



**the dti** BLACK INDUSTRIALISTS POLICY



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## ACRONYMS

<b>APAP</b>	Agricultural Policy Action Plan
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BEE</b>	Black Economic Empowerment
<b>BIFF</b>	Black Industrialists Financing Forum
<b>DFI</b>	Development Finance Institution
<b>DDG</b>	Deputy Director-General
<b>DG</b>	Director-General
<b>ESEID</b>	Economic Sectors, Employment and Infrastructure Development
<b>IPAP</b>	Industrial Policy Action Plan
<b>PPP</b>	Public-Private Partnership
<b>MOA</b>	Memorandum of Agreement
<b>NDP</b>	National Development Plan
<b>NGP</b>	New Growth Path
<b>NIPP</b>	National Industrial Participation Programme
<b>SME</b>	Small and Medium Enterprise
<b>SOE</b>	State-Owned Entities
<b>SOEPF</b>	State-Owned Entities Procurement Forum

## DEFINITION OF KEY TERMS

<p><b>Black Industrialist</b></p>	<p>A juristic person that includes co-operatives, incorporated in terms of the Companies Act (2008), owned by Black South Africans as defined by the B-BBEE Act who creates and owns value-adding industrial capacity and provides long-term strategic and operational leadership to a business. A Black industrialist can also be a natural person.</p> <p>The following are characteristics of a Black industrialist:</p> <ul style="list-style-type: none"> <li>• provides strategic and operational leadership to the business;</li> <li>• has a high level of ownership (&gt;50%) and/or exercises control over the business;</li> <li>• identifies opportunities and develops business to take advantage of these opportunities (entrepreneurial);</li> <li>• takes personal risk in the business;</li> <li>• does business in the manufacturing sector, with particular reference to IPAP focus areas; and</li> <li>• makes a long-term commitment to the business and is a medium to long-term investor.</li> </ul> <p>While there is a desire to support entities with significant and dominant black ownership and control, it is accepted that there may be a need to include other shareholders to attract relevant skills, finance and opportunities.</p>
<p><b>Black people</b></p>	<p>The term includes people of African, Coloured and Indian origin who are citizens of the Republic of South Africa by birth or naturalisation before 27 April 1994 or would have been entitled to acquire citizenship by naturalisation prior to 27 April 1994.</p>
<p><b>Economic transformation</b></p>	<p>The term is defined by the Strategy for Broad-Based Black Economic Empowerment as the transition from an economy that confined wealth creation to a racial minority to an economy that benefits all citizens; and is characterised by ownership, management and control of factors of production by previously marginalised communities (<b>the dti</b>, 2003).</p>

## **PREAMBLE**

South Africa's current socioeconomic predicament is firmly rooted in its past and requires measures that will change the historic imposition of inequality and economic disenfranchisement by colonial and apartheid administrations. To this effect, the National Development Plan (NDP) acknowledges that transforming the economy also means changing the patterns of ownership and control. To date, efforts to transfer ownership of productive assets have not yielded the desired results, with employee share schemes playing a relatively minor role. A bolder approach and clearer targets are required (NDP – 2030, 2012: 31).

The Black Industrialists Policy is a key part of Government's broad industrialisation initiatives to expand the industrial base and inject new entrepreneurial dynamism into the economy. It calls for bolder policy interventions on the part of the state to expand the industrial base of the country and grow the economy through dedicated support to black industrialists, as highlighted in the latest iteration of the Industrial Policy Action Plan (IPAP).

This is consistent with Government's commitment to expand South Africa's economic capabilities to design, manufacture and service products of increasing value. The development of the manufacturing sector is core to the industrialisation process (IPAP 2015, 2015: 4). Primary requirements to successful industrialisation are the availability of coherent support measures to potential or existing industrialists to develop new capabilities and grow South Africa's global competitiveness.

The state must create an enabling environment to be domestically and globally competitive by increasing the capacity of the economy to exploit existing market opportunities, and sustaining and expanding employment and real income growth in the long-term. This policy proposes focused efforts to facilitate the inclusion and participation of Black Industrialists in manufacturing activities, with an understanding that more equal societies tend to grow faster than those that are unequal.

The policy will focus on the growth and global competitiveness of black-owned enterprises. The intention is to contribute towards shifting the demographic composition of South Africa's industrial sector and engage the under-utilised source of jobs, revenue, taxes and innovation, which is the Black Industrialist.

It is envisaged that through this policy coordinated support will be given to promote the long-term sustainable development of black industrialists. It should be acknowledged that despite the spectrum of challenges facing black businesses (such as skills development, standards, quality, productivity improvements), various platforms, including the resolutions of the Black Industrialists Indaba (March 2015), have highlighted access to finance and markets as the major stumbling blocks to their sustainable development. It is for this reason that the Black Industrialists Policy will focus initially on financial and market access support in collaboration with the private sector.

The policy is therefore aimed at promoting industrialisation, sustainable economic growth and transformation through the support of black-owned entities in the manufacturing sector.

## **PURPOSE**

The Black Industrialists Policy aims to leverage the State's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions as described in the IPAP and other government policies.

## **VISION STATEMENT**

The vision of this policy is to facilitate the meaningful participation of majority black-owned and managed companies in the value chains of the key economic sectors of South Africa in a manner that promotes Government's priorities of inclusive growth and development.

## **MISSION STATEMENT**

This vision will be realised by:

- supporting Black Industrialists that will serve as drivers of economic transformation through deliberate and co-ordinated State intervention.

## **OBJECTIVES**

The policy seeks to achieve the following objectives:

- Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment; and
- Create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains.

# CHAPTER 1

## 1.1 INTRODUCTION AND BACKGROUND

The South African Government wants to strengthen the foundation for sustainable economic growth and inclusion underpinned by an enabling environment for foreign and domestic direct investment.

## 1.2 POLICIES UNDERPINNING THE CREATION OF BLACK INDUSTRIALISTS

The Government has embarked on a number of developmental policies that form the basis for addressing unemployment, poverty and equality to promote inclusivity and shared economic growth. It is against this background that the Black Industrialists Policy has been identified as an instrument to enhance transformation in the economy and ensure meaningful participation of black people in the mainstream of the South African economy. The democratic South African Government has always placed economic inclusion at the centre of its economic programmes. In this respect, the implementation of policies such as the National Development Plan (NDP), IPAP, Broad-Based Black Economic Empowerment (B-BBEE) and Preferential Procurement Policy Framework Act (PPPFA) represents milestones in the State's bid to restructure the economy in such a manner that it reflects South Africa's demographics.

This policy initiative is underpinned by the following adopted policies of Government:

- **THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996** (Act No.108 of 1996). Section 9 of the Bill of Rights indicates that "Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons or categories of persons disadvantaged by unfair discrimination may be taken."
- **THE NDP**, which outlines South Africa's Vision 2030 and seeks to eradicate poverty and reduce inequality. The NDP also recognises the importance of improving the quality of the economy for the purposes of both sustainability and impact on inclusion. A more dynamic growth requires South Africans to work together to implement measures that can create a united society and an inclusive economy that is characterised by equality and creates more and sustainable employment and equitably shares the wealth produced.
- **THE IPAP**. The National Industrial Policy Framework (NIPF) articulates South Africa's overarching approach to industrial development. The re-industrialisation trajectory is implemented through successive IPAP iterations that respond to change in global and domestic economic opportunities and dynamics. The IPAP guides South Africa's industrial development path towards sectors and capabilities, which will provide sustained inclusive growth and increase participation of marginalised citizens and regions. This is an acknowledgement that if no special measures are put in place, the country cannot industrialise rapidly and become globally competitive, but will instead continue deepening apartheid patterns of economic development and wealth distribution. The IPAP also outlines specific

measures that are required to achieve a more dynamic and sustainable economic growth, which is a core goal of the NDP.

- **THE B-BBEE AMENDMENT ACT, 2013 (ACT NO. 53 OF 2003).** Government's fundamental objective is to create a transformed adaptive economy that is characterised by high levels of growth, job creation and enhanced economic participation by the majority of the population. Government has made significant strides and substantial progress in addressing the above challenges. The B-BBEE Act is an intervention to address the systematic exclusion of the majority of South Africans from full participation in the economy. No amount of revision of history can eradicate the reality of systematic and institutionalised disempowerment of communities and individuals. The underdevelopment of black South Africans took the form of systematic destruction of their productive assets, deliberate denial of access to skills and jobs and a range of interventions to prevent self-employment and entrepreneurship. In combination, these policies restricted and suppressed the wealth and skills endowments in black communities, thereby structurally inhibiting their participation in a legislatively race-based economy.
- **PPPFA.** In realising that it possesses a significant amount of purchasing power, Government has introduced the PPPFA to expand its base of suppliers to achieve broader economic developmental goals. Given its economic significance, public expenditure has the potential to influence the economy in terms of production and consumption on a large scale. Thus public procurement is one of the key strategic levers for industrial development objectives in the IPAP.
- And all other relevant government policies such as the Agricultural Policy Action Plan (APAP) and the New Growth Path (NGP).

All these pillars place particular emphasis on the need to strengthen and increase black people's participation in the mainstream economy, which currently does not reflect the demographics of the South African population.

### **1.3 PROBLEM STATEMENT**

1.3.1 The National Industrial Policy Framework (NIPF) highlights the need to promote a broader-based industrialisation path characterised by deeper levels of participation in the mainstream industrial economy by historically disadvantaged economic citizens. Colonial policies and apartheid's systematic exclusion of black people from the economy – except as labourers – have resulted in an economy that is dependent on a narrow base of mainly white entrepreneurs and industrialists. This structural feature of the South African economy imposes a number of costs and vulnerabilities on the economy. These include the implications of the aging of the current narrow base of entrepreneurs and industrialists and the general absence of a substantial "next generation" of entrepreneurs and industrialists. In addition, the continued exclusion of black people – albeit not on racial grounds – means that the economy does not benefit from the skills, expertise and capabilities of all its citizens. There is overwhelming international evidence that successful economies are those where access to economic opportunities is not limited by race, gender or class status.

1.3.2 The current support measures provided by Government and its entities have not radically transformed the demographic composition of manufacturing and related services sectors of the economy. Perversely, black businesses are a very small beneficiary of government support. More specifically, in terms of access to and actual uptake of industrial finance, black businesses are substantially under-represented, as is evidenced by the loan books of development finance institutions (DFIs) and commercial banks. With regard to Government procurement, black business participation is similarly surprisingly low. It is now clear that Government's fragmented support has not fundamentally changed the rate of black business start-ups, their survival rates or growth trajectories. Moreover, the current support measures for industrial development have been dominated by the established players in industry and business. A more equitable balance between support for the established players, which currently account for a large share of employment and investment, and black businesses will have to be found. In addition, given that many black businesses are constrained by a lack of collateral and capital, Government will need to provide stronger and more focused interventions to support black industrial start-ups, while continuing to support established companies that are B-BBEE compliant.

Black people still only own 3% of the Johannesburg Stock Exchange, pointing to the need to accelerate economic transformation. The exclusion has in part contributed to the persistent challenges of poverty, unemployment, low economic participation and inequality. To date, efforts to transfer ownership of productive assets have not yielded the desired results and highlight the need for a bolder approach and clearer targets.

The Black Industrialists Policy (BIP) is part of Government's broad industrialisation initiatives to expand and transform the industrial base and inject new entrepreneurial dynamism into the economy. It calls for bolder policy interventions on the part of the State to coordinate key policy instruments through dedicated support to black industrialists (BIs) as highlighted in the latest iteration of the IPAP.

The Presidency will play a leading role in providing overall oversight of the Black Industrialists Policy. Other key institutions will include Cabinet and the different cluster departments, with the Presidential Advisory Council on B-BBEE playing an advisory role. **the dti**, being the custodian of the policy, will be responsible for coordinating implementation. The Minister of Trade and Industry will report to Cabinet bi-annually on the implementation of the policy, its achievements and emerging challenges.

## 1.4 RATIONALE

1.4.1 It is important that a dedicated support programme is established to actively promote the growth and competitiveness of black-owned and managed enterprises in the manufacturing sectors of the economy. This support should enable them to access finance, contracts and market opportunities, both domestically and globally. In pursuit of radical economic transformation, an integrated approach must be established to consolidate the financial and non-financial support instruments available in South Africa. These efforts can be achieved by

ensuring seamless working relationships between the development finance institutions (DFIs), state-owned enterprises, economic cluster departments and private sector. This is the intended purpose of the Black Industrialists Policy (BIP).

- 1.4.2 It is important to emphasise that the policy is seen as a key starting point and not a panacea for the development and sustainability of black businesses in general and Black industrialists in particular. It does not attempt to address every challenge related to the development of Black industrialists. It focuses on key interventions needed to kick-start the development of a pool of Black Industrialists utilising particular levers of the State based on interactions with black entrepreneurs and enterprises. It recognises that other government departments and entities, including the private sector, will be required to be part of its successful implementation in terms of the interventions articulated.

## **1.5 INTENDED BENEFICIARIES**

This policy targets entities that should have extensive experience, operations and track record in their respective or envisaged industrial sectors and value chains. It is expected that the entities supported will:

- Expand their current operations or businesses to become major players in the domestic and/or global markets within 10 years of being in the programme;
- Start a new operation or business that can enable them to become major players in the domestic and/or global markets within 10 years of being in the programme; and
- Acquire an existing or new business that can enable them to become major players in the domestic and/or global markets within a specified period.

Such entities should be operating in the manufacturing sectors of the economy in line with the industrialisation path as articulated in the IPAP as follows:

- Blue/Ocean Economy, including Vessel Building and Repair
- Oil and Gas
- Clean Technology and Energy
- Mineral Beneficiation
- Aerospace, Rail and Automotive Components
- Industrial Infrastructure
- Information Communication Technologies
- Agro-Processing
- Clothing, Textiles/Leather And Footwear
- Pulp, Paper and Furniture
- Chemicals, Pharmaceutical and Plastics
- Nuclear
- Manufacturing-related logistics
- Designated sectors for localisation

These sectors will be reviewed from time to time, in line with government priorities. Interpretation of the support areas within each sector will be at the discretion of the State.

It is envisaged that the industrialists will contribute towards South Africa's developmental objectives, such as job creation, exports, skills development, supplier development, industrial decentralisation and localisation. Particular focus will be given to assisting entities owned by women, youth, small business and co-operatives, people with disabilities and based in historically disadvantaged regions.

It is envisaged that a pipeline of emerging Black Industrialists will be developed through various sector department's support programmes, including state-owned companies and development finance institutions. This will enable a multiple pathway for black entrepreneurs to become Black Industrialists that benefit from this policy.

## **1.6 HIGH-LEVEL STRATEGIC CRITERIA**

- 1.6.1 Black Industrialists as defined.
- 1.6.2 Operations or businesses aligned to the manufacturing sectors of the economy as articulated in the IPAP.
- 1.6.3 A legally registered entity in compliance with all relevant legislation, (including employment equity, labour law, B-BBEE and in a good standing with the South African Revenue Service).
- 1.6.4 Black industrialists must be directly involved in the day-to-day running of the operation and have the requisite expertise in the field.
- 1.6.5 Be directly involved in the entity.

## CHAPTER 2: ACCESS TO FINANCE

### 2.1 INTRODUCTION

In the South African context, an important role exists for public industrial finance to channel capital into productive fixed investments that have the potential to generate direct and indirect sustainable jobs in strategic value-adding sectors. The state is also utilising public procurement to support re-industrialisation, as outlined in the NDP and IPAP.

The challenge of access to finance has been articulated as one of the main constraints confronting black entrepreneurs in the attainment of shared and inclusive growth. This is hampered by a limited pool of financiers, the high cost of borrowing as well as borrowing conditions that most black enterprises and black industrialists in particular cannot meet in terms of own contribution, collateral, poor credit record and the high-risk model applied by commercial banks.

Feedback from black-owned manufacturing entities suggests they have less equity investment and loans for start-up and growth than other enterprises. In addition, these entities are likely to pay higher interest rates on loans, be denied loans by funding institutions, and not apply for loans for the fear of rejection. This accounts in part to disparities in growth, development and survival of black businesses.

To address the above constraints, the following policy measures will be implemented by the Black Industrialists Policy:

- Early stage capital to develop a project to bankability stage;
- Non-financial support to develop a project to bankability stage;
- Industrial financing through DFIs;
- Consortia or syndicated financing by development funders within the State;
- Government incentives for black business in general and black industrialists in particular; and
- Strategic collaboration with banking institutions.

It is within the aforementioned context that one of the components of this policy is to address access to finance for black businesses and black industrialists. The access-to-finance component of this policy is entrenched in addressing the availability, cost and duration of finance, which are key determinant factors for the viability of our re-industrialisation path.

## **2.2 BACKGROUND**

The NIPF noted that there are a number of weaknesses with respect to the provision of finance for industry. While large firms are often able to finance investments through retained earnings and negotiate favourable interest rates, medium and small enterprises face higher costs of capital. Finance is typically under-provided to new entities and activities, and may not be made available for a sufficiently long-term duration. Successive IPAP iterations have consistently highlighted shortcomings in the industrial financing sphere, which continue to hinder the development of the manufacturing sector, black business and black industrialists.

Research and engagement have demonstrated that South Africa's cost of capital is high, and the average term of loans is short relative to our major trading partners. The extent to which private credit extension has been channelled to the manufacturing sectors, particularly manufacturing, has been limited. There has also been a serious sectoral imbalance, with investment in the manufacturing sectors of the economy (agriculture, mining and manufacturing) lagging behind that of the tertiary or services sectors.

The scarcity of readily available working capital hinders the operational performance of many firms, particularly in the start-up, new technology commercialisation and systems-building phases. Working capital is of critical importance to the operational performance of a firm as the smaller the working capital, the greater the burden on the company's performance. The short-term nature of the source of funding (mainly deposits and short-term capital inflows) manifests in impatient capital eager to fund either established, relatively low-risk industries (e.g. upstream capital-intensive and energy-intensive industries) or industries achieving profitability within a short period of time (e.g. consumption-driven services). Consequently, banks are not willing to channel funds towards relatively less entrenched or established industries, such as black business and black industrialists, as these require longer-term investment horizons and grace periods.

The challenge of access to finance is one of the constraints confronting black business and black industrialists. This is due to the limited pool of financiers, the high cost of borrowing, and borrowing conditions that most black businesses cannot meet.

## **2.3 GLOBAL DEVELOPMENTS**

Globally, Malaysia is an example of an economy that has implemented specific economic transformation and empowerment policies to benefit intended beneficiaries. One such policy was the New Economic Policy (NEP), which was adopted in 1971 for a period of 20 years and succeeded by the National Development Policy in 1991. The NEP was conceived as a two-pronged strategy to eradicate poverty for all Malaysians and reduce and subsequently eliminate the identification of race by economic function and geographical location. The NEP stated that the core problem that stood in the way of national unity was compartmentalisation of racial groups by economic function, particularly association of Malay and other indigenous races with subsistence agriculture. To dissociate Malay and other indigenous races

with traditional agriculture, the policy called on the Malaysian Government to provide assistance to all Malaysians in finding employment, securing participation in economic activities and acquiring ownership in various economic sectors.

The NEP had an initial target of moving the ratio of economic ownership in Malaysia from a 2.4:33:63 ratio of Bumiputra, Other Malaysian and Foreigner ownership to a ratio of 30:40:30. This was to be done by redistributing the wealth to increase the ownership of enterprise by Bumiputras from the then 2.4% to 30% of the share of national wealth. Alongside this redistribution of wealth was the goal of increased economic growth, which would allow the non-Bumiputra share of the economy to decrease, while permitting the growth of non-Bumiputra business interests in absolute terms. In some quarters, this was referred to as the "expanding pie theory": the Bumiputra share of the pie would increase without reducing the size of the non-Bumiputra slices of the pie.

Specific interventions to encourage the increase in the Malay share of the economy included:

- companies listed on the Kuala Lumpur Stock Exchange must have 30% Bumiputra ownership of equity to satisfy listing requirements. Foreign companies that operate in Malaysia also must adhere to this requirement;
- a basket of Government-run (and profit-guaranteed) mutual funds are available for purchase by Bumiputra buyers only;
- many Government-tendered projects require that companies submitting tenders be Bumiputra-owned. Projects were earmarked for Bumiputra contractors to enable them to gain expertise in various fields;
- a fund allocated by the Government to assist Bumiputra Small and Medium Enterprises (SMEs) to finance the acquisition of Government-Linked Companies (GLCs) subsidiaries engaged in non-core activities;
- a financing facility allocated by the Government to assist credible Bumiputra companies to take over listed companies or companies with the potential to be listed on the Malaysian Stock Exchange;
- a fund to provide financing to Bumiputra entrepreneurs who have been awarded contracts or projects by the Government, government-related agencies, statutory bodies and reputable private or public companies;
- an Entrepreneurs Retail Project Fund to enhance and upgrade Bumiputra entrepreneurs' participation in the retail business; and
- a financing scheme to promote and develop Bumiputra entrepreneurs in the agriculture sector, particularly in the production of food crop, processing and marketing of agriculture products, except for rubber, oil palm, tobacco, cocoa, pepper, forestry, drinks and vegetable oil.

Furthermore, South Korea can also be defined as a developmental state where the Government actively intervened and worked closely with companies, namely the chaebol, to address market failures. A chaebol is a South Korean form of a business conglomerate. They are typically global multinationals owning numerous international enterprises, controlled by a chairperson who has power over all the operations. The Federation of Korean Industries was formed by the chaebols in 1963 to promote their

interest and support economic growth. It acted as the voice of the chaebol and its mission was to foster coordination among them throughout the country.

The policies of President Park Chung Hee spurred rapid industrialisation by promoting large businesses. This was called the First Five Year Economic Plan. Government industrial policy set the direction of new investment and the chaebol were to be guaranteed loans from the banking sector. In this way, the chaebol played a key role in developing new industries, markets and export production. As a result they became global players and helped place South Korea as one of the Four Asian Tigers.

Government-chaebol cooperation was essential to the subsequent economic growth and astounding successes that began in the early 1960s. Driven by the urgent need to turn the economy away from consumer goods and light industries toward heavy, chemical and import-substitution industries, political leaders and government planners relied on the ideas and cooperation of the chaebol leaders. The Government provided the blueprints for industrial expansion; the chaebol realised the plans. The Government used the chaebol as a means towards economic growth, exports were encouraged and performance quotas were established.

The chaebol were able to grow because of two factors: foreign loans and special favours. Access to foreign technology was critical to the growth of the chaebol through the 1980s. Under the guise of guided capitalism, the South Korean Government selected companies to undertake projects and channelled funds from foreign loans. The Government guaranteed repayment should a company be unable to repay its foreign creditors. Additional loans were made available from domestic banks. In the late 1980s, the chaebol dominated the industrial sector and were prevalent in manufacturing, trading and heavy industries.

The tremendous growth that the chaebol experienced, beginning in the early 1960s, was closely tied to the expansion of South Korean exports. Growth resulted from the production of a diversity of goods rather than just one or two products. Innovation and the willingness to develop new product lines were critical. By the late 1980s, the chaebol had become financially independent and secure as a result of their explosive growth in export markets. This eliminated the need for further government-sponsored credit and assistance. By the 1990s, South Korea was one of the largest newly industrialised countries and boasted a standard of living comparable to industrialised countries. As of 2014, the largest chaebol, Samsung, comprised about 17% of the South Korean economy and held roughly US\$17 billion in cash.

It is imperative to acknowledge the difference between Malaysia and South Korea, with the former having a heterogeneous population and the latter a homogenous population. Both of these countries couched themselves as developmental states, and had embarked on economic growth and development with Government actively intervening in the economy to affect an economic transformation agenda.

These experiences provide invaluable lessons to conscientise and guide South Africa as it embarks on its own reindustrialisation path informed by its quest for inclusive economic growth and radical change. During the 1950s and 1960s, the South African economy had initiatives that were put in place to support business and the industrialisation of mainly South Africa white-owned companies. Many of the corporate giants of today were the recipients of such support. The availability of such funding was crucial to

growing these businesses and the availability of funding will be crucial to growing the industrialists of the future.

## 2.4 LESSONS LEARNED

Based on these experiences key lessons to be drawn for South Africa include:

- 2.4.1 The use of national champions by Government as a means towards inclusive national economic growth driven by the urgent need to transform and expand the industrial base.
- 2.4.2 Focused attention by the State to build national champions, as in the case of Malaysia and South Korea.
- 2.4.3 Specific funding being set aside for the development of national Industrialists to become lead dynamic firms that will add and change the composition of the industrial sectors, such as preferential loans, working capital facilities and grant funding.
- 2.4.4 Korea was able to develop new industries, value chains and foreign markets through specific support to national industrialists, including access to state-of-the-art technology, export market intelligence, and research and innovation.
- 2.4.5 All support was linked to conditionalities, such as performance quotas and restrictions on selling equity to non-targeted beneficiaries

In South Africa, financial institutions have consistently demonstrated a reluctance to channel funds towards relatively less well-entrenched or established industries (particularly manufacturing industries), which require longer-term investment horizons and grace periods for new entrants such as black business and Black industrialists. The iterations of IPAP have pointed to the need to develop specific programmes to support manufacturing companies and, more recently, Black Industrialists. This requires a carefully targeted system of industrial financing and incentives across government departments and agencies that are aligned with and supportive of private-sector credit extension. Such a system should learn and implement best practice from other developing countries, with a strong emphasis on:

- more favourable cost-of-financing terms; and
- more favourable terms for repayment periods and lower collateral requirements.

The IPAP states that an effective industrial financing system has to be more than the sum of its parts. It has to be a coordinated package of financing and incentive support. The role of public industrial financing should be to channel capital into productive fixed investments that have the potential to generate direct and indirect sustainable jobs and value addition. Funding solutions should include:

- a longer term of financing
- a grace period allowance
- lower interest rates
- funding for working capital

These measures need to include the development of a support mechanism for Black Industrialists that is intended to promote their participation as manufacturers in the key manufacturing sectors of the economy, and as suppliers of goods and services to the public infrastructure programme. This initiative must be underpinned by systematic and purposeful support for the inclusion of Black industrialists along the entire value chain of industrial sectors and infrastructure projects. This can be achieved through financial and non-financial support measures and incentives, using both existing and new mechanisms. As part of the transformation agenda, Black Industrialists have been identified as vital protagonists for black economic empowerment, job creation, enterprise and industrial development.

Black industrialists need financial institutions that can provide a stable supply of fixed long-term and low-interest funds, regardless of fluctuations in the economy. A credit guarantee system to offset insufficient credit and security for Black Industrialists and the facilitation of funding is critical.

## **2.5 POLICY IMPLICATIONS AND PROPOSED ACTIONS**

A Black Industrialists Funding Package will be developed and implemented to address the challenge of access to finance for Black industrialists. This package will focus specifically on the development of Black Industrialists. Black entrepreneurs in general will be encouraged to utilise other funding support offered by the state for projects that do not qualify under this policy. Funding support for Black Industrialists will include:

- Developmental capital through conditional loans to help develop projects up to bankability stages;
- Working capital support through concessional loans to ease working capital pressure;
- Greenfield, Brownfield and Joint Venture support in the form of a finance support package to assist Black Industrialists who have both equity and management control in the enterprise;
- Export support in the form of concessional export insurance funding and market exploration support, including outward export marketing missions;
- The acquisition of a plant, construction of a new plant, expansion of an existing plant, or rehabilitation or replacement of part or all of an existing plant or its equipment; and
- The funding of feasibility studies and business support, including licences, quality assurance, and standards, will be considered on a cost-sharing basis.

The funding component of this policy will be pursued through the coordinated support instruments as provided by all DFIs, including:

- Development Bank of Southern Africa (DBSA)
- Export Credit Insurance Corporation (ECIC)
- Industrial Development Corporation (IDC)
- Land Bank
- National Empowerment Fund (NEF)
- Public Investment Corporation (PIC)
- Small Enterprise Financing Agency (**sefa**)

Through ministerial oversight, the DFIs will be expected to commit funding to support Black Industrialists. These DFIs are used given their mandates to take on developmental risk that private sector financiers do not have appetite for. In addition, the DFIs have the skills and experience to evaluate projects that will be received in terms of bankability and sustainability.

Once approved by Cabinet, Shareholder Ministries will be expected to facilitate the implementation of the Black Industrialists Policy through shareholder compact agreements with the DFIs. The Black Industrialists Financing Forum (BIFF) will comprise officials responsible for funding decisions from participating DFIs and **the dti** division responsible for incentive administration or other departments offering relevant incentives. The forum will play an information-sharing and coordinating role, which will include pre-assessment of Black Industrialist applications. It will undertake pre-assessment of potential projects to be supported as part of the Black Industrialists programme. Responsibility for formal approval of finance or incentives remains subject to the internal processes of DFIs or the funding institutions concerned. It will also include proposing potential projects for consideration by relevant DFIs. To facilitate this process, guidelines will be developed and publicised.

The forum is also responsible for monitoring funding to Black industrialists across the various DFIs and proposing measures to improve funding and non-financial support to black-owned entities to Cabinet via the Minister of Trade and Industry. All provincial DFIs should be directed to implement the policy in collaboration with **the dti**.

The BIFF will foster a collaborative approach that seeks to improve coordination among the various industrial funders within the state guided by the following principles:

- Commitment to support the development and growth of black industrialists;
- Financial commitments to be set aside for the funding of black industrialists;
- Commitment to flexible, but harmonised rules to support black industrialists;
- Commitment to perform and conclude a due diligence within a reasonable timeframe;
- Commitment to reach a final decision on application within two months of the conclusion of due diligence

- Commitment to collectively provide pre-investment technical support to bring projects to a bankability status, where appropriate;
- Commitment to joint project risks assumption; and
- Foster an approach to project funding syndication.

Proposals or applications are to be received in a standardised format as agreed to by the Financing Forum. The forum will act as a clearing house that directs proposals to the relevant development financiers and monitors the processing of such proposals.

The Ministers overseeing the DFIs will convene periodic review meetings to assess implementation of the policy, facilitate the resolution of any challenges and report to Cabinet via the Minister of Trade and Industry.

## 2.6 THE BLACK INDUSTRIALISTS FUNDING PACKAGE

The policy is intended to intervene in funding Black Industrialists who are expected to become large and dynamic enterprises. Projects must demonstrate some public benefits to justify Government's involvement by meeting the following criteria:

- 2.6.1 Operating in the manufacturing sector of the economy;
- 2.6.2 Securing or increasing direct employment;
- 2.6.3 Securing significant market share for the company,
- 2.6.4 Reducing relative prices and increasing the quality of products to consumers,
- 2.6.5 Savings or better utilisation of energy or materials;
- 2.6.6 Increasing the localisation of production activities (diversification and exports);
- 2.6.7 Additional support will be prioritised for projects located in underdeveloped and rural areas.
- 2.6.8 Take personal risk in the business and be locked in for a reasonable time-frame to the entity.
- 2.6.9 Government reserves the right to select the most appropriate projects for support.

**the dti** will avail finance on a cost-sharing basis to procure new capital equipment for qualifying entities. The financial support to be offered will depend on the level of black ownership and management and the project value. Sector-specific dynamics and peculiarities will be taken into consideration when support is offered.

The DFIs will provide funds to Black Industrialists either as equity participation and loans or export guarantees. This will include early stage capital and relevant non-financial support to develop projects to bankability stage. The DFIs will be encouraged through shareholder compacts to take equity and provide developmental support to Black Industrialists to be profitable within the shortest period of time to repay the DFI and allow for its exit. The transaction is structured around the requirements of the client and funder. Once approved by the DFI, **the dti** will further partner with DFIs, where appropriate, by utilising cost-sharing finance to fund a portion of the financing costs, thereby making the loan significantly cheaper than market lending rates, with a longer repayment term where required. The loan

agreement will be issued by the DFI directly to the client. Where a DFI sells its equity stake, the Black Industrialist must have right of first refusal. In the case where a Black Industrialist declines to buy the equity stake, the DFI must ensure no dilution, taking account of ownership, control and management. This will assist in preventing the dilution of black ownership and contribute to increasing the stock of overall black participation in the manufacturing sector of the economy.

The BIFF's procedures are somewhat simpler and designed to minimise the need for Black industrialists to dedicate an inordinate amount of time to seeking funding from each individual institution.

Cooperation agreements will be pursued with commercial banks to support black business in general, particularly in the manufacturing sector of the economy.

To strengthen access to funding, consideration will be given for the establishment of a specific fund that would leverage funding from the private sector, thus creating long-term sustainable financing for Black Industrialists.

## **CHAPTER 3: ACCESS TO MARKETS**

### **3.1 INTRODUCTION**

South Africa's historical socioeconomic dynamics continue to have a dissuading and negative impact on new entrants. These dynamics include, but are not limited to, lack of market access, high barriers to entry, limited marketing capacity, lack of capacity to explore niche and overcrowded markets, high transaction costs and poor market research. These are more pronounced when it comes to black enterprises that, in most instances, lack the required networks and track record to facilitate market access. In some cases, established networks deliberately exclude new entrants, creating unnatural barriers to entry, particularly for black enterprises looking to start up, expand and sustain businesses. It is against this background that government procurement and contracts are used as important instruments to develop Black Industrialists. The use of government procurement and contracts to develop Black Industrialists does not in any way negate the need to ensure fairness, transparency, quality; service delivery and value for money. It is expected that there will be measures of performance for beneficiaries supported through this policy.

### **3.2 BACKGROUND**

A situational analysis of the South African industrial economy done during the development of the NIPF indicates the following as constraints that prevent the sustained growth of South Africa's industrial base:

- an inadequate cost-competitive production base;
- insufficient levels of industry upgrading and movement to higher value activities; and

- insufficient inclusion of historical excluded people and regions in the formal economy.

Part of the strategic interventions proposed by Government through the IPAP is the use of public procurement to leverage expenditure aimed at developing new industrial and technological capabilities. Public procurement accounts for a sizable part of the economies of both developed and developing countries, generally estimated to be between 15% and 25% of GDP, and therefore can be consolidated and used to facilitate development and enhancement of domestic productive capacity and the capability of domestic firms. Such a platform can be used as a foundation for domestic firms to develop their competitiveness. To this extent, it is envisaged that Government will use designation/local content, the National Industrial Participation Programme and the Competitive Supplier Development Programme as distinct procurement levers to support the Black Industrialists Policy.

Public procurement provides a platform from which local companies can build productive capabilities and capacity that can be leveraged to gain export markets. In addition, the NIPF identifies the need to substantially strengthen research capacity at sectoral level to track trends in both the domestic and global economy. Such research can be utilised within the Black Industrialists Policy to focus on the identification of new possible areas for further diversification of the economy into more labour-absorbing and value-added sectors that can facilitate the entry of Black Industrialists.

### **3.3 GLOBAL DEVELOPMENTS**

The International Trade Centre (ITC) in its research publication (2014) considers public procurement as a powerful tool to achieve socioeconomic objectives because it operates at the intersection of government's regulatory and buying powers. Governments are market regulators and participants. They regulate the public procurement process by establishing the legal and regulatory frameworks. Governments around the world spend trillions of dollars annually purchasing the goods, works and services they require to fulfil their public functions.

The public procurement process involves three phases: acquisition planning and market research; source selection and contract award; and contract administration and close out. ITC argues that by carefully structuring the rules that govern each of these phases, governments seek to achieve various policy objectives. For most procurement systems, those objectives include value for money, integrity, equal treatment and efficiency. These objectives can and should include increased participation by marginalised entrepreneurs in public procurement and the economy more broadly.

The United States (US) has implemented specific interventions to assist minority-owned businesses to access market opportunities through its Minority Business Development Agency (MBDA), which provides information on contract opportunities within government. It works in partnership with the US General Services Administration (GSA) to provide information through Business Development Fairs on available and upcoming contracting opportunities within the federal government. The fairs offer minority-owned businesses the chance to meet with GSA staff to gather information that will help position their companies to better understand how to win business. In addition, the MBDA provides a free Opportunity Matching System to registered minority firms as well as organisations seeking to do business with

minority firms. The system integrates business opportunities in one easy-to-use interface and registered firms are automatically notified by e-mail when an opportunity matches their capabilities.

In terms of access to international markets, the MBDA provides minority-owned firms with technical business assistance, guidance in identifying key foreign markets, and advice on mitigating risks when doing business abroad. It provides particular information to business about potential export markets such as country insights, economy and market conditions, international capabilities assessments, international opportunities, global matchmaking in certain markets, and market and product identification.

Specific states within the US such as Ohio utilise a Minority Business Enterprise (MBE) Programme to assist minority businesses in obtaining state government contracts through a set-aside procurement programme for goods and services. The MBE establishes a 15% goal for state agencies, boards and commissions in awarding contracts to certified MBE businesses. To be certified as a MBE, businesses must be operational for at least one year prior to applying for certification and the owners must be members of one or more of the following groups: Blacks, American Indians, Hispanics and Asians.

In Malaysia, government procurement and contracts are used as an important instrument to develop Bumiputra entrepreneurs. Malaysian Bumiputra companies receive a margin of preference over a reference. Certain supplies and works contracts with a particular value are reserved for Bumiputra suppliers. In terms of planning for the procurement of works contracts, at least 30% of the annual value of works contracts was set aside for Bumiputera contractors. Contracts above these limits were open to competitive bidding.

As part of facilitating access to international market opportunities, an International Distribution Centre (IDC) will be established to enable Bumiputra entrepreneurs to gain access to foreign markets to ensure business viability. The IDC will enable exporting SMEs to outsource business functions such as product labelling, packaging, distribution, storage and services. To enhance international market access, the IDC will be managed by the private sector and supported by government-to-government initiatives. In addition, the Ministry of International Trade and Industry (MITI) and the Malaysia External Trade Development Corporation (MATRADE) will provide end-to-end export promotion services, including in the preparation of international business plans. This is coupled with an interactive trade portal developed by MITI that provides a comprehensive source of information on market intelligence. This portal provides information, such as market requirements, consumer preferences, and international standards and regulations, as well as environmental requirements. Business matching sessions are also arranged to provide an avenue for companies to forge business linkages

### **3.4 LESSONS LEARNED**

Based on these experiences, key lessons to be drawn for South Africa include:

- 3.4.1 The use of structured support for targeted business groupings to access domestic and market opportunities, such as business fairs, publishing of contract opportunities, a central database of potential supplies to facilitate matchmaking and or supplier development opportunities.
- 3.4.2 Carefully structuring procurement rules to achieve the developmental mandate of the State.

- 3.4.3 Government utilising its trade agreements to facilitate markets access for business enterprises in targeted markets.
- 3.4.4 The use of margin of tolerance to give preference to domestic firms in terms of government procurement and contracts.
- 3.4.5 Reserving of contracts of a particular value for local supplier development.

### 3.5 POLICY IMPLICATIONS AND PROPOSED ACTIONS

One of the critical success factors for any enterprise is the ability to sell its products in the marketplace at a price that allows that enterprise to cover all its production costs and make a profit. One of the challenges confronting black entrepreneurs and black industrialists in particular is the barriers to enter markets. These are a result of the fact that many sectors of the economy are highly concentrated and dominated by a few large corporations.

State-Owned Companies (SOCs) are tools of Government delivery across strategic sectors of the economy and can be anchors of the Black Industrialists Policy through procurement and supplier development mechanisms.

**the dti** will facilitate liaison between the funding forums and the SOCs, working together through the State-Owned Enterprise Procurement Forum (SOEPF) to facilitate information-sharing with regards to Black Industrialists and the products they manufacture. The SOEPF will explore other market opportunities through government departments and private sector collaborations to assist Black Industrialists to secure sustainable procurement opportunities. The SOEPF is currently constituted of the following SOCs:

- Eskom Holdings SOC Limited
- Transnet
- Petrosa
- South African Airways
- ACSA
- Denel
- PRASA
- Armscor
- SITA

The following measures will be implemented to provide assistance to Black Industrialists in accessing markets:

- Leveraging state procurement through the PPPFA and targeted procurement for local production;
- Export market support, including export-readiness measures and export marketing;
- Support to access domestic supermarket shelves in partnership with participating supermarket chains; and

- SOCs will be encouraged to publish long-term procurement opportunities as per SOC's demand management strategies to assist black industrialists to position themselves for such opportunities.

### **3.5.1 DESIGNATION**

SOCs and government departments must abide by the National Treasury prescripts on the designated sectors.

### **3.5.2 PRIVATE SECTOR**

The private sector has an important role to play in facilitating economic inclusion through among others, supplier development providing off-take agreements, assisting new comers to adhere to standards and quality requirements and establishing the necessary industry networks.

South African and multinational corporations can play a significant role as a vehicle for black industrialists to access international markets by enabling Black Industrialists to be part of local and global supply chains. Participation in such supply chains can lead to technology transfer and more efficient business models, thereby raising the international competitiveness of black industrialists.

**the dti** will partner with large and medium enterprises to offer opportunities to Black Industrialists through strategic partnership agreements that will detail the types of opportunities being offered. Monitoring and evaluation of such agreements will be done by **the dti**.

### **3.5.3 STATE-OWNED COMPANIES**

Of importance is for the Cabinet to allow SOCs to set targeted procurement for the promotion of Black Industrialists in the manufacturing sector.

## **CHAPTER 4: OTHER SUPPPORT MEASURES FOR BLACK INDUSTRIALISTS**

### **4.1 INTRODUCTION**

Feedback from various consultation sessions and stakeholders who participated in the development of this policy suggests that the main area of support needed to develop Black Industrialists is access to finance and markets. It was also highlighted that the following support measures will be necessary to develop sustainable Black Industrialists:

#### **4.1.1 TRAINING AND CAPACITY BUILDING**

Technical skills and know-how are critical to the success of industrial enterprises. Such support must be complemented with training and capacity-building that will enable the owners to manage sustainable businesses. In this regard, the following measures will be implemented:

4.1.1.1 Specialised technical and vocational training will be leveraged through both national and international partnerships. Selection of training will be guided by the priority sectors, value chains and products for which technical skills and know-how are required; and

4.1.1.2 Mentorship support, where experienced industrialists will provide guidance, targeting the development needs of participating beneficiaries. The intention is to provide customised guidance in key areas such as financial management, operations and production planning, human resource development, administration, marketing and business continuity.

#### **4.1.2 MATCHMAKING AND INFORMATION-SHARING**

A portal will be developed to increase the visibility of Black industrialists and facilitate matchmaking. Networking opportunities will be facilitated to communicate emerging procurement and business opportunities for qualifying Black industrialists.

#### **4.1.3 RESEARCH AND INNOVATION SUPPORT**

Where applicable, support will be provided to Black Industrialists for commercialisation of new technologies and the intellectual property registration of such. Information on access to government support for innovation will be provided.

Research and development will be undertaken on an on-going basis to inform policy; this will be done in partnership with key research institutions in and outside the state.

#### **4.1.4 QUALITY STANDARDS AND PRODUCTIVITY SUPPORT**

One of the challenges confronting domestic and black enterprises is the perception that local products are of poor quality. In addition, the high costs of adhering to quality standards and approvals prohibit black enterprises from acquiring quality standards. Measures will be put in place to encourage Black Industrialists to conform to quality standards and continuous improvement. This will be done in partnership with a range of organisations, such as the South African Bureau of Standards and Productivity South Africa.

#### **4.1.5 ECONOMIC INFRASTRUCTURE**

Economic infrastructure support, including Special Economic Zones, industrial parks and clusters, will be utilised to assist Black Industrialists.

#### **4.1.6 OTHER INITIATIVES**

While attention will be given to the areas highlighted above, it is recognised that other initiatives of the State will be needed to support the development of sustainable Black Industrialists and enterprises in general. Some of these initiatives are already being implemented through the cluster process of Government.

## CHAPTER 5: IMPLEMENTATION MECHANISMS AND REPORTING

### 5.1 INTRODUCTION

5.2 The oversight of this programme will be done through the Presidency, supported by Cabinet, with advice from the Presidential Advisory Council on B-BBEE.

5.3 Guidelines for the implementation of the policy will be developed based on Cabinet approval.

5.4 The BIP will be coordinated by **the dti**, as is the IPAP, which is a programme of the Economic Sectors, Employment and Infrastructure Development (ESEID) Cluster. The Minister of Trade and Industry, in collaboration with ESEID departments, will report to Cabinet bi-annually on the achievements and emerging challenges of policy implementation. This will include key areas where Cabinet support is required to fast-track implementation.

5.5 Monitoring and evaluation of the policy will be undertaken every three years, working together with the Presidency.

5.6 In **the dti**, specific resources will be re-directed to manage the financial and non-financial support aspects of the policy.

5.7 The implementation strategy will include:

5.7.1 A comprehensive risk management framework to address unintended consequences, fronting, undue risk and all related challenges pertaining to the policy; and

5.7.2 An integrated communication strategy to ensure transparency, fairness and accessibility.

## CHAPTER 6: CONCLUSION

Several calls have been made by the Government for inclusive growth, where ownership of the economy mirrors the demographics of society, affording all citizens an equitable opportunity to participate and benefit from the economy. These calls have largely been ignored or resisted. The democratic Government is therefore faced with the monumental task of redirecting the course of history within South Africa in a manner that seeks to redress the evils of the past, while forging a progressive path towards economic prosperity for all citizens.

It is within this context that the Black Industrialists Policy gains prominence as part of the State's response to the question of economic transformation. It provides a framework within which the State can begin to alter the patterns of ownership within the economy. Lessons learned from South Africa's experiences, together with international perspectives on economic transformation, provide a strong basis upon which South Africa can begin to rebuild its economic prosperity. This knowledge, coupled with deliberate and targeted State interventions, will begin to bring about transformation as envisioned by the founders of a democratic South Africa.

The Black Industrialists Policy proposes bolder interventions on the part of the State in partnership with the private sector to expand the industrial base of the country and grow the economy. The Black Industrialists Policy will focus on coordinating and promoting industrialisation and transformation through the support of Black industrialists in the manufacturing sector.

The key interventions proposed in the Black Industrialists Policy are access to finance and markets. In terms of access to finance, a Black Industrialists Funding Package will be developed and implemented. Funding support for Black Industrialists will include a cost-sharing finance for the procurement of new capital equipment, working capital support through concessional loans to ease working capital pressure, and the funding of feasibility studies and business support, including licences, quality assurance and standards.

The policy proposes various initiatives to enable access to markets, including leveraging state procurement through the PPPFA and targeted procurement. Black Industrialists will be given export market support, including information on targeted markets. It is envisaged that collaboration within government, SOCs and the private sector can address challenges of access to markets confronting black enterprises.

The Presidency will play a leading role in providing overall oversight of the Black Industrialists Policy. Other key institutions will include Cabinet and the different cluster departments, with the Presidential Advisory Council on B-BBEE playing an advisory role. **the dti**, being the custodian of the policy, will be responsible for coordinating implementation. The Minister of Trade and Industry will report to Cabinet bi-annually on the implementation of the policy, its achievements and emerging challenges.

It must be emphasised that the implementation of this policy is not the domain of a single government department, but requires intensive coordination across a range of government departments and entities for successful implementation.

## REFERENCE LIST

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