SUBMISSION TO PUBLIC HEARINGS ON FINANCIAL SECTOR TRANSFORMATON

BY SOUTH AFRICAN DEVELOPMENT FOUNDATION

PROFILE https://www.dropbox.com/s/1ru4p2c3nt2iwse/SADEF%20Profile%202.pdf?dl=0

1. Recommendations and Requirements

Banks, trusts and insurances companies must be asked to place R5 billion a year with DTI for start-up development and industrial programs. See section 1 (definition), 1(a), 1(b), 1(f), section 2 and section 11(1)(a) and 11(2)(b) of the BBBEE Act 53, 2003 link below. This will also fulfils the Freedom Charter and sec. 8 of the Constitution. Thus R2 billion from banks and trusts and R3 billion from insurance companies and trusts totalling R5 billion a year for 20 years, calculated as a percentage of turnover. https://www.dropbox.com/s/uwopyybt2c003vj/bbbee_act.pdf?dl=0

This R5 billion will fulfil black people's 'start up' needs which the financial sector is avoiding because:

1.1 Banks and insurance companies are part of national savings. But black people do not get it back for business. Saving money is encouraged in order to create a national pool of wealth. The two modes of savings are through investment and savings accounts at banks and insurance policies. But where do banks and insurance companies reinvest that pool of money? They invest it into property, bonds, money market trading, investing in shares in big white-owned companies and distribute it among themselves. Banks use the population of bank accounts to mobilize more funds. The majority of bank accounts are held by black people. But the money rarely gets back to black people who also contribute to this national cake; unless one dies or at maturity of investment, which is a minuscule and unfair.

1.2 Banks and insurance companies lend to existing businesses only. As an individual black people cannot access money because they say you must start the business first and run it for some time to qualify and very few black people have running businesses. So the black people get nothing.

1.3 Banks and insurance companies channel money to lend to 2% of the population who are industrialists or property owners, through buying shares and new properties. Meaning they take the money back to white people. The properties are rented to black people at exorbitant prices. Even the large supermarkets or chains stores charge that space to customers mainly black people. Black people cannot get that money to build their own properties or chain stores.

1.4 Lending to black people is based on payslips because of the National Credit Regulations. This lending is not for business but for consumption – overdrafts, credit cards, motor vehicles, houses etc. 90% of black people earn around R4000.Therefore very little gets back to black people.

1.5 Black people cannot industrialize based on payslip funding. It's too little funding, if any, which can be raised from a pay slip. Banks use **bank canons** when lending which cut-off black people.

1.6 By manipulating the Rand exchange rate banks and insurance companies show they only care about themselves. We also know that a lot of money is leaving the country through devious means. Dividends are paid out every year to overseas banks, but here people we are languishing in poverty.

Here is a list of banks and insurance companies who must contribute a fair share.
https://www.dropbox.com/s/8kcgxpjrcnvthq9/List%20of%20Banks%20and%20Insurande%20Companies%20in%20South%20Africa.pdf?dl=0

2. Programs for Start Ups

We want the money placed into the DTI and 'ring-fenced' for new economic start up programs, not the programs DTI is currently running. DTI have allocation from Treasury but the money finances big white and foreign businesses. There is no program for start ups, to encompass the majority of black people who want to start businesses. South African Development estimates that 5 million black people want to enter business(start ups), but have no resources or targeted assistance.

Banks and government do not finance start-ups - only existing businesses which enriches the rich and widens the wealth and income gap, contrary to public policy to narrow income gap and take more people out of poverty. We know from experience and research that it is difficult to start and run a successful business, whether one is a professor, graduate or not. We have released a book, where in we contend that it is not about education, but ability to buy machinery. Technology is in machines. If you have money to buy machinery, machinery manufacturers assist you to organize the list of machinery required to manufacture your product and help on plant layout, installation and training on the production line. Machine-based operations are simpler because they are repetitive. A person with standard 8 upwards can operate machinery in factories. If one visits our white-owned industries the machine operators are mainly black. What is needed is somebody to show you how machine operates, usually the machine manufacturer. This is true for white people as well, their advantage being that they can buy the machines, while black people can't because they have no money, and national savings are held on one side of the population.

Programs are similar to project management processes. Project management produce exactly what is required and closes the skills gap. What is required is to increase the number of formal businesses to 5% of the population from the current 2%. To succeed we have to handle participants through the five critical stages for a successful business, which are;

- Project conceptualization - most start-ups are by circumstances thus poorly conceptualized.
- Technical assist – design, technical drawings, machinery selection, plant layout and packaging
- Marketing – market penetration, displays, stock, advertising, sales team
- Administration – accounting and compliance
- Funding – the correct capital injection and take off support.

Assistance has to be provided as a package and money is required in bulk or for a batch of projects, not the way banks and insurance companies are doing it, individualizing the application. An individual cannot make in the modern way of business.

Programs are not based on an individual, but groups or many participants. Therefore funds must be allocated or given as seed capital in batches to;

- economic programs which are project-managed structures
- research for products until they reach bankable position, in a project-managed process
- Mass based programs – more than one beneficiary operations.

Project-managed economic programs are programs where the money is not handed to the individuals or company, but placed in a trust account to be handled by a project manager. The funds are released into the projects at certain milestones of the business plan by the project manager. The adjudication process is based on the overall program, not an individual's portion of the program. There is a big difference, because individually the bulk of black cannot qualify for the money, but the program can qualify. Individualising is slow and costly, and the number of formal businesses won't reach 5% of the population. Programs are capable of qualifying for syndication later, so that it brings more and more participants on board and grow sustainably.

3. Examples of programs

3.1 People who want to start a chain of garages and filling stations with a defined goal of including different owners or participants in a program to take over filling stations from cartels who are dominating ownership and the market for filling stations.

3.2 A dam on the mountains of eMvutshini, Inkandla is set up as; the dam itself, with fishing projects, hotels or tourism programs, power generation, water distribution to local municipality and farmers downstream, fruit and vegetable farming, canning, aquaculture etc as a package for many participants.

3.3 An industrialization program - South African Development Foundation developed an industrialization program, to turn an ordinary citizen to be a manufacturer of a consumer product(s) of choice, to prove to everyone that the excuses about skills and education are not the prohibitive factors. The program takes product ideas and prepare them into production lines, working with the machine manufacturers. The cost of the program over 20 years is R3.0 trillion creating some 10 million jobs in 25 years, thus project managing and placing thousands of Africans in industrial parks to manufacture different products under co-management. Here is a brief of the program and the lists of project business plans for Soweto and Dundee citizens, prepared during pilots in 2012 to 2014.
https://www.dropbox.com/s/hbxamxca8fhb7qk/Mnotho%20Industrial%20Park%20BRIEF.pdf?dl=0
https://www.dropbox.com/s/1cg63qsm3nbstfw/Soweto%20Projects.pdf?dl=0
https://www.dropbox.com/s/aqvpw1u5hbxrm0a/Dundee%20Projects.pdf?dl=0

3.4 African Commercial Farmers Development program - to incubate 25 000 black commercial farmers in the next 35 years to replace dwindling white commercial farmers. The number of commercial farmers dropped from 128 000 in 1980, 60 000 in 1998, 40 000 in 2007, currently around 30 000. Absa have projected that the number of commercial farmers will drop to 15000 in the next 15 years. The correct number should be 40 000 commercial farmers. There will be food shortages unless action is taken now. Subsistence farmers do not provide food security. A hungry nation is an angry nation.

3.5 Green Energy program includes the solar energy. There are also many programs for wind, gas, hydro and ethanol etc.

3.6 Water programs - to find new sources of water for agricultural, industrial and domestic use. This includes developing sources, reticulation, recycling and preservation of water.

3.7 Skills and education programs – skilling, focusing on the required skills as the country develops. This includes sending people overseas to learn the necessary skills for a particular industry, as well as management and marketing.

3.8 Technical development program refers to transport modal industry such as bicycles, developing a South African car, tractor, pickup, truck and rail wagons, couches, aircraft and components. There is no reason why South Africa cannot develop automotive brands of its own as well as other high tech goods. The program is for the design and component manufacturing.

Skills which drive industrialization are not found in classes, but are provided by the manufacturers of the machinery. To acquire that skill requires money to buy machinery. As the machines are delivered, so is the technology or skill to manufacture the products. Therefore there must be a concurrent process with education roll out; identifying what products the citizens want to manufacture and acquiring machinery which delivers technology to manufacture the products. Technology is bought with machinery. To achieve industrialization serious money is required but R 1 billion a year will achieve it as be calculations below.

4. Current Finance Houses do not Cater for Start ups

It is known as a generic rule that there is no funding for start ups. We have tried all our local financing institutions, either as one project or as batches. None of them finance start ups. The list is long - IDC, NEF, Jobs Fund, most of the banks, insurance companies, trusts, provincial institutions such as the NAMCs and national financing institutions such as DTI. Other than DTI and Jobs Fund, all the funding institutions are raising their money from the financial markets which force them to conform to bank rules. Some, such as NEF, have the policy to finance start ups, based on the first government fund injection, which was exhausted. When going onto the market the rules of the game forces them away, otherwise they would not get the funding.

5. Funding Streams for Industrialization

The total cost for black industrialization participation is R3 trillion in 20 years, which can be raised from the R1 billion a year for 20 years. R1 billion is from the R5 billion the banks and insurance companies must give to DTI. It must be invested into industrial parks at the rate of R160 million once off per site. The sites will be able to raise own money, if it complies with minimum requirements for local ownership, to be able to seed more participants.

CAPITAL FORMATION FOR R1 BILLION EQUITY INJECTION ANNUALLY INDUSTRIALIZATION							
	1	2	3	4	5	6	7
Year	Initial Equity Injection	Increase in value after construction	New Valuation after construction	Syndicated Amount 4 yr cycles	Total Equity or Investment	Estimated Cost per Job	No of jobs Created
		5 x 0.2	5 + 2	5/0.33 -5	3 + 4		5 devide by 6
1	1,000,000,000		1,000,000,000	-	1,000,000,000	200,000	5,000
2	1,000,000,000		2,000,000,000	-	2,000,000,000	200,000	5,000
3	1,000,000,000		3,000,000,000	-	3,000,000,000	200,000	5,000
4	1,000,000,000	600,000,000	4,600,000,000	9,339,393,939.39	13,939,393,939	220,000	46,997
5	1,000,000,000		14,939,393,939	-	14,939,393,939	220,000	4,545
6	1,000,000,000		15,939,393,939	-	15,939,393,939	220,000	4,545
7	1,000,000,000		16,939,393,939	-	16,939,393,939	220,000	4,545
8	1,000,000,000	3,387,878,788	21,327,272,727	43,300,826,446.28	64,628,099,174	240,000	184,587
9	1,000,000,000		65,628,099,174	-	65,628,099,174	240,000	4,167
10	1,000,000,000		66,628,099,174	-	66,628,099,174	240,000	4,167
11	1,000,000,000		67,628,099,174	-	67,628,099,174	240,000	4,167
12	1,000,000,000	13,525,619,835	82,153,719,008	166,796,944,653.14	248,950,663,661	265,000	633,196
13	1,000,000,000		249,950,663,661	-	249,950,663,661	265,000	3,774
14	1,000,000,000		250,950,663,661	-	250,950,663,661	265,000	3,774
15	1,000,000,000		251,950,663,661	-	251,950,663,661	265,000	3,774
16	1,000,000,000	50,390,132,732	303,340,796,394	615,873,738,132.64	919,214,534,526	285,000	2,164,469
17	1,000,000,000		920,214,534,526	-	920,214,534,526	285,000	3,509
18	1,000,000,000		921,214,534,526	-	921,214,534,526	285,000	3,509
19	1,000,000,000		922,214,534,526	-	922,214,534,526	285,000	3,509
20	1,000,000,000	184,442,906,905	1,107,657,441,432	2,248,880,259,876.27	3,356,537,701,308	305,000	7,376,657
	20,000,000,000						10,468,889

List of Suggested Locally Owned Project-Managed Industrial Park Sites Nationally

Site of Industrial Parks (60 Possible Sites in South Africa)	Number of Sites
Gauteng: Johannesburg, Ekurhuleni, Tshwane, Orange Farm, Heidelberg, Randfontein, Johannesburg South (Soweto), Vereeniging	8
Free State: Harrismith, Brandfort, Bloemfontein, Kroonstad, Springfontein, Ficksburg	6
KZN : Escourt, Umgungundlovu, Empangeni, eThekwini (South), eThekwini (North) Port Shepstone, Mkhuze, Utrecht, Dundee	9
Eastern Cape: Mthatha/Qumbu, Queenstown, East London, Port Elizabeth, Craddock, Middleburg, Nqamakwe, Klipplat	8
Western Cape: Cape Town x 2, Mossel Bay, Oudthoorn, Paarl, Swellendam, Lamberts Bay	7
Northern Cape: Upington, Kuruman, Kimberley, De Aar	4
North West: Mahikeng, Klerksdorp, Rustenburg, Vryburg, Potchefstroom, Mabopane/Winterveld, Taung	7
Limpopo: Bela Bela, Polokoane, Thohoyandou, Giyani, Musina, Lephalale	6
Mpumalanga: Nespuit, Standerston, Emerlo, Skukuza, KwaNdebele/Kwahlanga	5
Total Number of Industrial Parks in 20 years	**60**

Note: Special Economic Zones will not be able to raise more funds because the sites are owned by government and the control by government officials is inconsistent with business ethics. Although taunted as a special economic zone, the Dube Trade port is not a special economic zone and was not set up according to the Special Economic Zones Act. It was created and is owned by Kwa Zulu government. We don't know of any special economic zone at present. Just for clarity, that the industrial parks above are not designed as special economic zones.

6. NDP Targets

To achieve NDP target R6.5 trillion (including above industrialization) is required over 20 years, which can be raised by the injection of R5 billion a year from banks and insurance companies.

SOUTH AFRICA - CAPITAL FORMATION BASED ON R5 BILLION A YEAR, BATCHED IN 4 YEAR CYCLES								
	1	2	3	4	5			
Year	Initial Equity Injection	Increase in value after construction	New Valuation after construction	Syndicated Amount 4 yr cycles	Total Equity or Investment	US$ Exchnge	Cost per job	No of jobs
	Rand	5 x 0.15	5 + 2	5/0.33 -5	3 + 4	R14 = 1US$		
4	20,000,000,000		20,000,000,000	NIL	20,000,000,000	1,428,571,429	210,000	95,238
8	20,000,000,000	3,000,000,000	43,000,000,000	87,303,030,303	130,303,030,303	9,307,359,307	230,000	379,578
12	20,000,000,000	19,545,454,545	169,848,484,848	344,843,893,480	514,692,378,329	36,763,741,309	250,000	1,379,376
16	20,000,000,000	77,203,856,749	611,896,235,078	1,242,334,780,310	1,854,231,015,388	132,445,072,528	270,000	4,601,240
20	20,000,000,000	278,134,652,308	2,152,365,667,696	4,369,954,537,444	6,522,320,205,140	465,880,014,653	320,000	13,656,108
	100,000,000,000			6,044,436,241,537				20,111,540
	Annual bank and insurance companies contributions should be R5 billion a year, thus R20 billion in 4 year cycles.							

Table 11: Programs for Inclusive Development

No.	Programs Description	R Estimate
1	Industrialization Programs to manufacture consumer products in 7 Clusters; Agriculture & Agro processing, Wood and Paper, Metal Products, Textile and Toys, Plastic Chemicals and Electricals, Leather and Rubber, plus support Services projects.	R3.0 Trillion)
2	Commercial Farmers Development Program to create 25000 African Commercial farmers. There is a food security threat in the next 15 years.	R0.5 trillion
3	Energy Generation and reticulation; Solar, Wind, Liquid Fuel Blending, Gas packaging and reticulation	1.0 Trillion
4	Water: New Sources, Treatment, Reticulation, Sewerage Works, Water management	R 0.5 Trillion)
5	Education Skills development and scholarships	R0.5 Trillion
6	Technical Development: Bicycles, Motor cycles, producing SA bakkie and car.	R1.0 Trillion
	TOTAL	**R6.5 Trillion**

How The Financial Sector Will Be Corrected

In the above scenario black people will start their own businesses, which they cannot do now, and develop into multi faceted businesses. They will start their own banks and insurance companies and compete. There will about 20 million workers, who earn salaries, driving new markets, chain TD Stores selling billion turnover a year, exports and imports – a new type of economy which competes on a national scale.

If the banks, trusts and insurance companies are let off or don't contribute the R5billion as aforesaid, nothing will happen to black start-ups development and we will be sorry for ourselves and future generations. The marginalization is happening now and it will not stop. Politics is worthless unless you have economic participation. Therefore banks, trusts and insurance companies must collectively contribute R5 billion a year. It can be calculated from their turnovers.

The R5 billion contribution is on top of any transformation charters and BEEE participation in the companies themselves, such as same salary for same work, and opportunity for promotions in the businesses and boards of directors. Buying shares alone is not enough because most of the equity partners are not engaged in running the business, and the purchase money is paid to white people.

7. National Economic Interest Is Industrialization

Africa's main economic challenge is the paucity of formal businesses. A higher population of formal businesses is required to provide enough jobs, sustainable growth and to generate enough taxes for the state. We were working on estimates in South Africa until the Davis Tax Committee SME Interim Report in July 2014, on page 11 confirmed that 600 526 businesses submitted tax returns in 2011, the totality of big and small businesses, mines and farmers. Behind these 600526 businesses are nearly 1 million major entrepreneurs. 1 million entrepreneurs represent nearly 2% of the population of 55.9 million. 2% cannot adequately provide for the remaining 98% of the population and enough taxes to the state. The correct number should be 5% of the population, thus 2.75 million formal businesses are required altogether. We are short by about 2 million formal businesses. To catch up 100 000 new formal businesses should take off every year for 20 years. This trajectory should change our planning.

South Africa will not get 100 000 foreign investors or equivalent a year to fill this gap. Foreign investors are scarce, wait too long and come to invest into existing businesses and few transfer their existing businesses to South Africa to gain market share and may not be exporting. Existing businesses can grow the economy by 1% to 3% only. This table below is proof.

Annual Growth Rates from 1994 to 2015. The average growth, 1994 to 2015, is 3%

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Growth	3.4%	3.1%	4.3%	2.6%	0.5%	2.4%	4.2%	2.7%	3.7%	2.9%	4.6%
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Growth	5.3%	5.6%	5.4%	3.2%	-1.5%	3.0%	3.2%	2.2%	2.2%	1.5%	1.3%

Source : http://www.tradingeconomics.com/south-africa/gdp-growth-annual

DTI Programs are focusing on assisting existing businesses only, which can only deliver at best 3% growth. These happen to be white people as shown below, thus increasing wealth and income gap.

THE R3.5 BILLION GIVEN TO CORPORATES BY DTI CONTAINED IN 2011 ANNUAL REPORT					
		R Millions			
Business	**Project value**	**Incentive paid**	**Jobs**		
Call Centres Entersite	845	69	5,131		
Talk International	466	20	2,300		
Amazon Development centr	834	32	1,100	Is it difficult to prove	
Merchants(Dimension Data)	150	7	540	these jobs were	
Old Mutual	149	2	226	created.	
Exigent	121	5	408		
Mini Pearl	356	14	891		
Cap Quest Group	119	1	160		
PG Bison	762	68	1,924		
Ceramic Industries	533	191	174		
RNRF	2,000	904	10,130	Who is this RNRF?	
Sappi	2,000	552	194		
Omnia	1,500	237	309		
Sephaku	1,400	484	2,394		
Sasol	8,000	353	1,163		
Unilever	1,500	606	2,145		
	20,735	3,545	29,189		
Motor industry has been given more than R10 billion.					
DTI Presentation to the Select Committee on Trade and International Relations					
2011-12 Annual Report, on 14 November 2012 by Director General Mr. L. October					

8. PDI Involvement

Indeed new blood is required. Minority groups have done what they can do. The priority must be to assist the PDI to step up and answer this call. In a recent book we argued that we have enough skills to industrialize at low-to-medium tech level. But it has to be a facilitated program because individually very few PDI can start and sustain a business, whether the business person is a professor or not.

There is no problem that DTI assist existing business but it cannot be end of policy. We need black people to come on board, but these are start-ups. There must an avenue for start ups. From 2004 we set up 23 researchers to develop a way to bring PDI start ups into manufacturing. Eight years later the outcome is a new model, Mnotho Industrial Parks, not the DTI's model of sites owned by government, also waiting for existing businesses. How do poor people set up business in the government i/park?

As to what type of products, we focused on consumer products because growth will be in consumerism. Consumer products are less elastic to economic shocks and we are importing about R300 billion a year. Further, manufacturing ties with government policy. We designed a 2-day course to train PDI start ups how to come up with consumer product ideas – just ideas without worrying about how to manufacture the products. On trials in Soweto and Dundee in 2012 and 2013, 76% of participants provided useful consumer product ideas after the training - some really good ideas ranging from novelties, re-designs, substitutes, alternatives, combinations etc.

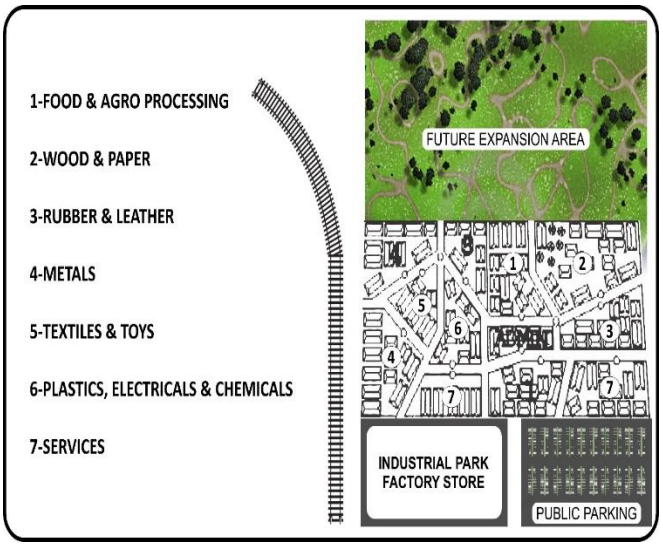
We developed competency to use centralized CAD technical drawings for each idea, and used our chemical engineer for chemical products, proceeding to machinery identification, integrated manufacturing, plant layout, costing and business plan. Surprisingly machinery manufacturers are also keen to help organize efficient plant layouts and to train the PDI on the production line, **if you have the money to buy their machinery.** The new industrial model divides the functions of manufacturing into various competencies, to reduce failure rate to 10%, from the current 72%. It works better in an industrial park, wherein we utilize one on-site project manager, production engineer, one accounting firm, one security company, one marketing team, one back up power etc. This way the PDI focuses on manufacturing process as the responsibilities of running the business are shared.

The projects are in 7 clusters – Food and Agro Processing, Wood and Paper, Leather and Rubber, Metals, Textiles and Toys, Plastic-Electricals and Chemicals, Support Services & IT.

A site holding company is registered and the participants will pay back into that holding company. It is not a loan, but recapitalization in exchange for shares in the holding company. Therefore a small injection will be repeating over and over, to seed more start ups. The recap funds will be used to support ailing projects and to seed more start-ups. The whole program is covered in 850 pages called Mnotho Industrial Parks System and a summary of 45 pages (link on item 3.3 above).

But these are start ups. DTI funding policy follows what banks do. Bank funding rules (called bank canons), prohibit offering assistance to start a business. The rules say "start your business from your own money". Assistance is only for expansion. The average cost of a start up factory is about R2 million. Black people will not be able to raise that money(see lists, link on 3.3 above). Therefore a new way of funding is necessary. The responsibility is on government, to call on financial sector to contribute.

Schematic Layout of the industrial park site (not to scale)



The industrial park starts at R160 million per site. We can't say this is small business, but in it will be small businesses. Small business department does not deal with start ups either. So all comments about failure rate are people just observing, but not asisting the businesses to start properly. A poorly started business staggers along. DTI or government often come too late, to assist a poorly germinated business.

Project Management takes care all start up risks. In our industrial park system there are no liquidations, no auctioning of machinery, failure is estimated at only 10%.

We can industrialize. We don't have to wait for investors whose date of arrival we do not know.
A small fraction of money held by financial services sector should be available to black people.

9. Bank Canons

Bank rules do not allow financing to start a business. Bank lending rules are also called 'bank canons'. They are forced on banks by the Basel Committee, based in Basel, Switzerland. It is global practice. Banks are controlled by the Basel Committee which issues banking conventions such as Basel 1, Basel 11, now Basel 111. Basel 111 tightened lending by banks, by moving up, away from the poor after the world financial meltdown in 2008. Banks are instructed to play at a higher level, and to apply the four canons strictly. Banks cannot move out of that. The problem is that banks have influenced everybody to follow their process, even governments which are not controlled by Basel Committee. By employing bankers, accountants and economics, governments and everybody else are operating like banks. There are 4 bank canons;

Canon 1 : Applicant - Specifying the nature of the person applying for funding
Canon 2 : Equity – How much have you got?
Canon 3 : Viability - is your project viable. There is NO problem with this canon.
Canon 4 : Security – What assets can applicant provide as collateral
All applications for funding must pass these 4 canons at once in that order of priority. Very few black people can succeed, and so financing becomes a preserve of the rich or white people in the main.

A *canon* is a rule, as opposed to a *cannon* which is a piece of military equipment used to ignite gun powder and fire heavy explosive artillery at the enemy.

A 'canon' was best known as a clergy of the Roman Catholic Church. The word came from the Latin word '*canonicus'* which was also derived from the Greek word 'kanonikós *which* denotes rules or 'regulations' in a church body. During medieval times the dominant social force became the Roman Empire and Roman Catholic Church. The meaning was later extended to refer to rules, standards, norms, tenets, principles, law etc. There are various types of canons. For example a secular canon is the order of Roman Catholic seniority; the Pope as the head, followed by an order of cardinals, apostles, vicars, majors, diocesans, bishops, grandmaster and commander of knights, priest, chairmen, brothers respectively.

During mediaeval times there were no banks. Banks were invented by Barons, Knights, Bishops, clergy and the highest echelons of life at that time. Therefore money was for people of status. The regulations relating to money started before 800 BC. The first usury or lending rules were influenced by Deuteronomy 23 v 19 -20, which prohibited charging interest to your brother but allowed it on foreigners. The church followed this for some centuries, with various amendments but dropped any reference to money lending from the catechism because there was conflict with interpretation of who is a foreigner and who is your brother and the definition of interest. The catechism dropped lending canons altogether because the church realized they were not fair.

Canon 1 – Applicant

Applicant refers to the person applying for funding, whether a grant or loan. DTI awards grants but they use this canon as their first step.

Canon 1 asserts that*, 'you must be in business first, to apply for loan or grant.* You must have started the business from your own money. Then when the business is operating and is of substance you can apply for a loan or grant. Banks don't accept applications to start a business, not matter how good the idea could be. A loan is only for expansion by a person or company who has existing business.

The rule says, business is founded from your own pocket, your own savings or bringing friends and family together to contribute the money. The applicant for funding, whether a loan or a grant, must already be operating for at least 6 months before the request for government or bank funding. If you are not already in business, the application is dismissed there and then, and no further consideration

is given to the rest of the business plan. Many people are not aware of this drastic stand. Unfortunately government officials copied this rule into government systems, especially at the DTI.

This rule was cast a long time ago, in the middle ages. Thomas Whittle, the original designer of a jet engine, could not finance his invention, but soon after the jet engine was the most popular form of propulsion up to this day. He was an accomplished fighter pilot and engineer but had no business. He had to explain to so many possible investors and the government of England until the idea was copied and he lost out to Germans. The colonial immigrants from Europe, were running away this same rule. It promoted the rich, the landowners, the barons and knights of the time, people in government, bishops and leaders of church and to this day is the same.

Canon I, the first of four bank canons, is the source of strangulation of African economies. You cannot be assisted or borrow until you have started the business out of your pocket. Canon 1 draws a line between the haves and have nots. Early canons were modified to their modern day use by banks. Now they are called *bank canons*, and are the general rules of lending all over the world. Wherever there is funding for projects by banks, government and private institutions, the four bank canons are used to decide who to provide funding to.

By insisting that a person or company 'start the business from your own pocket', before seeking help from a financial institution or government assistance programs, financial institutions or government are cutting of millions of people. If you don't have money of your own to start the business, which is the position with the bulk of Africans, you cannot borrow. This is a huge dam wall to climb for everybody. Millions of poor Africans are held back because they have no money of their own to start a business. If one looks at African history, there is no way that black people could have accumulated money. Their daily transactions were not based on an exchange of cash, but of other forms of value. It is the white man who introduced cash as medium of exchange. In the past Canon 1 encouraged piracy, war, plunder, colonialism, exploitation, forced removals etc. In the present Canon 1 encourages thuggery, heists, forgery, corruption, white collar crime and other dishonest ways of raising funds.

Wherever there is money for projects, the first question is *"Are you in business?"* If not, it stops there. The applicant must provide a business plan covering experience, in running his or her own business, not as an employee of another business or company. It does not matter how good your idea could be or how educated you are or how much experience or technical capacity you have gained elsewhere. If you have not started the business, government and banks cannot help you. They want to see the business bank statements where your business deposits its money and audited financial statements.

Canon 2 *refers to Equity or how much money you have got*? It puts the applicant on the financial scale to determine his or her financial worth. After passing canon 1, how much net worth is the applicant? What is the value of the balance sheet? Then how much contribution? Yes, the applicant has a business, but how much is it worth? The business has to have substance.

Contribution is the cash the applicant can lay on the table, in addition to the money used to start the business? If the applicant has no further money or not enough, the process is terminated or adjusted to the level of equity exhibited by the applicant. Therefore one has to pass Canon I first – that you are in business, then reach relative levels of your balance sheet value, then have cash contributions to satisfy Canon 2. Banks do not finance applicants who have no money of their own. The applicant must have 10%, 25% or 50% of the project cost, depending on the requirements of that financial institution.

An example is the DTI require that the applicant has a minimum of 60% towards the cost of the project and the government will contribute 40% in the form of a grant incentive. It sounds okay, but if the black people are not in business, they cannot access the 40% grant either. Remember that the business must be running in the first place and is looking to expand, at which the applicant must have 60% of the money for the expansion funding required. In most cases the expenditure must be incurred in full

first, and the government will belatedly provide the incentive as a reimbursement or recoupment. For example, if the machinery for the factory cost R1 million, one must have raised R1 million from his or her own pocket. Start the business and run it for 6 months or more years, then accumulate another R600 000. Together with your financial statements you now qualify to apply to the DTI for assistance of R400 000, and it can take two years. It is difficult and slow.

From poor families, unemployed households and our tragic history, it is difficult to raise any money. Cecil John Rhodes raised £300 then from his grandmother and came to Africa where he did wonders. If he could not raise the money he would not have been known. Black people rarely have rich patents. As a result they are not considered for bank and government funding. Yet the question of money was the basis of inequality during apartheid.

This concept of own contribution is for banks, based on the old adage that if you don't contribute your own money, you can run away or give up, when things get tough. The emphasis is that you put your own cash contribution so that you will fight harder, thus reduce the risk of failure. But there are systems today to prevent the nature of risks feared, such as the project management model we presented. If the person does not perform he/she can be replaced, without closing the business or liquidating it or auctioning the plant. No one can run away. The environment is similar to employment. This is new research which the technocrat does not understand yet is sitting in the way.

In case of a loan, higher contribution reduces the repayment instalments and improves the gearing. But the department of Trade and Industry provided incentive grants or free money. The gearing aspects does not apply. Actually the DTI acted like a bank, but giving free money. The money ran out quickly, because big companies gobbled big chunks of the free money.

Canon 3 *relates to viability of the project.* Viability is ability to pay loans and expenses as they fall due and to make a profit. There is no objection to this canon. Viability covers all operations, from product conceptualization, business plan, economic outlook, marketing plan, administration, staff compliment, cashflows, income and balance sheet projections, profitability ratios, organisation structure, skills, technology, research, licenses, expenses, risk management, succession planning etc. Anything to do with running the business is covered under viability. The only problem is the insistence by technocrats for offtake contracts as proof of market establishment, but consumer products have a totally different marketing strategy which we will discuss later in chapter 18.

Canon 4 *is about security* or collateral. Assets are required to secure the debt. Black people do not have serious assets. For one to have the level of assets to secure a loan amount at discounted forced sale value, the person is already rich or successful. Again there are other methods to handle security, if anybody paid attention, from the documents submitted to DTI in 2014. Mr Joe Morgan had interesting proposal how township house owners can be facilitated to raise large securitization but nobody listened to him, unless it came from London.

Canons 1, 2 and 3 have nothing to do with operational viability. The African black applicants should have different treatment. The guys in government will never pay attention to this. Bank canons are about status, a downright form of discrimination, based on who is in business against those who are not, who happen to be in the majority of the populations. The South African Development Foundation (Sadef) estimate that about 5 million black people want to start or enter into business but have no money and do not know how to put the business together. The above canons are not helpful in this regard.

Committees

Bank canons operate through teams of project analysists, who evaluate the projects and prepare summaries for the committees. Committees are groups of people who gather to approve or reject

projects recommended by the project analysists. Committee members are supposed to look at the project objectively and decide on the basis of consensus. Committees meet on prescribed days of the week or month. Sometimes you have nasty people among them, deciding on personal interests. Most of these committee members have never run a business. In the committee meeting the persons who present the projects are analysts or project consultants who also have never run business.

The applicant is not there to answer for himself or herself. The consultants are usually too busy and will not understand a project well enough to answer wild frivolous questions from committee members. *If South Africa, and the developing world as a whole, this is the biggest huddle to overcome.* It is a huge slippery iceberg placed in the way, which has stopped progress in Africa and the rest of the third world. The Africans fought for independence. They now need seed money to engage industrial development and to start off their ideas. But nobody can provide it.

Canon 1 flies in the face of efforts to increase education and skills, as those who gain the skills cannot proceed into business, because what matters is not the knowledge but that one must have the money from his or her own pocket, to start the business. The average cost of an entry point factory is around US$150 000. The PDI do not have such money, and are therefore prevented from accessing help from their government. Some people say "start small or in the garage" but the product will not compete on the market and very few can be made in this rudimentary way. Some people have argued that you can discuss your idea with correct people until you find someone interested to put the money. These are very rare cases, the entrepreneurial extremes of the distribution curve. For manufacturing, you have to buy machinery and the technology. If one tries to set up a factory, it is clear that the costs are high, from designing the product, plant layout, packaging, marketing material, factory premises, advertising etc. We have gone to Makro with the few products we are manufacturing and the requirements are daunting. First, one must come with 10 products, not 1 product and then a list of requirements which an individual acting alone will not meet. We have also tried with Shoprite and PnP, Spar etc. Black people are excluded there. You will see that our politics does not understand the realities. That is why we say they must put the money there and set ourself.

Constitutionality of Bank canons

Canon 1 and 2 infringe on the rights of citizens as enshrined in the constitution of South Africa and are responsible for fostering unending poverty, with the resultant loss of dignity, loss of life and inequality, compounding many social problems. Bank Canons, in my own assessment, infringe the Constitution of South Africa, in particular the preamble to the constitution, to "Heal the division of the past and establish a society based on democratic values and social justice and fundamental human rights" as well as the Bill of Rights in Chapter 1, section (1)(a), and section 3(2), Chapter 2, Section 8(1), Section 8(3)(a), Section 9(2), 9(3) and 9(4). By applying bank canons, banks becomes the source of discriminatory practice. The use of bank canons, even in government, goes against our constitution of South Africa and the freedom charter, because they discriminate the rich who have businesses and the poor who not and stifle entry, thus curtail growth and render our people helpless.