

“..two years of compulsory ECD for all children before they enter Grade 1.” *President -7/2/19*

Appropriations Bill - 2019

Presentation to the National Assembly Standing Committee on Appropriations

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Scaling Medium Enterprises, Building Pathways outa Poverty and Education & Governance Activist

16 July 2019

To be updated for distribution with introductory comments, elaboration and response to further questions

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Introductory Comments

- Appreciate work done to pivot SA economically, but we need economic growth for rerating – SME's (not sme's) can deliver along with investment in education - but at the beginning not the end!
- Appreciate work done by Treasury, SCOPA and Parliamentary Committees to improve governance and returns on tax gathered but daily the news reminds us how much still needs to be done
- The lard was spread thin but we should have found some jam for the two corners of ECD and medium sized business job creation. These will put us on the right growth path and assist entry level job creation in the long and short term. But that required even greater innovation and bolder leadership. They will provide the pathways outa poverty to turnaround the freeways into poverty built by past and current education systems
- The 45% marginal tax rate can be managed down and economic growth up by investing in job creating “real” S12J's

Need to transform to a more robust tumbler

The SA Economy

Why it's difficult for SMEs to start, run and grow



Large, overly concentrated industries dominated by a few big companies, supported by big government and big labour.

Fragile SME businesses overburdened by red tape and short on finance.

An economically small (but large population) base of 70% of SA households surviving on less than R6000 per month

Transforming for Inclusive Job Creating Growth

- SA Economy is currently an unstable, teetering, elegant thin stem, top heavy wine glass:
 - Large, overly concentrated industries dominated by a few big companies, supported by big government and big labour, in the bowl of the glass
 - Fragile thin stem of SME businesses (Steroids, Scaling, Accelerating, Incubating, Lifestyle, (job rotating) survivalist micro enterprises)
 - An economically small (but large population) base of 70% of SA households surviving on less than R6000 per month=R20-30 ppd
- Need to transform into a much more robust tumbler:
 - Concentrated bowl transformed to be more competitive through supply chain inclusion
 - A substantially expanded and strong SME stem
 - A capacitated base that has pathways outa poverty, formal business sector via jobs/entrepreneurship via scalable businesses rather than poverty alleviation micro enterprises



Overview of Input

- Education is the key driver for reducing inequality sustainably but needs a much stronger Early Childhood Development* base that is well funded and has clarity of where responsibility lies (Province , Municipal or Basic Education?) – Free Tertiary is populous and too late.
- Job creation is key to reducing unemployment and priming economic growth and, if focused on entry level upskillable jobs, will reduce poverty – The Medium Sector can deliver
- Extend Tertiary Entrepreneurship to TVET
- To fund the above without negatively impacting on government ratios and risking downgrade – use selected, targeted commercialisation and additional sin taxes for areas with high social costs such as FAS/substance abuse, import surcharges where locally manufactured substitute products are available, etc

* Highlighted in SONA 2018 and 2019 but not in Budget 2019???????

The Economic Environment

- Ratings downgrade still a possibility. Can avoid through real economic growth, along with regained strong fiscal management, investment not consumption spend and increased policy certainty, will also bring investment
- Most stable labour environment in a decade over the last few years – it is all of our job security
- Government and Large (corporate) Business cooperating but little input from medium sized businesses who are the most likely engine room of job creation, esp. for existing poorly educated, small businesses excluded and when included mainly populist approaches not really delivering

ROI from ECD – three dichotomies

- We cannot afford ECD as too much money is wasted on funding tertiary drop outs and high school repeats due to poor early school results
- We cannot afford ECD as we need to spend on prisons filled with “necessity” criminals who missed a positive grounding
- We cannot afford ECD as we are dealing with social ills and correcting learning difficulties

Through timely investment and taking the tough medicine all can be addressed
Needs far more than words in speeches – Needs Budget and Issue Management

Effective Early Childhood Education is the Foundation for Future Skills

- At present too much dumping and dormitoring rather than real development of the child in first thousand days, second thousand days and pre Grade 1. One million in ECD should be three to five million+ and what quality?
 - Most brain development occurs prior to age 6
 - Support via capacitating ECD centres including:
 - “Goga or Granny in a box”
 - NSF support should be given
 - BBBEE SD expenditure should qualify
 - S18A tax deduction via distributor
 - Needs to be supported by:
 - Reduced substance abuse, FAS
 - Increased father involvement, reduced teenage pregnancies
 - Household level food security – brain cannot function to reasonable capacity on an empty stomach or one filled with chips and coke
 - Community colleges to allow parents and NEET to catch up their skills through second opportunities and start overcoming legacy issues
- Along with EC dumping/dormitoring these last four are the five reasons for our venomous downward spiral

ECD statements – now need focused action and effectively deployed budget

- 2018 Appropriations hearings R30bn increase for ECD?
- 2019 Jan SONA:
 - At the centre of all our efforts to achieve higher and more equitable growth, to draw young people into employment and to prepare our country for the digital age, must be the prioritisation of education and the development of skills. – *In 2019 Feb Budget no comment, no additional allocation for ECD*
 - With over 700,000 children accessing early childhood education in the last financial year, we have established a firm foundation for a comprehensive Early Childhood Development (ECD) Programme that is an integral part of the education system. – *should be 5million plus*
 - This year, we will migrate responsibility for ECD centres from Social Development to Basic Education, - *are they capacitated if they cant deliver on toilets, textbooks and teaching?*
 - and proceed with the process towards two years of compulsory ECD for all children before they enter Grade 1.- *how long till all children covered? how long till all children covered effectively?*
 - Another critical priority is to substantially improve reading comprehension in the first years of school.- *PIRLS show still lagging*
 - This is essential in equipping children to succeed in education, in work and in life – and it is possibly the single most important factor in overcoming poverty, unemployment and inequality. – *No wonder we regress*

Job Creating Lever Options

- Government – no as already exceeding % of spending on wages regarded as sustainable, EPWP is poverty alleviation not job creation
- Survivalist entrepreneurs – little, very low multipliers (1.3), “metoo”, mainly job rotation but good for survivalist’s poverty alleviation
- Lifestyle entrepreneurs – by nature low number of employees
- Tenderpreneurs – not sustainable unless a high % of “normal” business to counter cyclicity of tenders which is why tenderpreneurs are mainly opportunistic “mark up” distributors rather than manufacturers and sustainable businesses
- Small start up business – yes but high failure rate, small numbers until investable and start accelerating beyond 10 employees
- Big business – unlikely as downsizing and automating and mainly recruiting highly skilled so no direct poverty reduction, 12i and other incentives targeting large business = high cost per job created
- **Medium sized business that accelerate from 10-50, scale from 50-500 employees and steroids from 500-5000 are the remaining hope, policy and spend should focus on barrier busting for these businesses**

Announced SME Funding not yet delivering *yet and are they focused where greatest payback will be!*

- Initiatives
 - CEO Initiative R1.5bn SME Fund; focused on Private Equity FoF rather than true Venture Capital but getting traction; Government should match via “no cost” deregulation steps of R3bn
 - 2018/2019 budget R2.1bn? DSB/DST/Treasury Startup Fund yet to be defined; overcome high failures at start up stage
 - Finance charter R100bn black business growth fund yet to be defined; should emphasis not be on jobs?
 - DHET, DSBD, DST,dti budget speeches
- Focus should be on later stage angels and true VC’s; lean, self + FFF (family, friends and fools) seldom provide more than:
 - Underresourced entrep difficult to raise >R10k-R100k
 - Wellresourced entrep usually peak at < R100k - R10m
- How to focus on financing job creating scaling businesses quickly and effectively? Maybe learn from UK EOI?
- TIA should be TCA – Technology Commercialisation Agency

Supportive Environment for Job Creating Medium Sized Business Development

- Need Angel Investors rather than high end Venture Capital/low end Private Equity, new angel channels beyond Jewish, Muslim and Stellies
- Incentives to grow beyond R50m to R500m turnover not disincentives to stay below R50m
- 30 day payment is not working and not enforced, rather get Treasury to factor valid department, soe and municipal debts – problem areas will be quickly highlighted and more easily addressed
- Big business (> 500 employees, >R500m turnover) should also commit to 30 days payment of sme's and nominated bank should factor those valid unpaid debts at big business cost
- An effective 12J that works quickly and has uptake similar to the UK, and one focused on job creation not “adapted” to fund game farms, so called BnB's, equipment purchase, buildings etc
- Additional incentive for investing at riskier angel stage
- Large scale deregulation to make it easier to start and grow to critical mass and become high employment creators

How much of DSBD and DTIgoes to medium sized job creating?

Selected Commercialisation for Funding Pivotal Projects

- Start with non core and non strategic assets
- Play to strengths of the private sector and include broad based BEE communities
- Help put SOE's onto proper capitalisation – recapitalisation via revenue is very inefficient - SARS is the only winner
- An example – old power stations near end of life where State can set the rules and Private Sector can sweat the asset and extend the useful lives through innovation and focused management

Supplemented by increased sin taxes on products that detract from effective ECD and job creation – e.g. substance abuse

Reregulation

- Current bargaining council regulation driven via large big business dominated structures in consolidated industries and imposed on smaller players, who are often more labour intensive, with limited, time consuming and costly exemption opportunities
- Three tier proposal:
 - Small – 0-50 ee's – focus only on health and safety
 - Medium- 50-500 ee's – swing balance to management but employees and their representatives have ways of taking unscrupulous and exploitative owners to task, encourage gainsharing and Workplace Challenge
 - Big - >500 ee's – current model but Bargaining Councils tasked (and tracked) with expanding their industry, ensuring job creation and enhancing competitiveness
- Dramatically simplify tax, registration and compliance for small and medium businesses, esp high job creators
- Make entrepreneurship visas more accessible, subject to graduated delivery of local jobs sustainably

In Summary

- Low growth and poor global and local confidence is costing us all directly and indirectly
- Education is the key driver of reducing inequality sustainably, along with redistribution (which is not sustainable)
 - In a knowledge based 4.0 economy need far more effective education + far more than the existing 4% of youth getting >50% in maths + good reading, writing, arithmetic, coding and social skills
 - Early Childhood Development is the base and needs even more support #feesmustriasetofundECD
- Job creation, most likely via medium sized business, is key to reducing unemployment and avoiding an “Arab Spring” and if jobs are entry level upskillable, jobs will also start reducing poverty
- To fund the above without raising Debt/GDP ratio or further increasing marginal tax rates (corporate, individual or indirect) requires innovative thinking and strong leadership

Questions and Responses

The Presenter

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- EDHE (USAF & DHET) TVET track promoter
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- 20 years of education
- 20 years at Deloitte – Head of Consulting Durban
- 20 years at Bell Equipment as a Director – 50 years ago Bell was a midsize scalable business!
- Now focused on scaling medium sized business, helping PoP (Pathways outa Poverty for NEET Youth in disadvantaged areas to start their journey) and various governance and education involvements