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Local maybe lekker, but is it possible?

PROMOTION AND DEVELOPMENT OF SMALL BUSINESS IN SOUTH AFRICA, COVID -19 AND BEYOND

SBI The big voice of small business

Acknowledgements

The Small Business Institute (SBI) gratefully acknowledges the financial support of mining company Exxaro in the preparation of this research and resulting suite of papers. The careful work in undertaking this research and preparation of the papers by SBP's (Small Business Project) research and policy expert contributors Ximena Gonzalez, Dr Myriam Velia, Chris Darroll and Jennifer Cohen is also gratefully acknowledged.

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The SBI welcomes feedback on this research and the resulting suite of papers, which can be submitted to Ms Leandre Swart at leandre@smallbusinessinstitute.co.za

Research project undertaken for the Small Business Institute (SBI), funded by Exxaro – Conducted by research specialists SBP

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Preface

Prior to Covid-19 micro, small and medium enterprises – we refer to all these businesses as SMEs for brevity – constituted by far the majority of businesses in South Africa. Over 98% of all employing firms in the country employed fewer than 250 people, including medium-sized businesses, and the majority of firms (66%) were, according to our research published in 2018, micro businesses with ten or fewer employees. While there is no reliable data to inform us of how many survived, we are certain that SMEs remain in the majority, as they are around the world, despite rising liquidations and distressing turnover numbers due to the impact of the Covid-19 pandemic and the lockdown measures to contain it.

And yet instead of seeing SMEs as the engine room of our economy despite all the lip service paid by government and big business to them, they are forever treated as an economic widget. Policy and regulations are made for big businesses with large compliance departments, years of much-documented hostility by government is directed at big business, sweeping all 'business' together in unhelpful generalisations; and though much ink has been spilled writing about an enabling environment, there has been insufficient understanding applied to what this should look like.

It is one year on since government introduced the lockdown measures to contain Covid-19. The Small Business Institute (SBI) with support from mining house Exxaro has undertaken research in a Covid-19 world to analyse the situational environment for SMEs in South Africa. Conducted by SME research specialists, SBP, we provide a deeper understanding of the key barriers affecting SMEs and propose a set of recommendations aimed at addressing these problems. Our suite of papers is built on a review of a vast array of decisive studies and an assessment of critical barriers affecting SME performance based on available evidence. South African SMEs face many structural barriers to their formation, growth and expansion. All businesses, especially SMEs were having a tough time of it before the appearance of the novel coronavirus pandemic. There will be no point to layering clever, forward-looking initiatives on top of a foundation that has impeded business growth for decades in South Africa.

While "the business of business is business" as Milton Friedman might say, the multiplier effects of business on a country's development and prosperity for all its people are well documented. Business activity creates jobs, cultivates inter-firm linkages, enables innovation and technology transfer, builds human capital and physical infrastructure, generates tax revenues for governments, and, of course, offers a variety of products and services to consumers and other businesses. And it is in SMEs where the true spirit of enterprise is embodied. Under the right conditions, a vigorous and thriving SME community can enhance competition, entrepreneurship, job growth and spur economy-wide efficiency and innovation.

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Over the past year, an inordinate amount of energy and effort has been devoted to trying to formalise enterprises that are not caught up in the net. Any firm that sells a product or service contributes to our fiscus through the VAT tax they pay on inputs. All circulate money in the economy. One of the papers in our series has sifted through the rationale for formalisation and the pros and cons of the informal-formal continuum and where good policy to support *any* business along its journey to sustainability might focus. Another will clearly spell out what South Africa requires to truly enable businesses to start, run and grow, accommodating hiring along the way.

In this paper, we review the pragmatism of government's continuing and newly-aggressive emphasis on driving localisation policy. We assess the policy impact and consequences of industrialisation policies pursued by government over the past quarter of a century. When measured in terms of changes to GDP contribution reflected in the provincial data and by key sectors, this research has, for the first time, been able to identify the real measured impact of policy at this level. We provide a fact-based assessment of whether small firms are growing or declining in the formal economy. Measuring all these factors is important since an aggressive localisation policy pre-supposes sufficient capacity already exists in the economy to produce more local goods and services at prices poor consumers – the majority of South Africa's population - can afford. Ultimately the goal of a well-considered localisation policy should be to improve the country's overall competitiveness and build an economy that uplifts the economic wellbeing of all South Africans.

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Abbreviations

ASGISA	Accelerated Shared Growth Initiative for South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CIT	Company Income Tax
DPME	Department of Planning, Monitoring and Evaluation
DSBD	Department of Small Business Development
ERRP	Economic Reconstruction and Recovery Plan
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
IDP	Integrated Development Planning
IPAP	Industrial Policy Act PlanL
LED	Local Economic Development
NDP	National Development Plan
NGP	New Growth Path
PPP	Purchasing Power Parity
PPPFA	Preferential Policy Procurement Framework Act
RDP	Reconstruction and Development Programme
SARS	South African Revenue Service
SBI	Small Business Institute
SBP	Small Business Project
SME	Small and Medium Enterprises

Overview

The drive for localisation has been a ‘game changer’ in government’s industrial policies for decades and as a tool to develop the growth, capability and market penetration of micro, small and medium enterprises (SMEs) in particular. Yet again, more emphasis is given to localisation policy in the President’s new “Economic Reconstruction and Recovery Plan (ERRP) as the remedy for economic recovery and job creation caused by the cataclysmic disruption of the Covid-19 pandemic. All polices, singularly and collectively applied affect the economic landscape and more so especially for the small business segment of the economy.

There is considerable room for improvement for localisation policy to be fully optimised for the benefit of the economy and for all South Africa’s business community, large and small. Localisation policies, if correctly applied – and implemented appropriately – have the potential to achieve multiple socio-economic goals. Benefits of a well-considered localisation policy provide for security of supply, employment, foreign exchange when export focused, local skills development and retention, expanded research and development potential to improve firms’ comparative advantage, and when coupled with innovation can increase South Africa’s overall competitiveness. These gains are magnified by the socio-economic multiplier effects; a single job supports five other family members in South Africa. But when policies become muddled with a mix of competing objectives with different instruments and often contradictory interventions, these benefits are lost and the inverse results.

To assess the impact of localisation policies that have been legislated in South Africa for a decade, alongside other government industrialisation policy instruments, the focus of this research homed in on the following key questions:

***Q**:* What have been the consequences of industrialisation policies on key sectors of the economy over the past 25 years, and how these be measured in a way that demonstrates real change?
***Q*:** What have been the consequences of these policies at provincial level, since localisation is predicated on being local?

***Q*:** Have government's localisation policies had positive affect in growing small businesses in the formal economy?
***Q*:** With a new emphasis on localisation especially focused on small businesses, is there an optimal mix of policy and policy instruments to enable growth of local productive small firms?

Looking back to look forward

To answer these questions, the research required:

(a) Unique assessment of existing data applied to measure the divergence of performance between the provinces in respect of their primary, secondary and tertiary industries to review the effects of South Africa's industrialisation policies. When measured in terms of changes to GDP contribution changes that are reflected in the provincial data, this research has, for the first time, been able to identify the real measured impact at this level.

(b) To gain a fact-based understanding of whether small firms are growing in the formal economy and whether localisation policies have thus far had positive impact, the research mined data from the South African Revenue Services (SARS) tax-tables over a considerable period of twelve years. The results are alarming.

(c) The research also assesses government's current thinking on a new localisation policy to advance small businesses.

As Albert Einstein once said, "We cannot solve our problems with the same thinking we used when we created them." Answers to the questions posed above, which the research addresses, are important especially at this delicate moment in South Africa's trajectory.

South Africa has reached a fork in the road, with an economy already in trouble prior to Covid-19, exploding unemployment and rising poverty. As South Africa teeters on the edge of a precipice, there is no point to layering clever, showcase plans as a band-aid on top of an unstable foundation. More so than ever before, it is time to test old assumptions and practices to make meaningful progress to achieve the benefits that a well-considered, evidence-based localisation policy can deliver to an economy, and society in crisis.

A world of new realities

The Covid pandemic delivered a systemic shock to the global economic system. The fragility of dependencies and inter-dependencies created by globalisation trends of the past 50 years has been brought into sharp focus for many counties suddenly finding themselves on the short end of the global trade stick as supply chains were disrupted; globalisation of trade has created over-dependencies on other countries for internal consumption needs. The call for localisation has become an economic battle cry as countries scramble to find solutions to recover jobs lost and find ways for new employment in response to the economic shock and disruption caused by the pandemic. Countries across the world are tending to be inward looking and outwardly protective; such dynamics are evidenced by America's responses to China trade, and Brexit.

South Africa now stands poised to deepen localisation as a political response to give slender hope for socio-economic recovery. Notwithstanding the disruptions caused by the pandemic, South Africa was in deep trouble, the economy had already hit a technical recession prior to Covid-19. South Africa's socio-economic decline could be likened to the metaphor of the frog swimming in slowly heating water oblivious to his eventual death when the water boils.

Localisation is but a single tool or policy measure for addressing the economic challenges facing South Africa's future wellbeing. The challenge is far deeper and broader. It is multi-layered, requiring multiple responses but requiring a holistic vision to grow the economic centre. A crisis cannot be unmade. It has to be out-witted and out-played on multiple arenas. It requires innovative thinking by government and a drastic revision of all assumptions and ideologies that have underpinned past policies. Fundamental to out-the-box thinking is to acknowledge and learn from failures, discard what has not worked and to reshape new policies relevant to new realities. Unlike the frog, South Africa can choose to make, and implement, the right policy choices to accelerate real growth and leap from the pot. This can be done by an enabling environment that empowers and unshackles every segment and every sector of the economy.

The Power of a Financial Crisis

- The good thing about a crisis is that it forces people to take action.
- People don't take difficult decisions when there is no crisis, because we just carry on.
- You just carry on.
- You just carry on.
- You don't want to take the difficult decisions.
- A crisis is not necessarily a bad thing.
- It's terrible when it happens, but that is when you get Action.

Wayne McCurrie (10 December 2015)
(the day after Finance Minister Nene was fired in South Africa).

All policies affect economic performance and whether countries succeed or fail is consequent on the internal and external policy choices made by governments. We asked: what has been South Africa's experience in developing national economic policies and how have we implemented them since the political transition to democracy over the past 25 years?

To gain an understanding of this, the following section chronicles South Africa's socio-economic and economic planning in accordance with three main 'economic eras'. This assessment is fundamental to providing context for measuring and analysing the effect of the dominant policy propositions in the sections that follow. Knowing where we have been helps to understand where we are and where we need to go.

The economic eras of the past 25 years.

Since the birth of the new South Africa in 1994, the country has had six administrations and three main development planning 'eras' beginning with GEAR (Growth Employment And Redistribution) 1994-2004, which includes the RDP (Reconstruction and Development Programme), followed by the ASGISA (Accelerated Shared Growth Initiative for South Africa) and thereafter, commencing in 2011, the NDP Vision 2030 (National Development Plan). In response to the disruptions caused by Covid-19, President Ramaphosa introduced the ERRP (Economic Reconstruction and Recovery Plan, 2020) as a policy measure to combat the socio-economic and economic effects of the pandemic. The ERRP can be viewed as a subset of the NDP (which is still live/in progress) and thus needs to be viewed as an exceptional circumstance and as response to mitigating the economic shock of the pandemic.

Chronicle of SA's Economic Policy Eras

Each successive administration has implemented a succession of national socio-economic plans with a mix of different priorities and emphasis, all intended to achieve the governing party's goal of "a better life for all." While containing divergent priorities, the policy periods are not perceived to be mutually exclusive as they intersected in the time intervals shown below:

GEAR ERA (1994 to 2004)- including RDP

The GEAR period incorporates the RDP, which was introduced in 1994 and implemented for two years. GEAR replaced the RDP in 1996. Immediately following South Africa's transition to democracy, the government introduced the RDP to implement reconstruction and development with an emphasis on spatial areas that had been markedly neglected by misalignment of production concentrated in the metros, to the detriment of provinces and previous homelands with depleted resources. A localisation element was present in the RDP agenda with the view that the manufacturing sector needed to be 'redirected so as to serve those less wealthy as well as to reduce imports'.

When GEAR replaced RDP in 1996 the strategic emphasis shifted to South Africa's international positioning and pressures at that level. GEAR concentrated on fiscal and macro-economic stability.
The GEAR policy scarcely identifies the need for some form of localisation, other than the extent that it references special imbalances between supply and demand for labour. Hence there is a focus towards employment in the policy predominantly on labour reform for employment protection. The GEAR era also

targeted objectives for institutional restructuring at both the national and provincial level, aligning budgets and infrastructure development programmes.

ASGISA ERA (2004 – 2011)

Government replaced GEAR in 2005 with the ASGISA period. Whilst building on the foundations of previous plans, a recognition dawned that poverty and inequality had not been arrested over the preceding decade. Even though South Africa experienced economic growth, it had not translated into expected employment growth.

The ASGISA acknowledged a decade of jobless growth. It set ambitious goals to reduce poverty and incrementally halve unemployment to 14% by 2014, from 28% in 2004. ASGISA placed emphasis on agriculture, presumably for its employment potential but also recognised SME development as a means to create jobs. Economic transformation policies were dominant through the emphasis of the policy interventions of BEE/BBBEE, which was a predominant emphasis for implementation of the ASGISA plan. Affirmative action and sector-based charters intensified during the ASGISA period. Introducing affirmative procurement strategies, ASGISA included procurement set asides for SME's with special attention given to favour previously disadvantaged people with targeted groups including women, youth and people with disabilities. Secondary and tertiary industries were hardly recognised for their role as economic drivers.

NDP Vision 2030 (2011 to present)

In the period between the ASGISA and the introduction of the NDP in 2011, the Department of Economic Development introduced the New Growth Path (NGP) in 2010 as a national strategy to focus again on addressing high levels of unemployment and fostering sustainable economic growth. The NGP contained an 'active industrial policy' with emphasis on localisation, buttressed by trade policy. Key 'job drivers' included agriculture and agro-processing, mining and beneficiation, manufacturing, the green economy as well as tourism. It emphasised infrastructure development in energy, transport, communications, water and housing. The NGP was not without controversy. Labour and business constituents had serious reservations about some of the provisions, particularly on wage caps. The NGP was given presidential approval but was replaced by the NDP Vision 2030 one year later in 2011. For the purposes of the economic assessment that follows, the NGP and NDP development era is viewed as a continuum.

The National Development Plan Vision 2030 introduced in 2011 represents a distinct plan, a stand-alone socio-economic 'blueprint' for a vision for South Africa to 2030. The NDP charts a course for a 'decent life for all South Africans' by 2030 with proposals to promote inclusive growth to enable broader access to livelihood opportunities, either through employment or self-employment on the back of a growing and more inclusive economy.[1] The NDP is predicated on aims to building consensus for a joint vision against a long-term strategic framework to guide detailed planning and allocation of resources. While ten priorities are set in the NDP, three are positioned as the most important: raising employment through faster economic growth; developing human capabilities through education, skills, innovation and social protection; and building a capable and fiscally resilient state that is able to play a developmental, transformative role.[2] The NDP acknowledges the effects of growing corruption for the first time in the country's socio-economic strategies and identifies the need for greater inter-governmental cooperation and strengthening of local government to address failures in service delivery. The issue of spatial divides receives specific attention with the NDP calling "for all spheres of government, including entities … to participate actively in municipal Integrated Development Planning (IDP) and Spatial Development Framework Forums".[3]

In addition to an emphasis on the green economy, primary industries comprising agriculture, mining and minerals industry are seen as potential 'game changers'. Both have strong forward and backward linkages to secondary industries. Agriculture is seen for its "substantial potential for either growth stimulation or employment or both" and for its competitive advantage for South Africa and the possibility for large scale labour absorption. The NDP identifies the need to better tune policy for this sector to improve land development and envisages creating an additional million jobs in the micro and semi-subsistence farming environment with implications for growth of the agricultural industry.

Similarly, it acknowledged that the mining industry, which had been experiencing a declining employment trend since the 1970's, had missed out on the commodity boom since 2000. The NDP states that "South Africa must exploit its mineral resources to create employment and generate foreign exchange and tax

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[1] National Planning Commission. (December 2020). "Economic Progress Toward the National Development Plan's Vision 2030."

[2] Ibid

[3] Cooperative governance is delegated through the Constitution and effected by the Municipal Systems Act. Municipalities are mandated to develop an IDP that coordinates the work of local and other spheres of government to improve the quality of lives of the community in the local area. Local Economic Development is integrated into the IDP planning.

revenue.” The NDP envisages 300 00 jobs in the mining cluster and observes that due to both forward and backward linkages into the secondary industries, there exists the probability of a more magnifying multiplier effect.

The NDP also references the role of secondary industries embracing energy, manufacturing and construction sectors. Manufacturing, it notes, is highly capital intensive and growth in this sector could expand the contribution of labour. But the manufacturing sector is not given any particular emphasis other than a barely adequate acknowledgement that “its most important contribution will be in relation to the business environment.” A call is however made for “leveraging public and private procurement to promote localisation and industrial diversification.”

The construction sector is identified by the NDP as an essential contributor to infrastructure development, with a substantial backlog in infrastructure development in the order of R808 billion (2011-2016). They acknowledge the loss of jobs in this sector over the past decade and cite employment creation potential in small scale construction in the residential and house renovation market, proposing ambitious suggestions for policy instruments to promote the construction sector.

In respect to the Energy sector and the green economy, the NDP identifies South Africa’s urgent need for additional energy supply with a targeted 20 000MWh required by 2030. The role of the green economy calls for a shift towards a low carbon environment but also the need to embrace renewable energy sources as well as energy saving.

The NDP also references specific sectors in the tertiary industries contributing to growth and employment, namely finance, retail and business services as well as tourism. The NDP scarcely acknowledges that while the retail sector is a big employer, it is not employment generative. Business services and information technology services are seen to expand according to need and economic growth during the NDP period, projected and expected, to add another 1 million jobs.

Of note, the National Planning Commission recently reviewed progress of the NDP Vision 2030 in terms of addressing South Africa’s top priorities of employment, poverty reduction and equity; its findings were highly critical.[4]

[4] National Planning Commission. (December 2020). “Economic Progress towards the National Development Plan’s Vision 2030.

But what has been the cumulative effect of all the national policies eras – for a quarter of a century – on the growth dynamics of the particular sectors that were prioritised in each of them, namely the primary, secondary and tertiary sectors? Has there been positive affects to provincial GDP contributions, which would indicate measurement of the impact of localisation policies? A positive impact is demonstrated when GDP contributions of a sector increase from one era to the next, implying improved performance. The opposite applies if GDP contribution trends are negative.

These are the key questions that the research assesses in the following section and is presented as follows:

- Provincial GDP contribution changes for each of the 'planning eras' – by industry (primary, secondary and tertiary)
- Total Provincial GDP contribution changes by Industry (total) from 1995-2018
- SA's GDP performance benchmarked globally and against its peers for the period 1994 to 2020, and GDP per capita dynamics for the same period.

Primary industries as referred to in the analysis comprise Mining and Agriculture. *Secondary industries* include Construction, Manufacturing, Energy and Gas. *Tertiary industries* broadly include five component areas of economic activity, 1) Wholesale and retail clustered with retail and motor industries, 2) Tourism including catering and accommodation, 3) Logistics inclusive of storage and communications, 4) Finance and real estate together with business services and, 5) Personal services.

Provincial GDP contribution changes per planning ‘era’

Before engaging with the national macro-economic review for each of the development era, we have undertaken an in-depth analysis of the economic performance at the provincial level. This is more indicative of policy effectiveness for localisation policy when measured at the industry level for primary, secondary and tertiary industries.

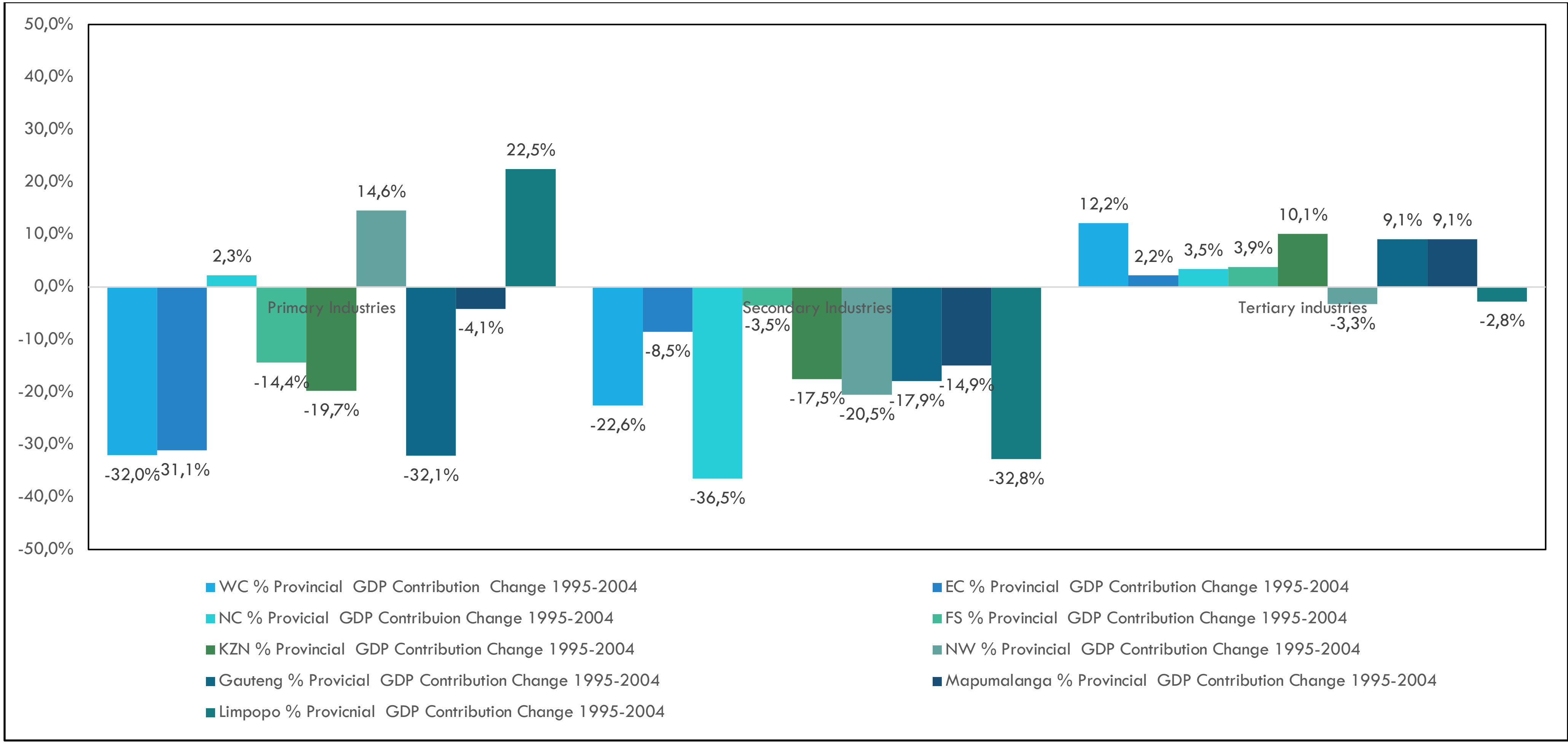
The analysis focuses on the GDP contribution changes that occur during the development planning era, because the GDP contribution *change* - distinct from the GDP *contribution* – are an indicator of relative performance between periods, rather that absolute performance. Based on Stats SA data, the percentage contribution for each industry (at current prices) is tabulated for the era under review, with the difference taken to represent the *change* during a period. This in turn is converted to a percentage that either positively represents the change during the period or reflects a negative trend during the era. Where the ‘era’ development policy plan refers to a specific industry the overall industry is a proxy for the impact on that sector.

Provincial GDP contribution changes by Industry during the GEAR (1995-2004)

GEAR, as noted, focused on democratisation of the economy. Emphasis was given to reducing spatial distortions in neglected provinces. Emphasis was also given to pursuing fiscal and macro-economic stability together with a focus on international reintegration. The transformation agenda of GEAR focused on institutional restructuring both nationally and provincially. The objectives of fiscal budgets were aligned to these objectives as well as infrastructure expenditure.

The extent to which these objectives were achieved is reflected in GEAR period analysis below.

Figure 1. Provincial GDP contribution Change by Industry during GEAR



Source. Own analysis based on Stats SA data set

Figure 1 shows that during GEAR the primary industries saw a substantial decline in GDP contribution in almost all provinces baring Limpopo (22.5% positive) and the North West (14.6% positive) measured in current price GDP contributions changes, with these provinces benefitting from their dominance in mining activity. The Western Cape, Eastern Cape and Gauteng experienced large contraction in their primary industry contributions to GDP with declines of the order of 32%, the Western Cape and Eastern Cape being more agricultural industry dependent.

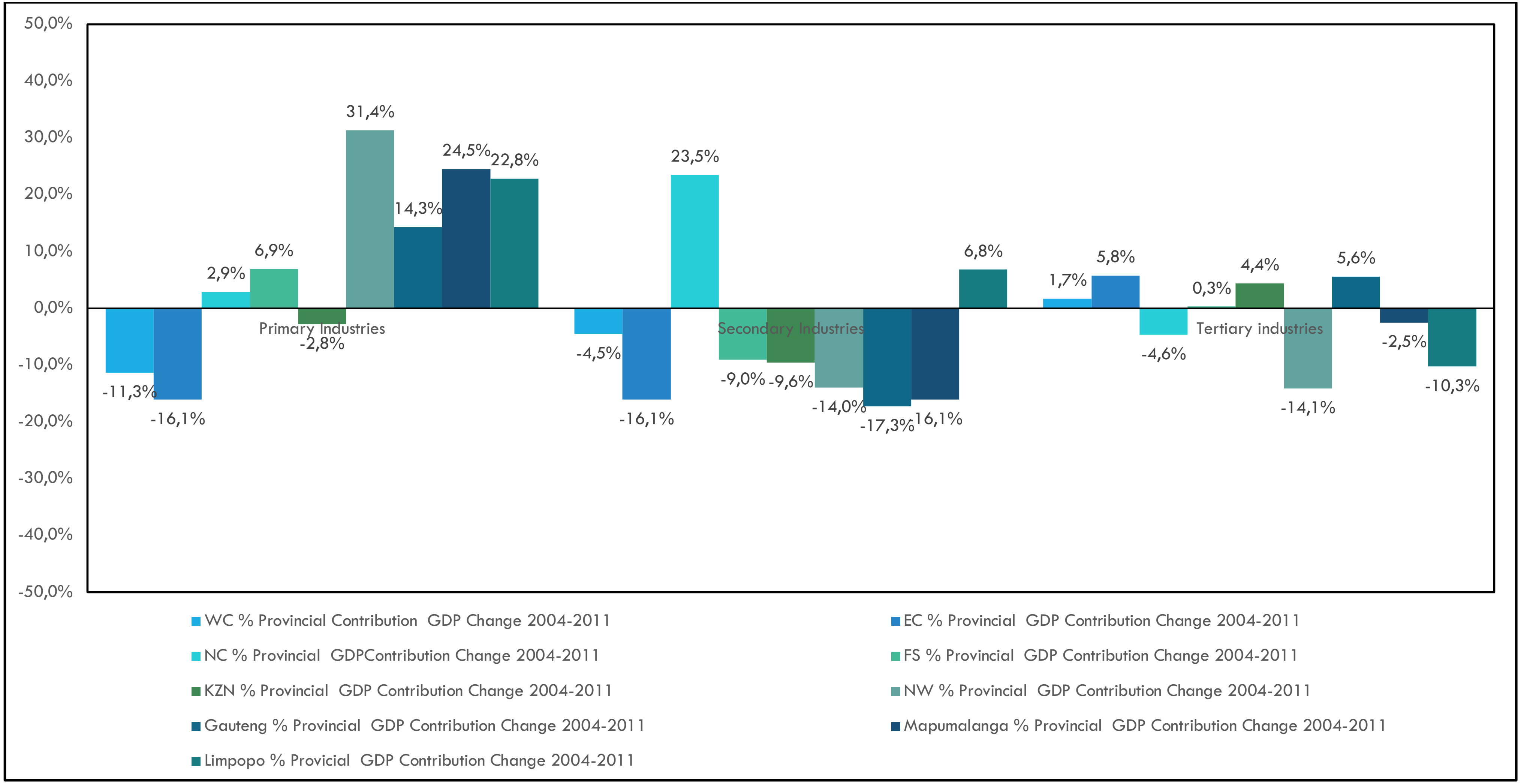
The changes in the Secondary Industries during GEAR show that all provinces are negative, ranging from 36.5% for the Northern Cape to a negative 2.3% for the Free State. During the GEAR period, there is no indication that the resources budgeted for infrastructure or RDP housing (with an emphasis on construction) actually translated into GDP contribution change to the secondary industries, particularly where construction is a component. Only tertiary industries show a small notable increase in the GDP contribution, with increases for the period ranging from 12.2% (Western Cape) to 2.2% (Eastern Cape), with KwaZulu-Natal and Gauteng also experiencing positive change. The North West and Limpopo experienced negative GDP contribution impacts of 3.3% and 2.8%.

With a strong emphasis of the GEAR on policies leaning towards improving provincial performance and industry performance, some evidence of an impact from policy should be seen. However, there is no evidence of this.

Provincial GDP contribution changes by Industry during the ASGISA (2004-2011)

During ASGISA, the policy agenda emphasised agriculture as well as SME development. Structural transformation was pursued through affirmative procurement policies. SME policies and procurement changes should reflect in the secondary and tertiary industries. The extent to which these may have been achieved is reviewed below (*Figure 2)*.

Figure 2. Provincial GDP Contribution Change by Industry for the ASGISA period



Source. Own analysis based on Stats SA data set

In almost complete contrast to the GEAR period, which saw a decline in primary industries, the ASGISA era sees a revival in primary industry growth in most of the provinces. North West leads at 31.4% GDP contribution change, followed by Mpumalanga at 24.5%, and then the Limpopo at 22.8%. The ASGISA era shows a revival in the mining industry, which is dominant in the provinces showing growth. Only the Eastern Cape and Western Cape - reliant on agriculture - showed declines in the primary industry category. These declines, attributed to agriculture industry contribution reduction, are indicative that the agricultural policies of ASGISA did not lead to greater employment but rather had a detrimental effect. The secondary industries saw moderate revival in only two provinces, namely the Northern Cape (23.5%) and Limpopo (6.8%). As experienced during the GEAR era, the other provinces experienced reductions in their GDP contributions ranging from -17.3% in Gauteng) to -4.5% for the Western Cape.

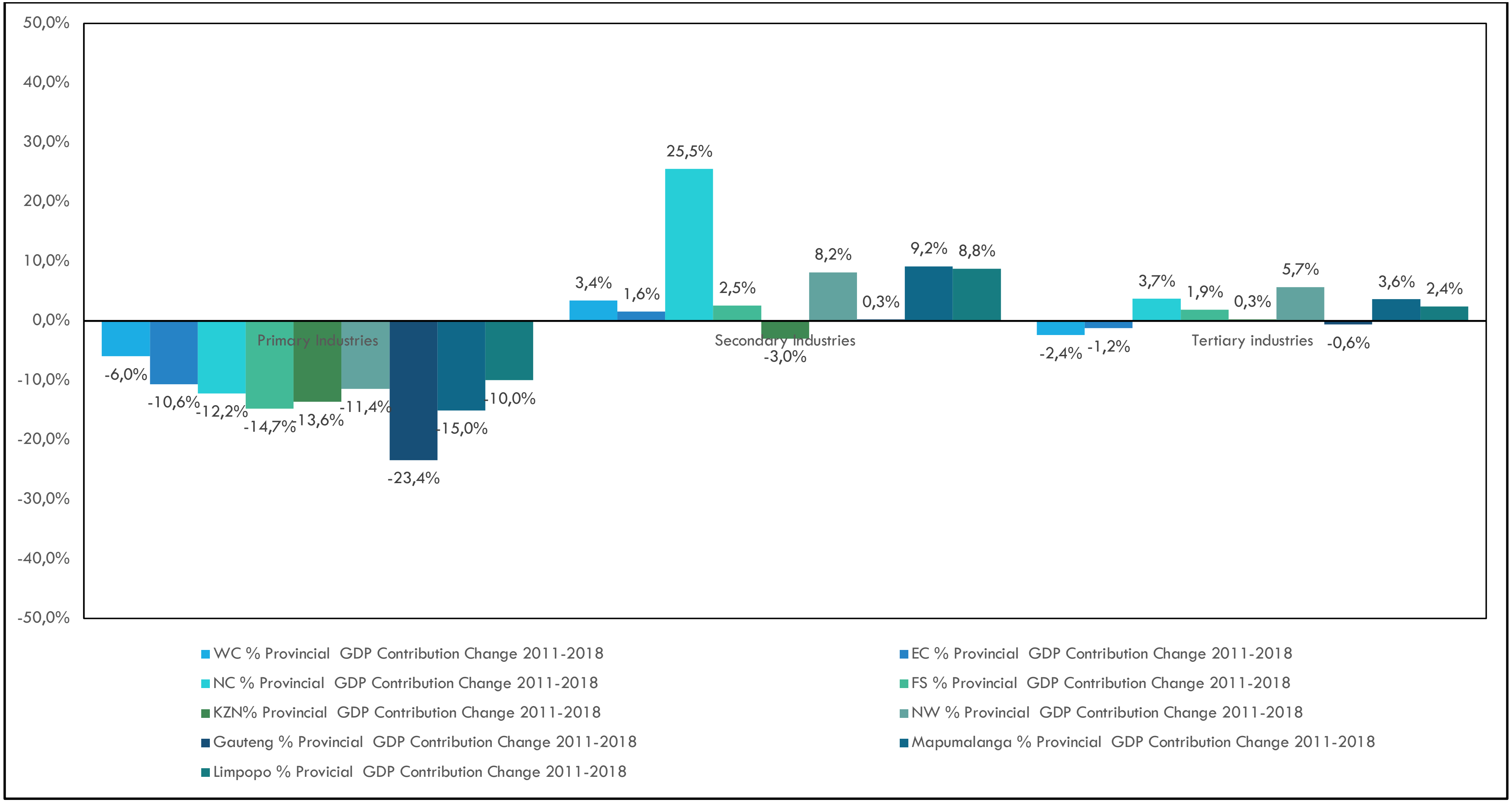
For the tertiary industries, while the previous GEAR period showed mostly small positive changes in the provinces, ASGISA era saw several areas of regression. The largest in the North West with -14.1% contribution change followed by Limpopo with -10.3% contribution change. Mpumalanga is noted for its reversal as it reflected a 9.1% increase during GEAR. But during the ASGISA period, Mpumalanga shows a decline of -2.5%, representing a cumulative regression of 11.5%.

In summary, the ASGISA era is characterised by some marked improvement in the primary industries but still heavily regressive in the secondary industries, industries with the greater potential for labour absorption. The policy emphasis of ASGISA on SMEs and affirmative procurement are not evidenced in either the secondary industries or the tertiary industries as anticipated.

Provincial GDP contribution changes by Industry during the NDP (2011 up to 2018)

The NDP’s policy emphasis on socio-economic transformation is grounded in the concept of the ‘developmental state’, in which government would lead the agenda of reducing poverty, inequality and unemployment. The NDP recognises the agriculture sector for its labour absorption potential. The mining industry is expected to exploit resources for employment creation, and foreign exchange, together with the mining cluster’s beneficiation strategy with both forward and backward linkages to improve secondary industry prospects. A green economy is given focus. Public sector procurement is emphasised to pursue localisation alongside private sector supplier development for industrial diversification. Encouragement of new technologies are expected to be enablers to support growth. The extent to which these goals have been achieved are noted in Figure 3.

Figure 3. Provincial GDP Contribution Change by Industry during the NDP period (2011-2018)



Source. Own analysis based on Stats SA data set

It can immediately be observed from *Figure 3*, that primary industries have - to date -experienced regressive conditions in the period 2011 to 2018, during these years of the NDP.

These reversals are a clear and resounding indication of policy failure in the primary industry sphere. To inform appropriate policies for both the mining and agricultural industries, government will require deep introspection.

Gains experienced during the ASGISA period have been lost in every province in the NDP period, with sharp reversals. All provinces show the negative contributions ranging from -23.4 % for Gauteng to -6.0% in the Western Cape. This trend is marginally positive for the Western Cape as it experienced -11.3% during ASGISA and reduced to -6.0% during the NDP period, a positive swing of 5.3%. The reversals for Mpumalanga, North West and Limpopo are even more marked, the North West regressing from +31.4% to -11.4% and Mpumalanga from +24.5% to -15.0%, a 39.5% swing. Regression for Limpopo was +22.8% to -10.0%, also demonstrating a 32.8% swing in provincial GDP contribution change.

These reversals are a clear and resounding indication of policy failure in the primary industry sphere. To inform appropriate policies for both the mining and agricultural industries, government will require deep introspection.

Where the ASGISA period saw a slump in GDP contribution change in the secondary industry (almost universally negative in all the provinces) under the NDP, this negative trend now inverts to positive in all but one province. While the most significant increase shown occurred in the Northern Cape, potentially from renewable energy projects, the balance of provinces saw only nominal positive contribution changes ranging from 1.6% to 9.2%. Only KwaZulu-Natal showed a negative value at -3.0%, representing a substantial improvement from the ASGISA era where its contribution change stood at -14.0%.

The tertiary industry experiences of the NDP period under review is largely a case of reversals to those under ASGISA. The Western Cape is -2.4% as opposed to +1.7%. The Eastern Cape is -1.2% compared to +5.8%. Where the Northern Cape was -4.6%, this is inversed to + 3.7%. The North West previously at -14.1% now shows at +5.7%, an improvement of 19.8%. During the NDP up to 2018, none of the change proportions for the tertiary sector are significant from the perspective of the sector’s potential to create employment or as a response to a supportive policy environment.

Where the NDP emphasises the mining and agricultural industries, the policies have resulted in the opposite in every province during the NDP era thus far. In secondary industries, there was an inversion from ASGISA, with a swing from largely negative secondary industry contribution change to a muted positive trend across the provinces.

While the secondary industry shows a green shoot of positive response to policies in the NDP era, the same is not true for the tertiary industry; the sector that contributes innovation and technological advancement. The experience is largely a reversal from the previous two eras, where positives are turned to negatives, and negatives turned to positive. Such unpredictable variations in policy impact show a distinct dislocation for the tertiary industries nationally, provincially and locally, with haphazard and muddled outcomes, a symptom of the underlying causes related to policy uncertainty and/or confused implementation at a regional (provincial) level.

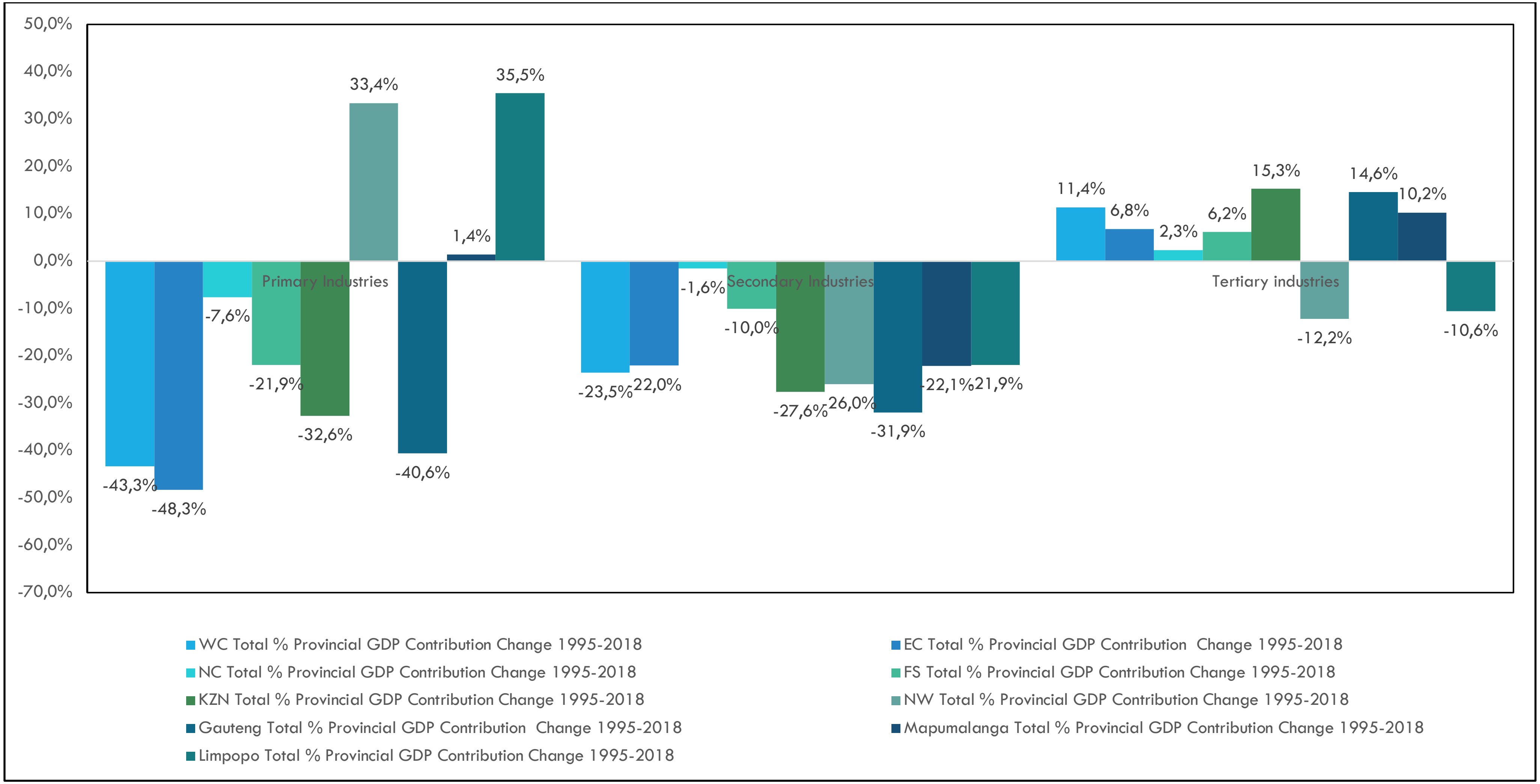
Total Provincial GDP contribution changes by Industry (1995-2018)

Taking the above discussion into account, it is important at this juncture in the analysis to distinguish GDP *growth* from GDP *contribution*. GDP growth needs to be identified as being as a distinctly different measure of a specific industry. During each era, the South African economy has demonstrated GDP growth. However, the GDP growth impact is felt to different extents in various layers of industry of the economy. To deduce the simplistic conclusion that GDP growth increased, therefore the economy improved, belies the underlying realities that have been evidenced by the GDP contribution changes, which more correctly provide the indicators for measuring policy impacts where they are felt – the business level, by key industry.

Following the review of the effects of the economic policies for each of the development eras, another step in the analysis is to establish a picture of *what the cumulative affect of all policy propositions have been, aggregated, for the full period from 1995 to 2018.*

Figure 4 below summarises the *collective experience* for the provincial GDP contribution change, by industry, for the entire period.

Figure 4. Total Provincial GDP Contribution Change (1995-2018)



Source. Own analysis based on Stats SA data set

While, in the aggregate, both the Limpopo and the North West reflect a strong showing with cumulative GDP contributions changes (35.5% and 33.4%) measured at current prices over the entire period from 1995, both these provinces reflected the same positive performance under GEAR as well as in ASGISA, with a reversal experienced more recently during the NDP era. All other provinces collectively reflect mainly negative changes in their primary industries with this being predominantly shown in the Eastern and Western Cape with changes of -48.3% and -43.3% respectively. The general conclusion, we draw here is that policy to advance agriculture has failed throughout the full two-decade period, and reversals in mining are also an indicator of policy failure for these industries.

Figure 4 also summarises the cumulative performance of secondary industries. For these, the analysis shows that, in aggregate and despite a slight uptick during NDP era, there has been a total decline of all secondary industry in all provinces in the full two-decade period. For policymaking, this means that the policies pursued in all development plan eras have thus far been regressive to the development of secondary industries in South Africa, especially manufacturing, construction and energy production.

By comparison, tertiary industries have performed positively, in aggregate, from 1995 up to 2018 with their contribution values being largely positive. Notably driven, but not unexpectedly, by three 'power-house' provinces dominating the performance contribution change in the tertiary industry GDP contribution including KwaZulu-Natal at 15.3%, Gauteng at 14.6% and Western Cape at 11.4%. A stand-out observation worth noting, is the observable differences in the primary and tertiary outcomes for the North West and Limpopo.

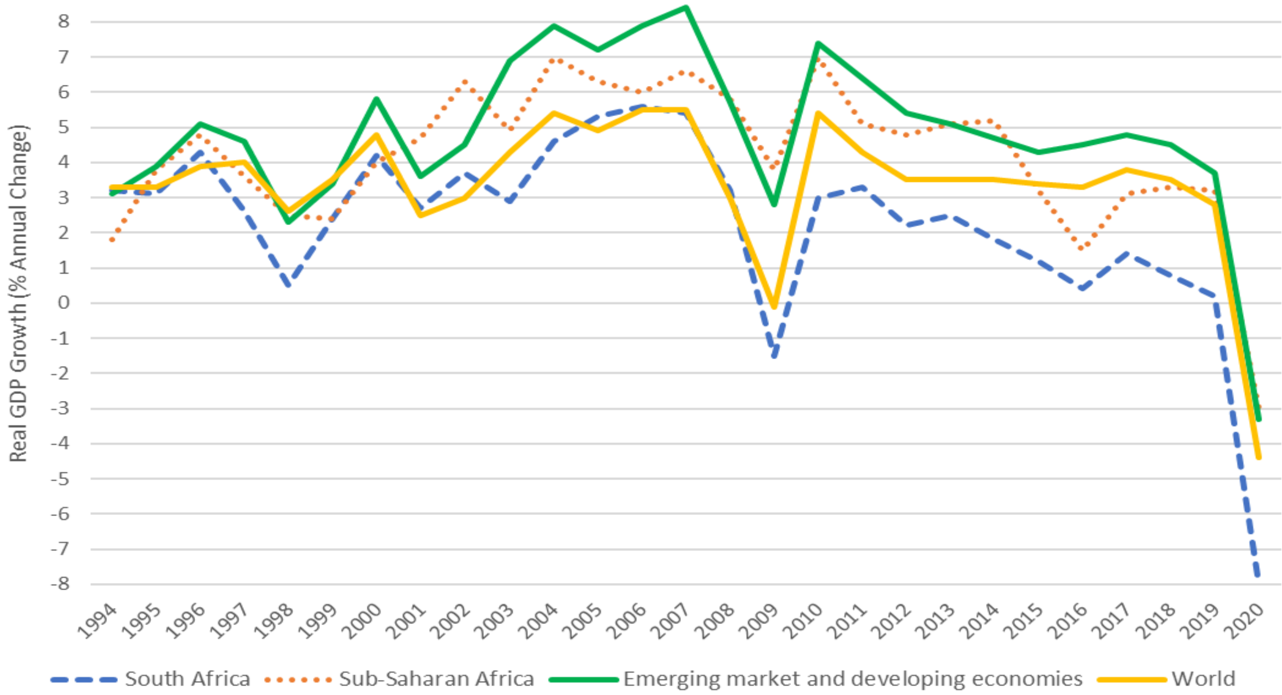
However, even though the tertiary industry trends reflect positivity towards their GDP contribution change, the value of this is not an indicator that policies are resulting in any additional impetus for growth. In aggregate, the contribution changes of the tertiary industries are muted when viewed over a 24-year period since 1995. Given this subdued change, one can observe a distinct indication of the neglect of effective policies to accelerate the stimulation of tertiary industries.

Economic performance: A Global view of SA performance (1994-2020)

Having analysed trends in provincial GDP contributions by industry for the three main eras, the question that arises is what has been the real GDP growth of South Africa, comparative to the world and selected regions in the full period of assessment, from 1994 to 2020?

Figure 5 below demonstrates South Africa's GDP Growth performance relative to the World, its Sub-Saharan peers and Emerging markets and developing countries.

Figure 5. Real GDP Growth (Annual % change): South Africa, World and Selected Regions, 1994-2020



Source: IMF DataMapper, World Economic Outlook (data extracted October 2020)

Figure 5 highlights that the world has experienced three global shocks over the past 26 years, each of which has resulted in major effects on all country growth trajectories as they happened. The downward spikes are noted in 1998, which identifies the Asian Crisis. The second global shock occurred in 2008 resulting from the global financial crisis and the third showing in 2019-2021 as the Covid-19 pandemic, with countries across the world introducing lockdown measures to contain the spread of the pandemic. The downward trend has yet to be halted.

Figure 5 illustrates that for South Africa from 1994 onward, GDP grew in real terms until the 1998 Asian crisis: the period of the country's reacceptance into the global economy. The real GDP growth over the years 1994 to 1997 averaged around 3.3% per year.

South Africa recovered from the Asian Crisis emulating global trends and between 1999 and 2008 real GDP growth for the country averaged at a higher rate of 4% per year. The impact of the global financial crisis had an especially devastating impact on South Africa as shown by the rapid deterioration in GDP growth from 5.5% falling to almost 2% in 2009. Since 2009, the World GDP growth trend demonstrates that no country has fully recovered their GDP growth rates to before the global financial crisis. While the World overall showed a rapid rebound in 2010, primarily due to fiscal stimulatory policies applied, the World growth rate through to 2019 stabilized at about 3,5% per annum.

No country has been shielded from the economic effects of the Covid-19 pandemic as shown by the plummeting projection of GDP growth in Figure 5.

While South Africa did not recover fully from the impact of 2008 global financial crisis to its pre-crisis level by 2010, it is significant to note that South African financial institutions and banks were not affected detrimentally by the 2008 economic crisis experienced elsewhere globally; there was no need for financial rescue packages through fiscal support or artificial stimulus. Most developed and developing countries and emerging markets including sub-Saharan countries rebounded from the economic crisis to their pre-crisis GDP growth levels by 2010.

Not so for South Africa.

South Africa's GDP growth rate since 2010 has shown a steady downward decline from about 3.3% per annum to a marginal 0.4% in 2016, followed by a slight uptick to 1.4% in 2017. Thereafter it resumed the declining trend through to 2018. While the World Bank projected South Africa's GDP growth to be -8% for 2020, Stats SA reported a marginal better than expected -7% decline in March 2021 for South Africa's GDP growth rate.

Sub-Saharan countries are demonstrating out-performance above the World benchmark and reflecting GDP growth rates in the range of 3% to 7% annually. South Africa's GDP rating is well below its peers' performance in this regard.

In making comparisons, it is important to factor in the extraordinary performance of China on the high GDP growth rate of emerging markets and developing economies. There appears a consistent 3% to 4% growth differential between these countries GDP growth rates and South Africa's GDP growth rate. The differential may be viewed as the 'China effect'. And, as a fundamental basis for comparison, GDP growth rates should exceed the in-country population growth as a minimum criteria and benchmark to achieve.

The analysis shown in Figure 5 shows that, in summary:

1. During the GEAR period (1994-2004) South Africa's GDP growth trajectory was interrupted by the Asian Crisis but rapidly rebounded to pre-crisis levels and averaged an adequate 3% growth rate.
2. During the ASGISA era (2004-2011) South Africa again experienced an external shock, the 2008 global financial crisis (2008), which plummeted GDP growth to negative territory. In the initial four years of the ASGISA period, South Africa experienced sound GDP growth in the order of 3% to 5.6%. However, the recovery post-crisis was muted back to 3% previously experienced in 2003 before the crisis. A marginal growth improvement occurred to 2011.
3. During the NDP era (2011 up to 2020) the GDP growth trajectory shows the consistent downward trend from 3% in 2011 to almost no growth in 2019 (0.25%). Thus, not achieving the minimum criteria for GDP growth above population growth over the past 8 to 9 years, nor achieving any of the aims set by the NDP.

While the China effect on global GDP growth dynamics and China's increasing trade dominance in Africa and elsewhere cannot be ignored, the Sub-Saharan peer comparison is a demonstration that South Africa's economy is in considerable distress and has been so for the past decade. It can no longer be argued that the China effect or other externalities (crises) are the source of the country's economic stagnation.

Economic wellbeing of South Africans over the planning eras.

GDP per capita measurements matter. Essentially, the per capita GDP measurement shows how much economic productive value can be attributed to each individual citizen. It indicates the level of prosperity, or material wellbeing, for the individual citizen in a country. Without meaningful GDP per capita growth, the average South African will become poorer, with less disposable income. Tax revenue will deplete, constraining government spending on health, education, infrastructure and the fiscal space to deal with external shocks, such as the Covid-19 pandemic.

So, while GDP growth may be an indicator of the overall health of an economy, the Real GDP Growth rate criteria needs to be adjusted to account for population growth rates in order to measure whether the average South African is benefiting. This adjustment is reflected in the table below, where the population growth rate is deducted from the real GDP growth rate to determine the Real GDP per capita growth. When this value is positive the average person in a country is better off. The NDP targets an increase in GDP per capita at constant prices from around R50 000 to R120 000 in 2030.

Table 1. Real and Per Capita GDP Growth for South Africa, 1993-2019 (%)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
REAL GDP GROWTH	1.2	3.2	3.1	4.3	2.6	0.5	2.4	4.2	2.7	3.7	2.9	4.6	5.3	5.6
POPULATION GROWTH	2.5	2.3	2.1	1.9	1.8	1.6	1.5	1.4	1.3	1.3	1.2	1.2	1.2	1.3
REAL GDP PER CAPITA GROWTH	-1.2	0.8	0.9	2.3	0.8	-1.1	0.9	2.7	1.3	2.4	1.7	3.3	4.0	4.3
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
REAL GDP GROWTH	5.4	3.2	-1.5	3	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-8
POPULATION GROWTH	1.3	1.3	1.4	1.5	1.5	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.3	N.A
REAL GDP PER CAPITA GROWTH	4.0	1.8	-2.9	1.6	1.7	0.6	0.9	0.2	-0.3	-1.1	0.0	-0.6	-1.2	N.A

Source: IMF and World Bank data.

The table indicates that real GDP would have to grow by around 1.5% per year on average in order for Real GDP per capita growth to be positive and for improvements in economic wellbeing to be felt by the average South African citizen[5]. From the table noted above, the GEAR period demonstrates that economic wellbeing for the average citizen occurred throughout its period, only briefly interrupted by the Asian Crisis of 1998 with positive Real GDP per capita growth. The ASGISA period also demonstrates further improvement in wellbeing for the general population, briefly interrupted by the global financial crisis of 2008. The NDP period 2011 to 2019 however, shows a rapid year-on-year real GDP per capita growth decline, plummeting from 1.7% in 2011 to -1.2% in 2019.

GDP per Capita Analysis: Provincial Disparities

To evaluate GDP per capita dynamics as a measure of progress, externally benchmarked against other countries, as well as against those internally within South Africa, the divergence and disparities become evident between provinces. This will highlight the localisation element of the GDP per capita measure, which is important to factor in when aggressively pursuing a localisation policy.

GDP per Capita – South Africa compared with a global view.

To assess how South Africa is faring in terms of GDP per capita trends with other countries, *Figure 6* shows an analysis of data produced by the World Bank that standardises international comparisons by using purchasing power parity (PPP) at 2017 international dollars. It shows that South Africa's real GDP per capita as measured against World GDP per capita and Sub-Saharan Africa as well as benchmarks for middle-and-upper-income countries was relatively high in 1994 by world standards.

In 1994, the real GDP per capita for South Africa was very near that for the world and was significantly above the real GDP per capita at PPP for the whole Sub-Saharan region.

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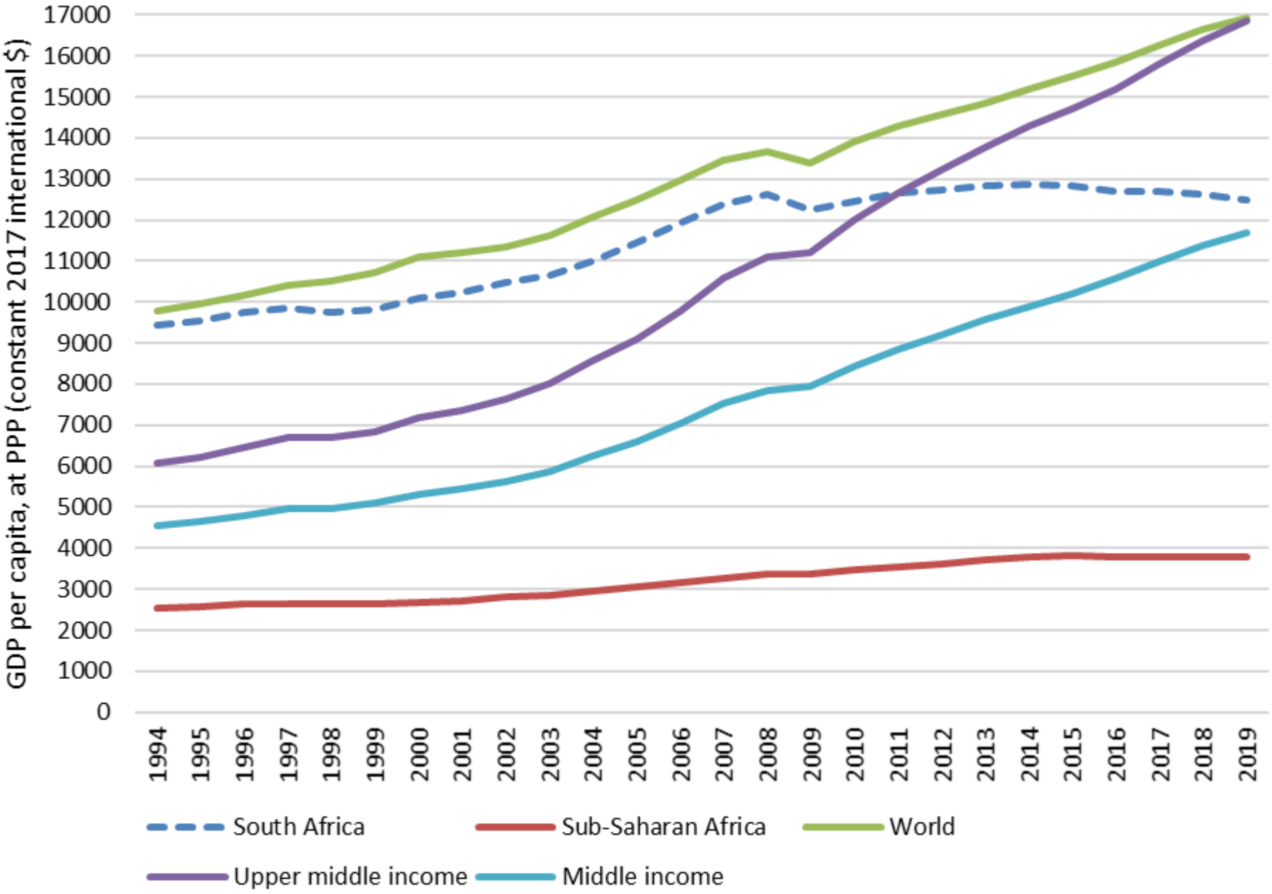
[5] The NPC's review of the progress of the NDP states that "if the NDP's targets had been achieved, each South African could, on average, have earned a cumulative R119 000 more by the end of 2019, the South African Revenue Services could have collected R1.7 trillion more in taxes (giving government substantially more resources to invest in development and much more fiscal space to deal with system shocks) and at least 3 million more South Africans would have employment."

While the real GDP per capita for South Africa changed marginally in the period to 1998 the trend was proportional to World growth. The Asian Crisis, as previously noted, slowed the per capita growth, which in the following years resumed its upward trend mirroring World growth trends until the global financial crisis of 2008.

Figure 6. GDP per capita at PPP at constant 2017 international $: South Africa, World and Selected Regions, 1994-2019



Notes : PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates.

An international dollar has the same purchasing power over GDP as the US$ has in the United States.

GDP at purchaser's prices is the sum of gross value added by all resident producers in the country plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets.

Data are in constant 2017 international dollars.

Source: World Development Indicators, World Bank.

The South African GDP per capita experience from 2010 to 2019 reflects flat GDP per capita growth, which is indicative of a static or recessive GDP growth experience in PPP dollar terms.

This trend corroborates the findings highlighted earlier in this paper that assesses policy impact for the three development eras for South Africa. 2014 represents the cusp of South Africa GDP per capita growth. Between 2014 and 2019, the last year for which data is available, South Africa saw a decline in its real GDP per capita at PPP from $12 886 to $12 482. Effectively - between 2014 and 2019 - real GDP per capita declined by 0.6% per year in South Africa, whereas real world GDP per capita grew by 2.2% annually over these five years.

South Africa is classified as an upper middle-income country. *Figure 6* shows South Africa commencing at a GDP per capita value level substantially above other upper middle-income countries in 1994 and almost at the same value level as the world measure. Upper middle-income countries show rapid growth trajectories over the period to 2019, equated with world values while South Africa, from its high base of $9 000 demonstrates marginal increases in GDP per capita to $12 500. By contrast, middle income countries from their low base in 1994 at approximately $4500 per capita are presently almost equal to South Africa. Based on their trajectory, it can be concluded that these countries will soon outperform South Africa in terms of GDP per capita within the next two years.[6]

GDP per capita performance is hence a socio-economic measure for economic performance and the consequent impact on the wellbeing of citizens. On a global level, as well as relative to middle and upper middle-income countries, South Africa is failing its citizens economically.

GDP per Capita – A provincial view

Although GDP per capita measures the levels of material wellbeing, or prosperity, for the average citizen, it does not reveal the disparities that may exist within population groups or regionally within a country. While population group disparities are not able to be evaluated as no statistics exist in this instance, an assessment of *regional disparities by province* can be considered by mining both population estimates as well as provincial GDP data produced by Stats SA.

[6] Although not shown here, South Africa real GDP per capita at constant PPP has performed very poorly in terms of changes when compared to India and a BRICS country. Although South Africa's GDP per capita at constant PPP was in 2019 0.85 to that of Brazil, the trends in the performance have, in contrast, been broadly similar in these two countries from 2014 onwards.

To assess policy assumptions that relate to a re-emphasis on localisation, a perspective of GDP per capita from a provincial view is important. The table below reflects the population statistics for 2018 as well as the total GDP for each province as published by Stats SA. The table below shows the percentage population for each province, and the percentage GDP contribution by province.

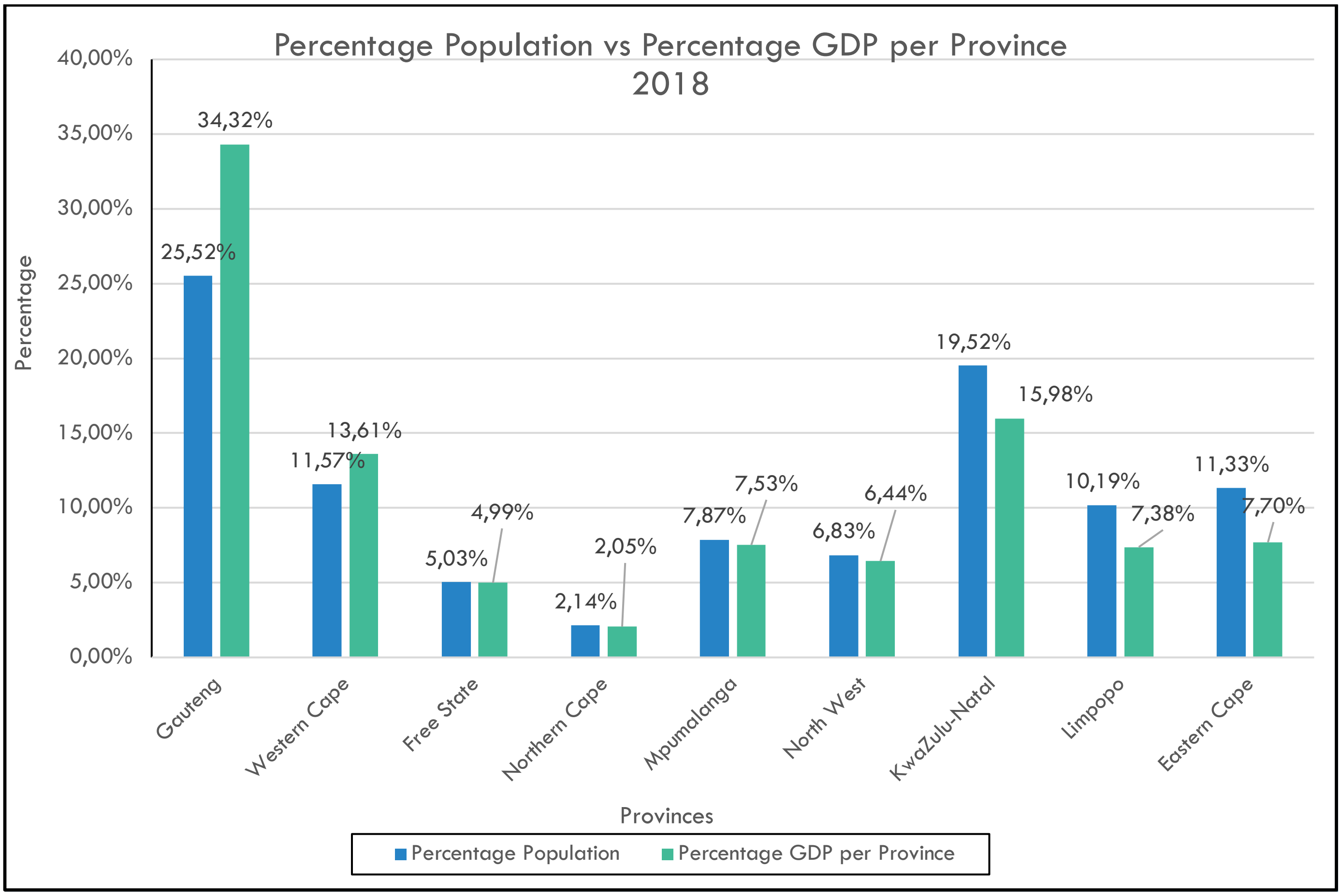
Figure 7. Population % vs GDP Percentage

PROVINCE	POPULATION 2018 (STATS SA)	GDP 2018 (MILLIONS) (STATSSA)	PERCENTAGE POPULATION	PERCENTAGE GDP PER PROVINCE
GAUTENG	14 661 000	1 672 744,56	25,52%	34,32%
WESTERN CAPE	6 650 000	663 275,74	11,57%	13,61%
FREE STATE	2 891 000	243 138,66	5,03%	4,99%
NORTHERN CAPE	1 230 000	100 120,02	2,14%	2,05%
MPUMALANGA	4 523 000	366 838,59	7,87%	7,53%
NORTH WEST	3 925 000	313 644,94	6,83%	6,44%
KWAZULU-NATAL	11 215 000	778 762,62	19,52%	15,98%
LIMPOPO	5 854 000	359 885,05	10,19%	7,38%
EASTERN CAPE	6 508 000	375 488,61	11,33%	7,70%
TOTAL GDP	57 457 000	4 873 898,78	100,00%	100,00%

Source: Stats SA (GDP at current prices)

Figure 8 below provides a summary for comparative review and provides a snapshot of outliers in terms of performance against provincial population.

Figure 8. Percentage Population vs GDP Percentage per Province (2018)



Three observations can be noted from *Figure 8* analysis.

Both Gauteng and the Western Cape are performing above their proportional populations by a large margin compared to other provinces. Gauteng especially establishes itself as the economic hub of South Africa with its economic performance being over 34.4% its population measure[7]. The Western Cape also outperforms its population measure by 17.6%. But this is not a new observation.

By contrast, KwaZulu- Natal, Limpopo and the Eastern Cape provinces are negative outliers of economic performance, all performing below their population parameter measure. KwaZulu-Natal is below by 18.14%, Limpopo below by 27.58% below and the Eastern Cape is below by 32.04%. This suggests that the populations of these provinces are disproportionately experiencing economic distress in relation to their population proportions.

[7] The relative performance is calculated as %GDP-%Population/%Population x100

The middle band comprising the Free State, the Northern Cape, Mpumalanga and the North West are consistently performing within a small marginal differential between their population measure and their GDP proportion contribution.

GDP per capita disparities – fundamentals for localisation

While *Figure 8* analysis informs the economic condition on a proportional population basis, it does not however show the actual GDP per capita nor the GDP per capita disparities that may be prevalent in relation to the economic performance between the various provinces.

The disparities are important since they can signal failures in policy implementation that increases provincial neglect, or that provincial strategies need to be reviewed to boost the GDP provincial contributions, especially for formulating appropriate localisation policies.

The table below (*Figure 9*) shows the GDP statistics and population estimates for all provinces, based on Stats SA data for 2018. The evaluation of this data provides a snapshot of the prevailing economic status for each province relative to the others, both in terms of the actual GDP per capita contribution but also when the per capita data is ranked from largest to smallest. This is then benchmarked against the largest GDP per capita Province (rated as 100%) showing the relative disparities.

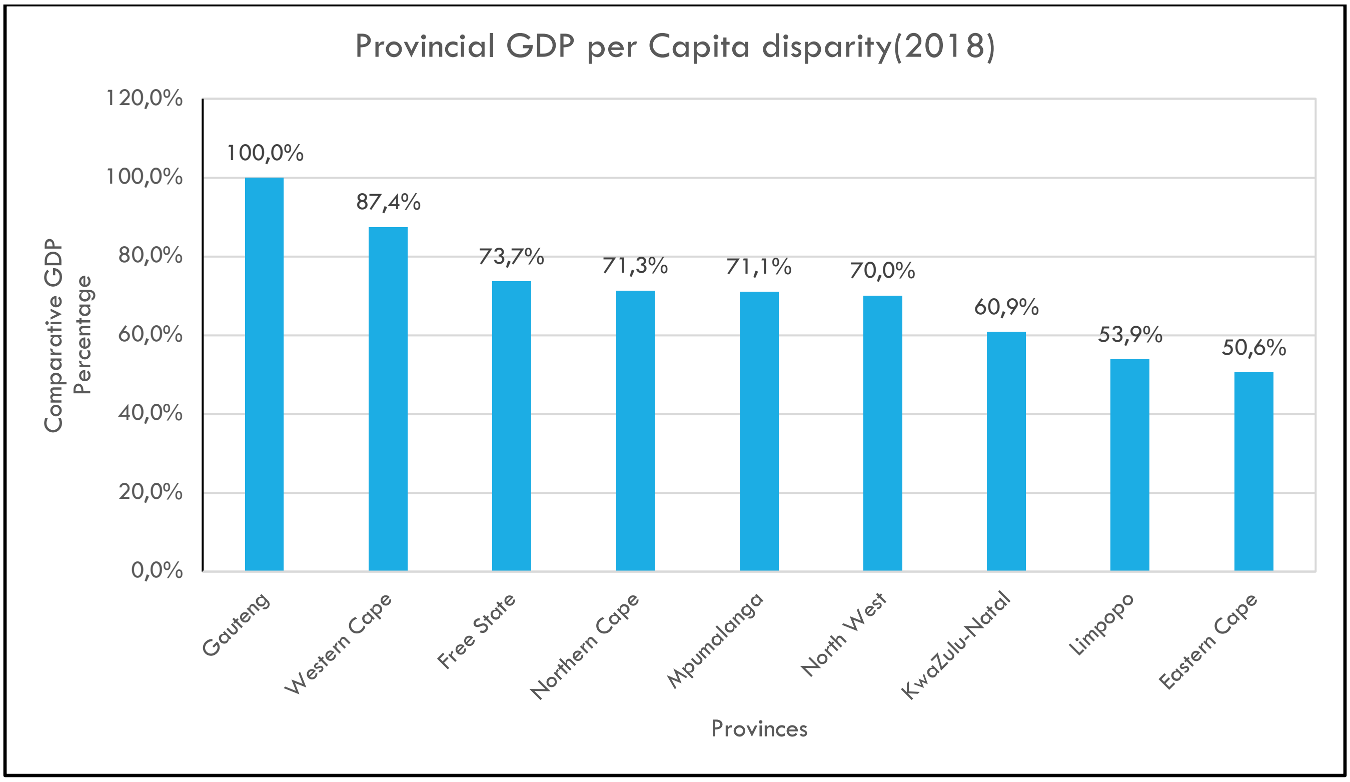
Figure 9. GDP per Capita analysis.

PROVINCE	POPULATION 2018 (STATS SA)	GDP 2018 (MILLIONS) (STATSSA)	GDP PER CAPITA (2018)	GDP PER CAPITA DISPARITY
GAUTENG	14 661 000	1 672 744,56	114 095	100,0%
WESTERN CAPE	6 650 000	663 275,74	99 741	87,4%
FREE STATE	2 891 000	243 138,66	84 102	73,7%
NORTHERN CAPE	1 230 000	100 120,02	81 398	71,3%
MPUMALANGA	4 523 000	366 838,59	81 105	71,1%
NORTH WEST	3 925 000	313 644,94	79 910	70,0%
KWAZULU-NATAL	11 215 000	778 762,62	69 439	60,9%
LIMPOPO	5 854 000	359 885,05	61 477	53,9%
EASTERN CAPE	6 508 000	375 488,61	57 696	50,6%
TOTAL GDP	57 457 000	4 873 898,78		100,00%

Source: Stats SA (GDP at current prices)

The above table reflects the spread of GDP per Capita contribution during 2018 of the provinces, ranging from R114 095 per capita for Gauteng to the lowest of R57 696 per capita for the Eastern Cape. To investigate the extent of contribution disparities further, *Figure 10* summarises the dispersion and variability of the GDP per Capita contribution for 2018 from the provinces. Measured against Gauteng, based as 100% for comparison, it shows that the GDP per capita contribution for the Eastern Cape is 50.6% lower than that of Gauteng.

Figure 10. **Provincial GDP per capita disparity (2018)**



The disparities illustrated in *Figure 10* show that while Gauteng and the Western Cape are top performers, the next four provinces are very closely clustered. The Free State, Northern Cape, Mpumalanga and Limpopo all reflect 70% GDP per capita proportions in relation to Gauteng. KwaZulu- Natal is placed at 60.9%, with the two lowest provinces being Limpopo and Eastern Cape at 53.9% and 50.6% of GDP per capita measured against Gauteng.

While the disparities may seem to be performance related, they reveal a deeper concern. Economic variables have regional impact as noted. Hence, the Eastern Cape and Limpopo are almost 50% poorer than the richest province, demonstrating considerable economic inequality.

Research shows that population shifts occurred between 2011 and 2018, and the analysis of this reveals that there is a migration to the economic hubs. This suggests that these economic hubs would experience reduced per capita GDP, even though their GDP may have increased, when evaluated for future trends. Further economic analysis conducted for this research but not provided here for the sake of brevity, finds that for the period 2011 to 2018 for each of the provinces, all provinces are consistently experiencing negative GDP per capita growth when adjusted for inflation.

The NDP has a vision for an industrial base that is "diversifying, increasingly dynamic, inclusive and encourages more labour absorbing activities … By 2030, South Africa should have a higher global share of dynamic products, and greater depth and breadth of domestic linkages."[8]

In summary however and taken cumulatively, the economic assessment highlighted in this section of the paper shows that we are, as a country, far and away from realising the NDP's ambition. From the perspective of all businesses (large and small) and the average South African, life's current reality is that we all stand at the base of a cliff, aware of the advantages of reaching the higher ground, but equally aware that the cliff may soon be too steep to climb.

[8] NPC: "Economic progress towards National Development Plan's Vision 2030, December 2020.

SMEs in the economy

Measured against GDP growth and GDP per capita, the NDP goals are not being realised. Even more so, these measurements are indicative that the fundamental underlying assumptions guiding the NDP require fresh thinking. If policy fundamentals are flawed, so too will be the outcomes.

The analysis of macro-level performance indicators in the previous sections is magnified when viewed from the bottom perspective, especially from the standpoint of SMEs.

For the decades since the political transition, government has placed considerable emphasis on the importance of micro, small and medium enterprises (SMEs) in terms of job creation and contribution to South Africa's productive output. From the White Paper for Small Business in 1995 through the GEAR, ASGiSA and NDP, all of government's national economic development plans stress the importance of creating conducive conditions for the growth of these firms. The NDP in particular envisages SMEs as the catalysts for growth and to achieve the transformation goals of government's affirmative action policies. The Plan sees 90% of new employment opportunities to be created by SMEs.

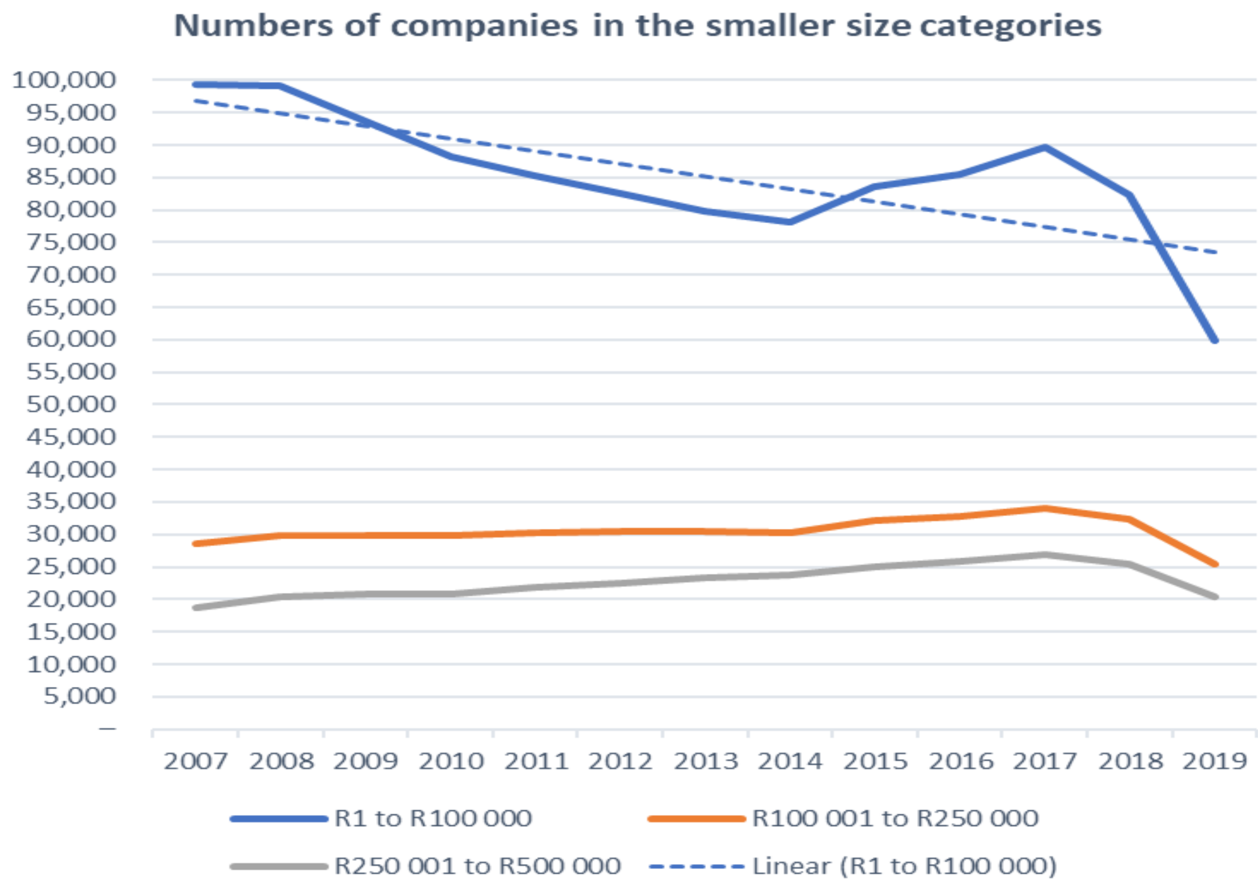
Government's policy instruments to achieve this are primarily focused on public procurement set asides for the smaller size firms, namely micro enterprises, based on racial ownership quotas. Public procurement set asides for small enterprises were legislated in 2011.

What is missing in the policy debate is acknowledgement of how we foster the upper band of small firms (described as those that formally employ up to 50 employees) and the larger, medium-sized firms (50 to 250 employees), which are most likely to create employment.

Are SMEs growing?

The truth is that small businesses are disappearing at an alarming rate in South Africa; this was the case even prior to Covid-19. So, while government continues to pay lip-service to the importance of formal, employing small firms in the economy and especially for its policy thrust on localisation, it appears seemingly ignorant of this reality.

Figure 11. Numbers of companies in the smaller size categories



Source: Own calculations SARS from tax tables

To illustrate, our analysis of available SARS data of the number of taxpayers registered for the company income tax (CIT), which is the tax levied on the gross income of companies including close corporations, shows a disturbing pattern of micro, small and medium enterprise (SME) stagnancy.

An examination of the number of registered taxpayers in the three lowest bands of taxable income demonstrates a substantial decline in the number of companies in band 1 – with taxable income R1 to R100 000 – as shown in *Figure 11* Between 2007 and 2018 the number of companies in that band declined by 17.2%. A decline of 1.7% on average of these firms per year[9].

[9] 2019 data does not include all firms as filings often are reported incrementally throughout the year.

The alarming decline in the number of small businesses in this classification should be of deep concern to government given that its policy focuses especially on this category. New business entry into the category is not sufficient to offset the exit of established businesses over the entire period our research investigated.

In principle, the decline in the number of companies in band 1 could be offset by growth in numbers in other positive income categories – bands 2, which is R100 001 to R250 000 or Band 3, which refers to companies with between R250 001 and R500 000. In practice, however, the growth in numbers of small businesses in those categories is not sufficient to offset the decline in band 1. While slight growth in the numbers of companies is evident for band 3 than band 2 (36% compared to 13% respectively over the 2007 to 2018 period), it is important to note that the data available precedes the impact of Covid-19 and the harsh lockdown measures has had on these size firms in particular.

Figure 12. Number of companies by range of taxable income

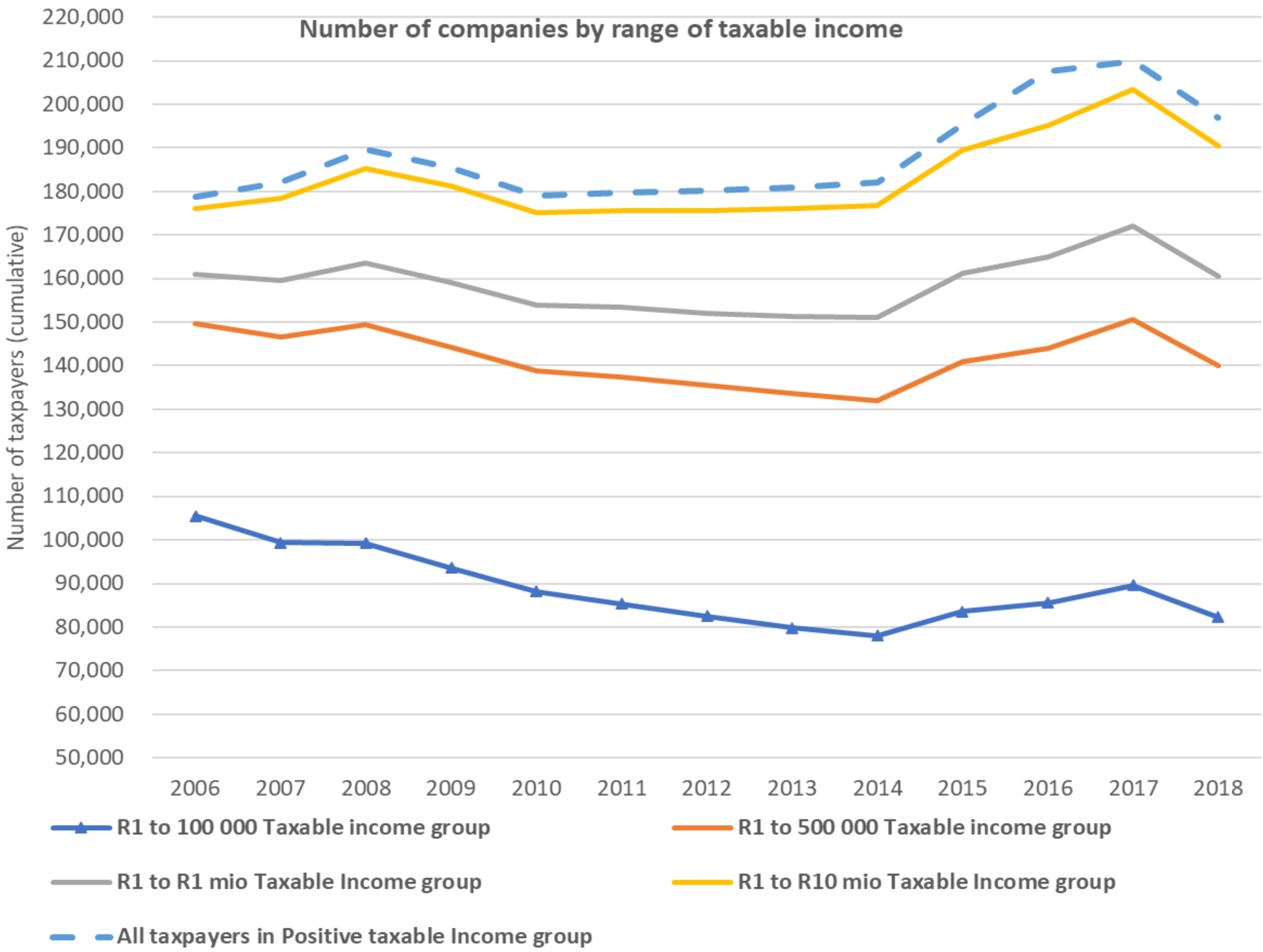


Figure 12 consolidates the preceding information and extends it to higher bands of taxable income. The bottom line in the *Figure 12* represents the number of companies in band 1. The next line shows the *sum* of company numbers in bands 1, 2 and 3, i.e. all companies up to R500 000 in taxable income.

What emerges from the analysis is that the total number of companies up to R1 million in taxable income has been stagnant for the period over the time period of 2004 to 2018 analysed, fourteen years. This means that for firms with up to R1 million of gross income, the total number of taxpaying companies has not markedly grown in South Africa, driven by the decline in the number of companies that operate at the low levels of taxable income for more than a decade.

The declining numbers in the smallest size class should ring a clarion of alarm bells for government. Especially as government is now aggressively attempting to deepen its localisation policy. What this translates to is that the development strategies and the promises of an enabling environment for small business we've heard from government for almost three decades has in fact resulted in the exact opposite of the intention, diminishing the number of formal small businesses operating in the formal economy prior to even the disruptions caused by lockdown measures to contain the Covid-19 pandemic. This can also be attested by the economic analysis in the preceding sections of this paper, which illustrates the policy failures in primary, secondary and tertiary industries. Small firms operate across all sectors of the economy, the devastation shown in the primary and secondary industries in particular over the past decade has a knock-on effect on the survival and sustainability of SMEs.

The quest for deepening localisation policy for small business – pie in the sky plans?

Regardless of the unstable foundation undermined by declining numbers of productive small businesses in the economy, government's new policy thrust is to deepen localisation, built on the premise that SMEs will pivot socio-economic gains for the economy's recovery.

The latest Economic Reconstruction and Recovery Plan (ERRP) iterates the importance of localisation found in the earlier socio-economic national plans, but now emphasises that localisation will be *aggressively pursued. "Aggressive"* support will be in terms of:

- expanding the list of sectors to support – including those sectors located in economically depressed areas; and
- growing the opportunities for the targeted sectors and priority businesses through greater opportunities in terms of goods produced and services supplied to reach new markets.

The ERRP specifically targets (i) enterprises in townships and rural enterprises and (ii) SMEs.

A number of selected priority sectors, including agro-processing and forestry are directly more relevant to the rural areas than other sectors, but all sectors already have high local content requirements specified for them and sub-sectors within them. The local content requirements are however to be tightened further according to the ERRP. Possibly 80% to 100% of production costs will now have to be verified as local inputs for an increasing number of products and services to access government contracts. The problem with this approach from a broader perspective is that it zeros in on favouring these (priority) sectors to access government procurement without reflecting on either the fact that many firms have no aspirations of supplying government or the importance of an enabling environment that is conducive for all firms in the sector specified – and operating in the economy as whole – to form, grow and create more jobs. The paper "Tackling the Disabling Environment" to boost economic growth, small business and jobs, a paper in the suite of papers for this research project, discusses this in more detail[10]. Another is that it can allow for 'feather-bedding' enterprises that have limited potential for survival and growth, which under normal market conditions would likely fail.

And the devil is in the detail. Implementation of government's localisation policy has been patchy at best over the years, for a number of reasons:

- First, when it comes to purchases by government ***there is no evidence to date of any progress on the effectiveness of set asides*** for small enterprises, that is how the share of purchases by the public sector of either goods or services allocated to particular businesses, notably SMEs, have actually had any positive results.

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[10] See paper entitled: 'Tackling the "Disabling Environment" to boost economic growth, small business and jobs' published as one of five papers in the suite of papers for this research by the SBI www.smallbusinessinstitute.co.za

As a component of this research an interrogation of the Integrated Development Plans (IDPs) and Local Economic Development (LED) documents developed over a number of years for two case study localities the Nala district in the Free State, and the Mbombela district in Mpumalanga was conducted. IDPs constitute the plans setting out the development strategies of local government. Our investigations revealed that only one had specified a high target of procurement for SMEs. Yet, there was no evidence in the many documents examined nor in discussions with local key informants that there had been any positive action favouring small businesses in these areas. No evidence can be found, save for a few occasional references in the Industrial Policy Act Plan (IPAP) annual iterations that some small enterprise support programmes had achieved some success, or whether government's localisation policies has over the years had any positive impact in growing local small businesses especially in smaller towns and rural areas.

- Second, ***government is looking to give a bigger weight to the non-price elements of its tenders*** to allow less competitive newer/smaller enterprises to access public contracts. In the past, targeted businesses were able to successfully submit bids that were 30% higher than those of other non-targeted businesses. While this window may appear attractive, it creates incentives to falsify status/BBBEE commitments as well as information on local content (the so-called 'fronting' practices). Nevertheless, the point is that *the legislation is still being revised on this matter* and what it means for both national and provincial public sector procurement is yet to be established. A point to note on the forthcoming changes is that provinces will be allowed to specify their own non-price selection criteria in tenders.

It is also worth emphasizing that allowing for higher price premia on bid submissions is coming at a time when the public purse is stretched and resources such as power generation are failing with small businesses extremely fragile. Seemingly, government appears heedless of the result of price premia of its local content policy: to businesses, consumers, investment and a constrained public purse. A recent study of the impact of localisation policy on a number of European firms operating in South Africa showed that the lack of a strong and competitive industrial base limits options for localisation in many sectors. Business surveyed in the research[11] of these firms showed extraordinary cost increases on sourcing local content

[11] Kaziboni L. & Stern M. (July 2020). "The impact of local content policies on EU exports and investment, and economic transformation in South Africa. Published by the EU-South Africa Partners for Growth project.

ranging from below 10% up to 40% for many sectors. A key recommendation stemming from their research is that government's Preferential Policy Procurement Framework Act (PPPFA) designation process should be limited to those products where the economic benefits of localisation clearly exceed the costs. Specifically, localisation requirements should be sector and context specific, taking into account the availability of skills and demand within the sector, the potential for achieving market scale at competitive prices, and the cost of any additional government support or protection to the local industry.

- Third, the aggressive localisation policy relies on the ***assumption that there is a sufficient number of targeted productive small businesses willing to access new government contracts.*** Establishing businesses with the potential for scale takes time, and as our evidence shows, there has been a declining number of productive small firms in sector value chains even before Covid-19. Coupled with the deterioration in the country's economic conditions, sluggish demand does not favour new entrants or existing firms to scale up. Furthermore, government has seemingly not factored in the massive problem that of late payments by government to small business for products and services rendered. Investigations by the DPME found that government – across all spheres – are the biggest transgressors of late payments to small business suppliers, with an average payment ranging from 90 to 180 days and more (DPME, 2020)[12]. Small businesses surveyed by the DPME attributed problems relating to late payments by government as a causal chain that includes: a lack of proper administration in government; lack of implementation and enforcement of current policies in government to pay within 30 days; lack of qualified staff in government; non-payment due to budget constraints in government that request small suppliers to wait until new budget cycles are introduced irrespective of work contracted and completed under the previous budget time-frame; and invoices being misplaced as well as high staff turnover in departments resulting in delayed processing of invoices.

These are fundamental, structural challenges that are deeply embedded in government systems compounded by the deterioration in state capability. Unless these problems are resolved, attempts to increase the number of small businesses into public procurement through even more aggressive local content requirements could result in conflicting outcomes to the policy's original intention. Rather than improving the number of productive small businesses, it could result in escalating the fragility of small businesses in the economy.

[12] DPME (2020). "Research on the Delays and Non-Payment by Government on Small, Micro and Medium Enterprises -Full Report", Pretoria: Department of Planning, Monitoring and Evaluation.

Government's (DSBD's) small business Framework and Implementation Programme for Localisation: an assessment

If government's localisation policy is to reach the more deprived areas of South Africa, it will require considerable and innovative thinking, which is not evident in current policy planning.

A new "Framework and Implementation Programme" for small businesses (v14) was released in the latter part of 2020 by the Department of Small Business Development (DSBD). Rather than considering elements necessary for improving industrialisation and facilitating the establishment and support for more productive small firms overall (let alone the fourth industrial revolution), the DSBD's framework stresses economic resilience and food security as the main contribution of SMEs for aggressive localisation. The new DSBD framework still contains conventional thinking for its localisation policy, namely:

- The framework considers sectors to be designated, that is sectors that need to be supported, and assesses what needs to be changed along the way, without fact-based evidence for substantiation;
- The framework considers how the sectors can be supported and develops this in two directions: firstly, by pushing procurement for SMEs, and secondly, by seemingly coercing the private sector to engage further.

The focus on designated sectors: The DSBD considers that the currently designated sectors are insufficient in scope to effectively help SMEs. From the table below that reports the 8 currently relevant sectors/products for SMEs, a much larger list is being developed; possibly more than 200 products/sectors, including services, are to be considered in the near future and progressively introduced.

Table 2: Designated Products DTIC specific to SMMEs

	ITEM	Local Content Threshold	Date of Designation	Designation
1.	Canned/Processed Vegetables	80%	16-07-2012	SMME Participation
2.	Textiles, Clothing, Leather and Footwear Sector	100%	16-07-2012	SMME Participation
3.	Certain Pharmaceutical Products	Per tender	07-11-2012	SMME Participation
4.	Furniture Products	85%	15-11-2012	SMME Participation
5.	Steel Power Pylons and Substation structures	100%	16-07-2012	SMME Participation
6.	Wheelie Bins	100%	18-08-2016	SMME Participation

7.	Steel Products and Components for Construction	100%	13-01-2017	SMME Participation
8.	Plastic Pipes & Fittings	100%	16-08-2019	SMME Participation

Source: DSBD. 2020. "SMME-Focused Localisation Policy Framework and Implementation Programme", 18 November 2020, VER 14, Powerpoint Presentation Annex Tables. Annexure A.
Available at: https://pmg.org.za/committee-meeting/31530/, consulted 2 January 2021

A problem in policymaking in South Africa, as discussed further in the 'Tackling the "Disabling Environment" for small business' referenced earlier, is that policymakers tend to focus their interventions based on perceived symptoms, not the cause of the problem. This can lead to policy instruments designed to target selective (and often subjectively chosen) elements to the exclusion of a sector's broader value chain. Not viewed holistically, policy instruments and interventions could well have the potential to cause negative disruption.

Implementation instruments to be applied:

- *Set asides and local content requirements.* Smaller firms will be supported by a tightening of set asides and local content requirements. The changes to these align with the ERRP; in terms of non-price elements being given a larger weight when bids are selected. Without any improvements in the public procurement systems in particular this will not, on its own, translate into improving the overall conditions for small business growth. Rather, the opposite as we note earlier.

- *Unclear, generic support programmes.* In terms of many of the types of support that will be deployed by government for an expanded focus on a SME localisation, not much is new in the DSBD's current framework. Factors such as *lack of support to access finance, skills, access to equipment, lack of support for product testing and embracing new technologies through spectrum rollout, and unreliable electricity* remain unaddressed**.** The DSBD considers that the additional offer of releasing new production space (business infrastructure support) is innovative and that will make a difference to SME growth. Yet, these forms of support have been provided by government for years to little effect.

- *Trade protection.* More unusual is the proposal of the DSBD to introduce some form of trade protection for the designated sectors to benefit small businesses. This is set out in a variety of ways including import bans. This is a risky route to pursue. Barriers to trade will be costly in the short-term because scarcity raises prices. The additional costs will affect not only the producers but also consumers, notably the most vulnerable in our society. Research has shown that hunger, particularly child hunger exploded in vulnerable households in South Africa in 2020. Inability to meet domestic demand with price premia placed on local goods can eventually lead to disbanding import bans.

- *Interventions in supply chains and market access.* A distinct area put forward by the DSBD to grow SMEs is in the form of specific interventions that concern (a) facilitating access to markets (domestic and foreign, notably elsewhere in Africa) and (b) partnerships and the expanded participation of SMEs in specific value chains. What this fundamentally means is not clear, but it reflects the DSBD considering coercing further changes in various private supply chains so as to enhance SME production through expanded supply from small enterprises. These considerations appear irrespective of the costs of production and whether small enterprises will have, or currently have, the capability to achieve volume, especially for retail markets.

The DSBD's framework contains a few new elements and many old elements in the new small business-focused localisation policy. These are discussed as follows:

- Low cost basic foods.

A first aspect of the new DSBD framework is to favour low-cost basic goods produced by small businesses for consumers. It is this latter feature that defines engagement with private actors, notably with the retail chains and wholesalers supplying shops in particular areas (including spaza shops/chains operating in townships). The DSBD's new localisation framework simply reiterates the point that basic goods are to be available to poorer consumers and that the production capacity of such goods needs to be developed by smaller firms.

- **Big Retailers to sell more locally SME produced goods.** Another aspect is that the changes contained in the DSBD framework is focused towards bringing in more involvement by the private sector, including wholesalers and/or retail chains to sell more small enterprise products on their shelves or e-commerce platforms. This is not as simple as it may sound: access to shelf space requires production volumes – for sufficient stock to be available, or for the newcomers to compete with established producers that have the required production lines. It also does not factor in brand loyalty. An additional consideration that has not been factored in is that spaza shops are spatially dispersed, and to get sufficient goods for sale to achieve viability requires considerable logistics, which add to input costs. The policy seeks to place more locally produced goods by small enterprises in townships, which are scattered across the breadth of the country. Without providing detail as to how this can be achieved, it suggests a level of naivety in understanding the nature of supply chain logistics.

- **Emphasis on Township economies.** In parallel, the DSBD commits to the development of township enterprises. This is not a new theme, which has been pursued by government for years. There is little evidence to show that government policy has achieved any positive impact in this regard. When it comes to small rural areas of South Africa that have for years been neglected and are depleted of skills, assets, and failures in basic service delivery, it will be hard for enterprises to establish and survive. Resources, institutional support, human capacity and time are necessary elements for any serious intervention to bear fruit, as another of our papers for this research study points out.[13] The failed Agripark schemes and failing cooperatives, which have been a significant thrust of government's policy focus for many years, could provide lessons of what not to do and how not to do it (again). Some new township enterprises might emerge in the larger urban areas because of the new policy thrust but even so, the prevailing negative economic conditions, accelerated by Covid-19, make it harder for these new entrants to survive let alone thrive as envisaged by the DSBD's policy framework.

- **Consumer goods.** There is little in the new DSBD's small business localisation framework plan that specifically links what it intends for 'fast consumer goods' production potential with spatial considerations. Other than targeting rural enterprises and other actors such as informal businesses or cooperatives, there are no new substantial considerations to address the particular problems that have beset these enterprises over the years. Only basic local agricultural produce appears in the new list of products, as the thrust to develop rural enterprises through expanded government procurement. However, this is not new in the sense that these types of enterprises already supply schools and hospitals in most parts of South Africa.

[13] "New perspectives on informality: a focus on the South African context", a paper in the suite of research papers released in March 2021 by the SBI. To access: www.smallbusinessinstitute.co.za

Most importantly, the DSBD framework, and indeed all of government's SME policy, misses a critical point; developing interventions that focus on a narrow band of smaller enterprises to the detriment of the broader small business segment of the economy. Ensuring South Africa becomes a much more competitive, easy and attractive environment in which to invest and be an entrepreneur and do business will create a lot more productive businesses and a lot more jobs, and more sustainable jobs.

Skills constraints

An important aspect for government's localisation policy has to be focused addressing the skills shortages in South Africa and develop ways to develop and attract new skills. Preliminary results from the 2021 Xpatweb Annual Critical Skills survey shows that 78% of employers struggle to recruit skilled resources and 74% indicate that an international search would help find these resources.
The skills deficit, which has dogged South Africa's economy and business' for years is compounded by the brain drain of increasing numbers of emigrating skilled professionals to other locations elsewhere in the world. The lack of critical skills has been, and will continue to be, an acute problem for government's economic recovery plans. The increasing number of high-earning, skilled emigrants is eroding South Africa's tax base posing persistent risks to the fiscus. Analyst Bernard Sachs at Mazars LLP estimates that for every high-net worth person who emigrates, an average of R1.2-million in income taxes disappears from the system and the spending, value-added tax and economic activity they generate is also lost. How many skilled people have been lost to South Africa through emigration? No-one knows. Stats SA stopped collecting data on self-declared emigrants in 2004.
And there is no welcome mat for immigrants. An important example of both policy confusion and stifling innovation concerns the public sector response to immigrants (or the more loaded term, 'foreigners'). While the President has spent a considerable amount of time during his tenure trying to attract foreign investment, several members of his cabinet are acting deliberately to prevent the citizens of the very countries he is courting from trading. And instead of encouraging locally owned small businesses to emulate the longer hours or collective purchasing practiced by successful immigrant businesspeople, they stand by as so many claim 'they take our jobs'.

There a wealth of research demonstrating that immigrant entrepreneurs have a profound impact on overall labour demand by starting companies that hire new workers, creating a positive ripple-effect on the economy. Indeed, Economist Jason Furman when asked once about his three keys for boosting a nation's productivity, replied: immigration, immigration and immigration. His fourth? Research and Development.

Failures in Local Economic Development (LED)

Developing aggressive thrusts to drive localisation policy cannot be contemplated without acknowledging the failures in local economic development (LED) in South Africa, or the considerable number of failing local municipalities and their failure to deliver basic services.

South Africa's Constitution establishes local economic development (LED) as a mandatory requirement for all local authorities. LED is a key role for municipalities to promote the economic development of local communities through enhancing the local environment for business to establish and grow. For most local municipalities, LED planning and its implementation shows little change over decades. Indeed, the decaying state of rural and small towns in particular, demonstrates rather the reverse.

The failure of LED is concomitant with diminished local government capacity to establish economic development plans, let alone implement them, as well as failures of government in service delivery. Corruption within local government and the governing party's 'cadre deployment' has had considerable effect on the dismal performance of LED initiatives in South Africa. The localities selected as case study sites for our research study provided insights into a range of key issues in this regard[14]:

- There is a lack of evidence on any progress made on the various LED initiatives, implemented in both localities. This affects the ability for government to learn lessons of what has worked, and what has not worked and why. Similar LED initiatives, projects or programmes, were reported in identical ways but at different points in time, sometimes years apart, in different documents. It was not possible to clearly establish from any of the documents reviewed on the progress of targeted LED initiatives, what has been achieved, how many small businesses had benefitted and why.

- There was no evidence that local economic development had been enabled in any way in our Free State case study area in particular. There was no reference to any of the local business chambers or other business representatives participating in LED in government material reviewed for the area, an important element of LED. The planning of LED by local government in the area was found to be weak

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[14] See paper "Importance of Local Champions in Reviving Local Economies", a paper in the suite of papers produced for this research study published by the SBI. To access: www.smallbusinessinstitute.co.za

and poorly conceptualised without any real participation in government's planning processes being extended to local business chambers and local business community. Furthermore, LED planning blindly follow provincial sectoral priorities without much consideration, or evidence, to the local context

- Many of the opportunities to tackle local community needs were missing from listed LED initiatives. Despite obvious needs to provide business support such as incubators, production facilities/premises and space to operate (e.g. stands, marketplaces) few LED initiatives were to be found in response. Disconcertingly, the many, and large number of backlogs in basic service delivery (waste, electricity and water supply) are very rarely seen to be considered as a critical element either in planning or delivering on LED initiatives.

The paper, another produced for this research study, "Importance of Local Champions in Reviving Local Economies"[15] discusses the effects of failing LED initiatives have on small and rural towns and provides a new, fresh perspective to support "inclusive localism" among communities and local businesses long neglected in small towns across the breadth of South Africa.

[15] See paper entitled "Importance of Local Champions in Reviving Local Economies", a paper in the suite of papers for the research study published by the SBI, accessible on SBI website: www.smallbusinessinstitute.co.za.

Conclusion and recommendation

As businesses were confronted with a severe collapse in demand, as supply chains were disrupted in 2020, as SMEs – fragile even before the pandemic – have been wiped out by the hard lockdown measures to contain the spread of the pandemic, government has seen scope to deepen economic transformation by strengthening elements of localisation.

Unemployment reached its highest level on record in the last quarter of 2020; 32.5% on the narrow definition or 42.6% on the expanded definition[16]. Even before the pandemic, studies showed that 30 million South Africans were living in poverty[17]. And 13.8 million South Africans – 25% of the country's population - were experiencing food poverty prior to Covid-19 hitting our shores. Hunger, especially child hunger rose alarmingly during 2020, exploding to 19% in black households with children[18].

As this paper shows, the number of formal small businesses - those that the NDP emphasises to drive employment - have been disappearing at an alarming rate over the past decade; despite policy rhetoric given to their importance in the economy. The harsh lockdown measures introduced to contain the spread of the pandemic hit small firms the hardest. No data exists to measure the number of SMEs that closed their doors over the past year, but surveys conducted mid-year in 2020 reported that many small business owners did not expect their businesses to survive beyond three to four months and two recent surveys estimate that 15%-19% failed to reopen.

South Africa's is in the grip of an economy in its longest downward cycle in 75 years. And yet, deepening localisation is seen as the policy to support economic recovery and jobs. South Africa has reached a critical juncture in its history. Tough choices need to be made. As this paper's analysis shows, the worst nemesis to growing South Africa's economy, creating jobs and lifting people out of hunger and poverty is … itself.

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[16] Stats SA: Quarterly Labour Force Survey (QLFS): Q4 2020

[17] World Bank Poverty and Equity Brief South Africa, released 2020.

[18] NIDS-CRAM Survey, Wave 3. February 2021.

Time to re-assess

Policy confusion, multiple and conflicting goals. The economic analysis presented in this paper uniquely assesses the effects of policies pursued by government in three development planning eras. Because of the re-emphasis to aggressively deepen localisation for economic recovery and as a response to alarming rates of unemployment and rising poverty, this economic assessment has zeroed in on analysing consequences of:

- Industrialisation policies on key sectors of the economy over the past quarter of a century since the political transition to democracy;
- Industrialisation policies affecting the growth or decline of provincial contributions to GDP, by key sectors and over the development planning eras;
- Effects of policies on the economic wellbeing of the average South African, measured by per capita GDP by province;
- Growth or decline in the performance of formal SMEs in the mainstream economy for the past decade.

The review that chronicles the policies across the three main development eras show that government policy initiatives have fallen way short. For each and every era assessed, the main conclusion is that industrial policies have not achieved their ambitious goals by a long shot. While primary industries were initially encouraged, mining, mineral beneficiation, agriculture and agricultural beneficiation - which are South Africa's largest natural endowments - are in regression and have been so for decades. Most recently, a resurgence in mineral prices has lifted the prospects for existing mining businesses. But one swallow does not make a summer.

The analysis for the secondary industry sphere also demonstrates policy failure across all the eras in this important sector. Secondary industries are core for a successful localisation policy. Manufacturing and construction capacity have been decimated. In the energy sector, Eskom continues to hold the country hostage in its failure to provide sufficient and stable supply, while renewable energy – long promised – remains constrained to policy vacillation. Growth in the tertiary sector is observed, but muted. The positive trend however is not indicated in significant gains seen in the provincial contributions to GDP. The NDP places considerable emphasis on the contribution of the tertiary sector in building a competitive economy and employment generation, but the results appear marginal.

The chronicle of the development planning eras also illuminates government's deepening of transformation goals. Affirmative action and set asides for micro, small and medium firms underpinned during the ASGISA period resulted in legislation in 2011 and at the time the NDP commences. South Africa's experiment with broad based black economic empowerment (BBBEE) was established at a time when globalisation was at an advanced stage, unlike the Malaysian example where economic restructuring took place in a less globalised period. It has taken 50 years for the Malaysian experience, which South Africa attempts to emulate, to be widely seen as a failure. Discriminatory policies introduced in Malaysia to favour the majority indigenous population and improve their economic wellbeing are these days widely seen to help mostly the well-off within that group, while failing the poor and aggravating ethnic tensions. But it continues, as commentators state, because it is a reliable vote winner for the party that has dominated government since Malaysia's independence. Must South Africa continue down the same path – do we wait for another 25 years to reach the same conclusion? There is no question that bringing the majority of South Africans disadvantaged greatly by the apartheid-era discrimination into the economy is an important and fundamental goal but the conclusions that we draw from the data indicate that millions of our population are becoming poorer each year. As the National Planning Commission points out in its recent review of NDP progress, "it will not be possible to sustain improvements in poverty, inequality and unemployment without significant improvements in GDP per capita over many generations." As many have repeatedly said, we must enable the economy for all businesses to grow, to generate income for the fiscus and create jobs. Only then will we experience the inclusive growth we seek.

Small businesses are declining in the economy. The alarming rate of the number of declining SMEs in the mainstream economy must ring a loud clarion call to government. As the analysis shows, small firms, especially in the lower bands of taxable income, were declining at an average rate of 1.7% per year for more than a decade before the economic disruption of Covid-19. The research concludes that new business entry into this particular category is not sufficient to offset the exit of established business.

A common criticism of the government's approach to micro, small and medium enterprise (SME) development is that it has been over-ambitious, with a confused mix of strategies. However, we would argue that in fact the approach has not been sufficiently differentiated or nuanced.

Small businesses are very diverse, and they have different needs. They operate in the formal and informal economies. Some are simply survivalist; others are run by people with entrepreneurial flair. Some are start-ups; some grow rapidly; others are experienced and highly sophisticated. They operate in all value chains and in different markets – local, national, regional and global. All of this might seem obvious – but the crucial point is that policies and actions to support development of small businesses, especially medium firms, need to reflect this diversity.

In this context it is questionable whether government's strong focus on micro-enterprises is warranted. The vast majority of micro-enterprises in South Africa fall into the second economy and are essentially survivalist in nature. By definition they employ fewer than ten people at most. The assumption of government's localisation policy – or pious hope – appears to be that by supporting these enterprises they will eventually graduate into the first economy, though there is little evidence from other developing economies that survivalist type enterprises can make that leap.

There is a strong case for making it as easy as possible for survivalist businesses to survive. They have an important role in the set of mechanisms available to reduce poverty, and they give a sense of personal reward and dignity to people who would otherwise be unemployed and dependent on social grants. But they should not be a central concern in small business policy.

Instead of attempting to coerce larger firms to support micro enterprises through enterprise supply development schemes that can often result in tick-box exercises for compliance purposes, the main thrust of small business policy must be to strengthen the productive private sector. We need to shift the emphasis from 'small' to 'enterprise'. The development of micro-enterprises and small businesses in not an end in itself, but a means to end. The goal is to grow output, produce goods and services that consumers can afford, and to grow jobs and income through the development of a vibrant private sector.