flags installed at schools per	Heritage Promotion and		2 192	14 415	3 532	500	500	1 000	1 000
Number of community libraries built per year	Heritage Promotion and		16	17	44	23	26	29	32
Number of community libraries	Heritage Promotion and		40	20	35	55	40	45	50
Percentage of schools that have booklets and posters (frames) of national	Heritage Promotion and Preservation		–[2]	22% (5 359/24 000)	27% (6 535/24 000)	25% (6 000/24 000)	26.8% (6 430/24 000)	–[3]	–[3]

1. No target was set, therefore no conversations were held.
2. These are new indicators to give effect to outcome 14 of government's 2014-2019 medium term strategic framework.
3. Indicator discontinued from 2018/19.

A surprising feature of these KPIs is that it links to government outcomes on quality basic education and social cohesion, and not directly to those related to the economy. Moreover, the departmental level indicators do not reference SMMEs directly, but are possibly included in cultural events. This is surprising given the extensive programme of support to artists that is described below.

The unfolding of this strategy has seen several interventions being undertaken. From a budget perspective, the Department of Arts and Culture describes its work as follows:

> *An amount of R80 million from flagship cultural events has been reprioritised over the MTEF period to create a venture capital fund. The fund aims to support the development of small, medium and micro enterprises, and sustainable arts and culture projects administered by previously disadvantaged South Africans. A further R90 million in the Arts and Culture Promotion and Development programme is budgeted for interventions, such as incubators and master classes, over the MTEF period. Over the next three years, R17.5 million is earmarked in the National Language Services subprogramme to target 920 students for the language bursary programme. These initiatives aim to provide*

skills training, create jobs, and empower artists to participate in the economy.

Under the Arts and Culture Promotion and Development programme for the implementation of the Mzansi golden economy strategy over the medium term, the plan is described as follows:

> *An amount of R918.1 million has been earmarked in the Arts and Culture Promotion and Development programme for the implementation of the Mzansi golden economy strategy over the medium term. The primary objective of the strategy is to provide skills development and sustainable job creation opportunities for South African artists. The budget includes an estimated R364 million for 58 flagship festivals as well as large and small cultural events taking place across the country. Over the medium term, the department will provide support to fashion, animation, theatre, dance, craft, music and live events. The department also aims to support 120 touring ventures and 60 public art programmes over the period. Through the Mzansi golden economy strategy, the department aims to create an estimated 25 500 part-time jobs over the medium term.*

Importantly, although the department does not emphasis it, but is arguably the only government department that recognizes that work opportunities are often linked to a specific project or the delivery of a specific service. A concept that is termed the 'gig economy'.

The objectives of its *Arts and Culture Promotion and Development* provide an interesting perspective of a wide range of objectives linked into a strategy to promote a sector. These objectives are:

- *Develop, protect and promote the cultural and creative sector through interventions and initiatives that stimulate local content creation and attract large audiences by:*
  - *supporting 20 flagship cultural events, such as the Cape Town International Jazz Festival, National Arts Festival and Macufe Mangaung African Cultural Festival by March 2018*
  - *implementing 20 public art development programmes per year.*
- *Lead, coordinate and implement social cohesion programmes aimed at creating an integrated and inclusive society that contributes to economic growth by:*
  - *providing support to 200 community arts programmes or projects annually*
  - *supporting the refurbishment of 15 community arts centres annually*
  - *placing 340 artists in schools by March 2018.*

- *Build human resource capacity and promote excellence in the sector by:*
  - *providing 320 bursaries towards the development of qualified language practitioners by March 2018*
  - *providing support to 14 incubators annually.*
- *Build relationships and partnerships locally and internationally to develop, preserve and promote arts and culture by:*
  - *supporting 40 key touring venture programmes per year*
  - *financially supporting 22 market access platforms over the medium term.*
- *Promote South African languages through the provision of access to information by translating and/or editing 100 per cent of documents, such as letters, pamphlets and posters received and accepted per year.*

The purpose of describing the interventions in detail is to highlight two shifts in the budget. These are:

1. A shift from funding events to establishing a venture capital company
2. A shift from running or supporting events to creating market access platforms.

These shifts in strategy are reflected in budget allocations. The budget allocations are extensive with over 20 separate line items (all described as subsidies) being allocated to various organisations and initiatives. To understand this, detail this description proceeds as follows. First, an overview of the *Arts and Culture Promotion and Development* is presented, and second a description of the subsidy allocations is presented.

Table 9-38: Arts and Culture Promotion and Development expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation	Average growth	Average: Expenditure/ Total (%)	Medium-term expendi			Average growth rate	Average: Expenditure/ Total (%)
R thousand	2013/	2014/1	2015/1	2016/17	2013/14 - 2016/17		2017/1	2018/1	2019/2	2016/17 - 2019/20	
National Language	38	43 483	42 955	49 940	8.7%	4.5%	50 881	54 089	57 786	5.0%	4.5%
Pan South African	95	83 497	90 905	93 514	-0.8%	9.3%	108	116	125	10.2%	9.5%
Cultural and Creative Development	267	340	338	353 130	9.7%	33.1%	368	388	410	5.2%	32.5%
Performing Arts	293	286	263	316 462	2.5%	29.6%	343	323	368	5.2%	28.9%
National Film and Video	105	147	116	122 907	5.3%	12.5%	129	136	144	5.5%	11.4%
National Arts Council	87	91 865	97 589	101 182	4.9%	9.6%	106	112	118	5.5%	9.4%
Capital Works of Institutions	–	1 000	23 490	31 125	–	1.4%	46 906	72 282	26 609	-5.1%	3.8%
Total	**888**	**995**	**973**	**1 068 260**	**6.3%**	**100.0%**	**1 154**	**1 203**	**1 251**	**5.4%**	**100.0%**
Ch				(26 447)			13 802	12 743	(6 485)		

The allocation to both the *Cultural and Creative Industries Development* Subprogramme, and the *Performing Arts Institutions* subprogramme grow over the medium term by 32.5% and 28.9% respectively. A significant portion of this growth are transfers and subsidies to various institutions and initiatives. These are presented below to show the number of transfers and subsidies provided. It is a large number of separate transfers, but the aggregated transfers are presented below.

Table 9-39: Consolidated transfers and subsidies for Mzansi Golden Economy

Transfers and subsidies[1]	**737**	**850**	**832**	**938**	**8.3%**	**85.6%**	**1**	**1 067**	**1**	**5.7%**	**88.2%**
Provinces and	11	3	–	–	-100.0%	0.4%	–	–	–	–	–
Departmental agencies and	576	620	575	669	5.1%	62.2%	753	779	850	8.3%	65.3%
Higher education	–	570	80	–	–	–	–	2 500	3	–	0.1%
Public corporations	–	67	108	104	–	7.1%	106	138	100	-	9.6%
enterprises											
Non-profit institutions	95	146	135	153	17.2%	13.6%	137	135	141	-	12.1%
Households	54	11	13	10	-42.5%	2.3%	14	11	11	4.7%	1.0%

Here again reprioritisation of the budget is evident, with increased allocations to provinces and municipalities and to non-profit institutions.

The flow of funds to various entities that report to the Department of Arts and Culture sees film and video, performing arts and heritage projects being allocate funds. Across various agencies there are KPIs that are provided that pertain to small business development. These are now listed.

The National Arts Council KPIs are listed below:

Table 9-40: National Arts Council performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of individual artists supported per	Business development	Outcome 14: A diverse, socially cohesive society with a common national identity	104	157	211	212	214	216	218
Percentage of allocated funding disbursed to	Public engagement		[1]	40% (24.6m/ 61m)	46% (20.9m/ 45m)	25%	25%	25%	25%
Number of community art centres supported	Business development		[1]	9	7	7	7	7	7
Number of postgraduate	Business development		86	75	101	111	93	93	93
Number of arts programmes	Business development		[1]	13	7	8	9	9	10
Number of flagship creative arts projects	Business development		[1]	15	3	3	3	3	4
Percentage of women-led organisations	Business development		[1]	10% (5.9m/ 59m)	12% (19.1m/ 160m)	10% (5.8m/ 58m)	10% (6.1m/ 61m)	10% (6.4m/ 64m)	10% (6.7m/ 67m)
Number of arts organisations per	Business development		98	92	91	116	116	116	120

1. No historical data available.

The National Film and Video Foundation performance indicators are presented, as they support local content development by previously disadvantaged individuals.

Table 9-41: National Film and Video Foundation performance indicators by programme/objective/activity and related outcome

Indicator	Programme/objective/activity	Outcome	Past			Curren	Projections		
			2013/1	2014/1	2015/1	2016/17	2017/1	2018/1	2019/2
Number of	Business development	Entity mandate	116	116	76	64	66	68	70
Number of local	Business development		20	39	44	66	66	68	70
Number of local	Business development		33	27	28	38	38	40	42
Number	Business development		15	15	19	18	18	21	21

The *Performing Arts Institutions* does not have a detailed KPI but reports as follows:

> *To facilitate the rapid development of skills in the sector, redress past inequality and create jobs, the institutions will deliver the incubator programme using an estimated budget of R28 million over the medium term. The incubator pilot programme was launched in 2015/16 as a model for the development of young*

entrepreneurs and the creation of new local content. This programme, implemented by the various performing arts institutions, assists artists in refining their art and creating new content, gives artists access to tools of production and provides facilities, mentorship and payment. To give effect to these programmes over the medium term, an estimated R261.3 million has been allocated under the business development programme for the staging of 1 211 productions and 31 festivals.

9.4.38 VOTE 38 HUMAN SETTLEMENTS

The Department of Human Settlements has only one explicit reference to small business (National Treasury, 2017af). The National Urban Reconstruction and Housing Agency – which reports to the Department of Human Settlements indicates that:

Total expenditure is expected to decrease at an average annual rate of 18.3 per cent, from R144.4 million in 2016/17 to R78.6 million by 2019/20, as a result of the completion of the ceiling retrofit programme in 2016/17. Spending related to affordable housing is expected to decrease from R9.1 million in 2016/17 to R4.3 million in 2019/20 as a result of a drop in interest expenses related to a loan from the Public Investment Corporation, which matures in 2018/19. Expenditure in the affordable housing programme will enable the agency to approve 70 loans to emerging contractors in the affordable housing programme to the value of R1 billion, leading to the delivery of 7 560 affordable houses over the medium term.

The statement is important to note because the vote for the National Urban Reconstruction and Housing Agency on affordable housing is projected to decrease by 22.1% over the MTEF.

9.4.39 VOTE 39 RURAL DEVELOPMENT AND LAND REFORM

The Department of Rural Development and Land Reform (National Treasury, 2017ag) describes the purpose of its budget as:

> *Create and maintain an equitable and sustainable land dispensation, and act as a catalyst in rural development, to ensure sustainable rural livelihoods, decent work and continued social and economic advancement for all South Africans.*

To undertake this work, this department has many programmes, which includes a focus on SMMEs.

A significant initiative is the agri-parks initiative. Significantly, 70% of ownership in agri-parks are targeted to smallholder farmers. This initiative is summarized as follows:

> *The agri-parks initiative supports rural enterprises, develops rural industries and facilitates the efficient movement of rural produce to markets. The initiative develops networked systems of agro-production, processing, logistics, marketing, training and extension services in district municipalities and developments on underused land. Each agri-park supports smallholder farmers by providing capacity building, mentorship, farm infrastructure, extension services, and production and mechanisation inputs. Smallholder farmers own 70 per cent of an agri-park, while the remainder is owned by government and commercial farmers.*
>
> *Agri-parks are expected to contribute to government's targets of creating 1 million new jobs in rural economies by 2030, through the development of 300 000 new small-scale farmers and the creation of 145 000 agro- processing jobs by 2019. Since the inception of the initiative in 2015/16, approximately 10 566 smallholder farmers have been identified to benefit from agri-parks, and 69 692 hectares of land has already been distributed. A total of R2 billion per year, over a 10-year period beginning in 2015/16, was allocated for the development of agri-parks in 44 districts. Over the medium term, R2.9 billion is allocated for the Rural Infrastructure Development subprogramme of the Rural Development programme, which constitutes 9.2 per cent of the department's budget.*

The mandate of the department also concerns land, and specifically land redistribution. Government intends being a purchaser of land and to create productive and profitable famers, under its One Household, One Hectare initiative. The process of purchasing land is directly linked to creating enterprises and to provide a supply of smallholders for agri-parks.

> *The Land Reform programme has been allocated R8.3 billion over the MTEF period for the acquisition of land and the creation of productive and profitable farms. The One Household, One Hectare initiative is the key mechanism used to provide the landless access to land and promote agrarian transformation. The objective of the initiative is to create smallholder producers for the agri-parks initiative, focusing on 44 of the poorest districts in the country and other sites in densely populated areas. The department projects that 16 500 households will participate in the One Household, One Hectare initiative over the MTEF period, at an estimated cost of R4.3 billion, budgeted for in the Agricultural Land Holding Account subprogramme.*

The Land Reform Programme has as an objective:

> *Provide comprehensive farm development support to small-scale household producers and land reform beneficiaries for agrarian transformation through the provision of land and farming equipment, such as tractors, and seeds by 2020.*

In addition to purchasing land, government has a programme to recapitalize and redevelop redistributed farms. The intent is to create profitable farms. The programme intent is described as follows:

> *The recapitalisation and development programme ensures that redistributed land becomes productive and profitable by providing mechanised irrigation, farmer mentorship and farm inputs. Since the programme began in 2008/09, 1 496 farms have been created from more than 4.7 million hectares of land acquired. Over the medium term, the department aims to acquire approximately 281 165 hectares of strategically located land. The Office of the Valuer-General, which has been operational since 2015/16, ensures efficient acquisition and equitable valuation of land. The total allocation for this activity over the medium term is R187.7 million, funded through the Office of the Valuer-General subprogramme in the Land Reform programme.*

Importantly, the framework for tenure is being reviewed, and is proving controversial. The Department describes its work in these terms:

The Communal Property Associations Amendment Bill was published in the Government Gazette in April 2016. The amendment extends the application of the act to labour tenants who acquire land, provides for general plans for land administered by an association, and repeals the provisions relating to provisional associations. It also provides improved protection of the rights of communities, in respect of movable and immovable property administered by an association, and adds clarity on the content of annual reports expected from associations.

Over the medium term, the department will implement the Extension of Security of Tenure Act (1997) and the complementary Land Rights Management Facility Act (2015). The 2015 Extension of Security Tenure Amendment Bill seeks to clarify the rights of occupiers and provide for obligations regarding alternative accommodation for evicted people. A total of R317 million was reprioritised within the Land Reform programme over the MTEF period for these activities.

This area is vital to understanding the feasibility of rural development in South Africa and is discussed extensively later in this study.

The KPI for the department in fact has a clear indicator to support rural enterprises.

Table 9-42: Performance indicators by programme and related outcome Rural development and land reform

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of agricultural enterprises supported per	Rural Development	Outcome 7: Comprehensive rural development and land reform	—[1]	—[1]	—[1]	132	127	135	143
Number of youths recruited through the national rural youth services corps per year	Rural Development		4 600	3 145	3 060	2 700	2 700	2 700	2 700
Number of infrastructure projects implemented	Rural Development		—[1]	—[1]	—[1]	252	230	220	220
Number of land claims	Restitution		—[1]	372	373	371	1 001	1 151	1 179
Number of hectares acquired	Land Reform		153	354	242 556ha	180	96 165ha	90	95
Number of farms under recapitalisation and	Land Reform		442	217	414	351	369	387	400

1. *No historical data available.*
2. *The decrease in the number of infrastructure projects implemented per year from 2016/17 to 2019/20 was due to cost containment measures implemented on the programme.*
3. *The decrease in the number of hectares acquired per year from 2013/14 to 2019/20 was due to cost containment measures implemented on the programme.*

An important insight on the KPIs is that it remains uncertain how the target of 300 000 new smallholder farmers will be achieved. The indicators do not suggest any way to ascertain progress to this end. Equally relevant is that the number of agricultural

enterprises supported each year is low (below 150) as compared to over 300 farms participating in the recapitalization programme.

9.4.40 VOTE 40 SPORT AND RECREATION SOUTH AFRICA

The Department of Sport and Recreation (National Treasury, 2017ah) has no direct programmes focused on small business and entrepreneurship. The department however administers a range of grants to sporting organisations and undertakes a range of sporting events. In this process, small businesses may find opportunities through procurement. This is common across all departments, but the reason for signalling out Sport and Recreation is that the model is one of partnering with other organisations.

9.5 APPENDIX FIVE – ESTIMATED SUPPLY CHAIN MANAGEMENT (SCM) BUDGET

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Outcome	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**Outcome**	**estimate**	**estimate**	**estimate**	**estimate**
Goods and services	28,157.4	33,887.0	39,452.5	45,817.5	49,367.3	59,375.0	68,648.2	78,074.4	95,846.6	106,174.4	109,970.0	120,405.4	128,966.1	141,749.1	147,061.1	155,438.7	168,005.1	176,171.2	189,706.5	202,154.8
Buildings and other fixed structures	4,334.1	7,029.2	8,682.9	10,148.5	11,359.4	13,105.0	15,368.6	17,804.5	23,295.9	25,941.0	25,705.3	30,324.7	34,902.2	35,985.5	38,573.4	46,238.1	40,567.3	42,785.8	44,012.5	45,835.8
Machinery and equipment	2,480.3	4,082.8	4,266.6	4,597.2	4,791.0	6,896.1	6,189.9	5,834.8	6,210.7	6,350.6	7,316.2	8,870.9	8,924.0	8,950.1	9,849.9	9,718.0	9,604.7	10,787.3	11,149.3	11,592.9
Land and sub-soil assets	112.6	11.7	42.2	72.4	50.4	198.5	104.4	159.3	75.2	246.5	854.4	195.6	173.1	137.0	357.7	209.0	75.9	75.4	39.5	41.7
Software and other intangible assets	42.8	51.2	55.3	53.8	132.8	344.6	369.1	285.7	360.4	481.9	531.9	545.4	239.5	299.5	346.1	457.8	256.9	304.1	219.6	226.8
Other assets	1.1	13.9	0.1	21.7	2.5	4.8	6.8	15.7	66.8	11.7	20.4	31.1	54.3	18.0	19.4	118.2	47.5	42.7	28.4	30.3
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Estimated SCM Budget	35,128.3	45,075.9	52,499.6	60,711.1	65,703.4	79,924.1	90,687.0	102,174.4	125,855.7	139,206.2	144,398.2	160,373.2	173,259.2	187,139.2	196,207.6	212,179.8	218,557.4	230,166.5	245,155.9	259,882.3
Total (excl. contingency reserve)	**243,**	**272,**	**311,**	**348,**	**383,**	**435,**	**493,**	**568,**	**674,**	**782,**	**839,**	**922,**	**1,001**	**1,09**	**1,179**	**1,30**	**1,38**	**1,479**	**1,593**	**1,717**

	163.7	**768.2**	**124.5**	**427.2**	**127.0**	**599.7**	**777.2**	**277.7**	**583.7**	**556.6**	**047.2**	**001.2**	**,858.7**	**5,738.2**	**,496.4**	**8,471.1**	**0,860.6**	**,495.0**	**,574.0**	**,852.6**
% of total	**14.4**	**16.5**	**16.9**	**17.4**	**17.1**	**18.3**	**18.4**	**18.0**	**18.7**	**17.8**	**17.2**	**17.4**	**17.3**	**17.1**	**16.6**	**16.2**	**15.8**	**15.6**	**15.4**	**15.1**
% change y-o-y procurement		28.3	16.5	15.6	8.2	21.6	13.5	12.7	23.2	10.6	3.7	11.1	8.0	8.0	4.8	8.1	3.0	5.3	6.5	6.0
% change y-o-y total consolidated expenditure		12.2	14.1	12.0	10.0	13.7	13.4	15.1	18.7	16.0	7.2	9.9	8.7	9.4	7.6	10.9	5.5	7.1	7.7	7.8
30% set aside for SMMEs	10,538.49	13,522.77	15,749.89	18,213.32	19,711.01	23,977.22	27,206.11	30,652.31	37,756.70	41,761.85	43,319.47	48,111.95	51,977.75	56,141.76	58,862.29	63,653.93	65,567.21	69,049.94	73,546.76	77,964.69

Source: Own calculations based on National Treasury, 2017

9.6 Appendix Six: Projected Change in Unemployment Rate to 2020

Unemployment rate (Percent)	Projection Direction
Cyprus	-9.3
Spain	-9.1
Greece	-8.5
Egypt	-6.7
Slovak Republic	-5.3
FYR Macedonia	-5.2
Bulgaria	-5
Portugal	-5
Ireland	-4.6
Jamaica	-4.2
Lithuania	-3.7
San Marino	-3.7
Croatia	-3.6
Bosnia and Herzegovina	-3.5
Cabo Verde	-3.5
Sudan	-3.5
Barbados	-3.3
Tunisia	-3.3
Slovenia	-3.3
Serbia	-3.2
Italy	-3.2
São Tomé and Príncipe	-3.1
Latvia	-2.8
Puerto Rico	-2.8
Hungary	-2.8
Poland	-2.7
Estonia	-2.4
Netherlands	-2.4
Mauritius	-2
Albania	-1.9
Costa Rica	-1.9
Czech Republic	-1.9
France	-1.8
Finland	-1.6
Bahamas, The	-1.4
Morocco	-1.4
Ukraine	-1.3
Philippines	-1.3
Sweden	-1.2

Luxembourg	-1.2
United States	-1.1
Dominican Republic	-1
Iceland	-1
Mexico	-1
Paraguay	-0.9
Australia	-0.8
Belgium	-0.8
Denmark	-0.8
Israel	-0.8
United Kingdom	-0.8
Malta	-0.6
Argentina	-0.5
Germany	-0.5
Colombia	-0.4
Indonesia	-0.4
Japan	-0.4
Kyrgyz Republic	-0.4
Armenia	-0.3
El Salvador	-0.3
Hong Kong SAR	-0.3
Romania	-0.3
Canada	-0.2
Korea, Republic of	-0.2
Chile	-0.1
Taiwan Province of China	-0.1
Thailand	-0.1
Honduras	-0.1
Azerbaijan	0
Bhutan	0
Bolivia	0
Brunei Darussalam	0
China, People's Republic of	0
Fiji	0
Iran	0
Kazakhstan	0
Kuwait	0
Myanmar	0
Peru	0
Seychelles	0
Singapore	0
Sri Lanka	0
Mongolia	0.1

New Zealand	0.1
Turkey	0.1
Switzerland	0.1
Norway	0.3
Pakistan	0.3
Panama	0.3
Russian Federation	0.3
Vietnam	0.3
Macao SAR	0.3
Malaysia	0.3
Moldova	0.3
Austria	0.4
Uruguay	0.6
Trinidad and Tobago	0.7
Belarus	1
Suriname	1.2
Nicaragua	1.4
Algeria	2.1
Ecuador	2.5
South Africa	2.8
Brazil	3.2
Belize	4.8
Venezuela	23.1

Source: International Monetary Fund Online Dataset, authors calculations