

CONCEPT AND POLICY FRAMEWORK ON THE DEVELOPMENT OF BLACK INDUSTRIALISTS

1. Introduction

Since the fall of institutional Apartheid the democratic Government has been involved in an organised effort to reconstruct South African society in a manner that overturns the apartheid social and economic architecture. This objective derives from the South African Constitution's injunction that we need to restore the dignity of all citizens through deliberate socio-economic promotion of the historically marginalised sections of the population.

In this context, the State has a moral obligation to creatively harness national resources towards the resolution of the historical injustice of racial, gender and class exclusion in all spheres of life. In the realm of economic life, this implies the need to transform the patterns of asset ownership in a manner that reinforces the national objective of building a society that truly belongs to all who live in it. This derives from the recognition that the bulk of industrial assets in South Africa have, until now, been racially concentrated, thereby generating uneven social and economic relations that undermine this national objective.

In light of the foregoing, the democratic Government has developed various policy instruments with the objective of achieving an inclusive economy. All of these instruments have been aggregated within the strategic framework of Black Economic Empowerment. These interventions have all been directed towards transforming the structure of the South African economy in a manner that promotes spatial integration, high levels of decent employment and demographic transformation of our industrial assets.

However, it is important to note that the goal of a dynamic and sustainable growth need not be achieved at the expense of economic inclusion as the two are not mutually exclusive but rather intertwined; as reflected by both the National Development Plan (NDP) and the Industrial Policy Action Plan (IPAP).

The NDP outlines South Africa's Vision 2030 and seeks to eradicate poverty and reduce inequality. It recognises the importance of improving the quality of economic management for the purposes of both sustainability and impact on inclusion. To achieve more dynamic growth trajectory, all South Africans must work together to carry out measures to create a united society and inclusive economy that is characterised by less inequality. This must be an economy that creates high levels of sustainable employment and equitable distribution of the wealth produced.

The IPAP requires the country to pursue an industrial development path that is characterised by increased participation of previously marginalised citizens and regions of our country. This is an acknowledgement that if no special measures are put in place, the countries can possibly industrialise and become globally competitive while at the same time deepening apartheid patterns of economic development and wealth distribution. The IPAP also

outlines specific measure to achieve a more dynamic and sustainable economic growth; which is a core goal of the National Development Plan.

All these pillars place particular emphasis on the need to strengthen and increase black participation in the mainstream economy which remains stubbornly concentrated in the white minority. The continued economic dominance of the white minority, as reflected through the patterns of ownership, management and control of strategic resources within the economy; systematically directs almost all economic opportunities and benefits away from the majority black population.

It is in the context of the above that the Black Industrialists Programme arises. It is a practical tool of achieving the demographic transformation of economic power and spatial concentration within the overall industrial strategy outlined in IPAP and the objectives of national development as articulated in the NDP.

2. DEFINITION OF BLACK INDUSTRIALISTS

In conventional terms, the concept of black industrialists refers to black people directly involved in the origination, creation, significant ownership, management and operation of industrial enterprises that derive value from the manufacturing of goods and services at a large scale; acting to unlock the productive potential of our country's capital-assets for massive employment locally. The following are important elements of being an "industrialist":

- Significant influence in an enterprise or industry;
- Control of an enterprise through shareholding;
- Board and executive management control; and
- Production of products (goods and/or services) with significant wide use.

For the purposes of this programme, the term Black Industrialist will in a general sense refer to black South Africans who own and, through significant shareholding; control an enterprise whose products are significantly used and have significant impact on decent employment and creates broad based economic opportunities.

The term Black People is a generic term that includes people of African, Coloured and Asiatic origin that 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.

The term Economic Transformation is defined by the Strategy for Broad-Based Black Economic empowerment (**the dti**; 2003 as transition from an economy that confined wealth creation to a racial minority into one that benefits all citizens; and is characterised by ownership, management and control of factors of production by previously marginalised communities).

3. PROBLEM STATEMENT AND RATIONALE

Despite the strides already made by Government and the country at large in promoting and supporting the development of black enterprises and black industrialists, it is still evident that black entrepreneurs and industrialists are still marginal players in the mainstream economy. Thus, by implication, South Africa's industrial base is still racially dominated and more strategic measures are necessary to alter this demographic profile in industrial asset ownership. The following are some of the factors informing the development of special measures to promote and support black industrialists:

- There is a need to expand the base of entrepreneurs and industrialists from the current small base of mainly white entrepreneurs and industrialists. The black majority need to produce more and more entrepreneurs and industrialists as a way of creating multiple avenues for channeling economic opportunities and benefits to the black population. Expansion of the base of black industrialists may rapidly create more employment and thereby rapidly reduce poverty and inequality,
- By far, the current support measures for industrial and enterprise development are biased towards the dominant players in industry and business, namely, whites. While these measures are necessary for continuous and sustainable economic growth, competitiveness and innovation; they continue to reproduce the marginalisation of black entrepreneurs and industrialists,
- The current base of white entrepreneurs and industrialists was created through dedicated mechanisms to promote and produce white industries and businesses. It is clear that black entrepreneurs and industrialists cannot emerge and play a more meaningful role in the economy without special support measures dedicated exclusively to them,
- Black entrepreneurs, industrialists and business continue to contend with greater barriers and obstacles compared to their white counterparts; due to the country's political and economic history. The greater majority of black entrepreneurs have no historically accumulated capital-assets as a result of our history of political and economic suppression. Thus, they have limited capacity to finance their industrial ambitions and have difficulty getting private credit without productive assets to use as collateral.
- The tendency of Development Financial Institutions has been to employ similar measures as those of commercial banks in determining eligibility for credit access. There is a need to systematically align the respective functions of these Development Finance Institutions towards a quantitative black economic empowerment output that will qualitatively alter the racial balance of industrial ownership.
- South Africa's industrial economy is spatially concentrated and systematically leaves out great sections of the population in investment-starved regions. Thus, a stronger base of competitive and innovative black entrepreneurs and industrialists is not only necessary but may also be better placed to drive the Government's efforts for industrial decentralisation, given that the black population is more regionally spread than the white population,
- The South African government has both the political and moral responsibility to develop and introduce measures and instruments for economic redress; as reflected by, amongst others, the following key policies:

- i) Constitution of the Republic of South Africa, 1996 (Act No.108 of 1996)
- II) Broad Based Black Economic Empowerment Amendment Act, 2013 (Act No. 53 of 2003)
- III) Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
- IV) Industrial Policy Action Plan (Iterations 1 – 6)

4. STRATEGY AND APPROACH

4.1 Policy Objectives

The policy seeks to achieve the following objectives:

- Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy through state-backed integration plan into selected industrial sectors and value chains; as reflected by their contribution to growth, investments, exports and employment,
- Create multiple and diverse pathways and instruments for Black Industrialists that will enable them to enter strategic and targeted industrial sectors and value chains in the short to medium terms; pursuing a higher aggregate control of productive assets throughout the national economy in the long-term.
- Building broad consensus among key state entities for a coordinated approach to supporting Black Industrialists,
- Positioning of Black Industrialists as drivers of BBBEE by providing opportunities for small to medium enterprises (SME) along their value – chains
- Creating greater industrial linkages amongst black entrepreneurs and established industrial enterprises through customised networks and delivery mechanisms,
- Improved capacity and competitiveness of black manufacturers through use of modern technology and innovation.

4.2 Principles

The development and implementation of support measures for Black Industrialists will be under-pinned by the following principles:

- Principle 1: Not every black business person is an industrialist. Therefore there will be a need to identify and select only those black businesspersons who not only own, manage and control their business operations; but also directly involved in the origination, creation and operation of industrial enterprises that derive value

from the manufacturing of goods and services at a large scale; and thereby acting to unlock the productive potential of the country's capital assets for massive employment,

- Principle 2: Selection and prioritisation of industrial sectors and value chains, and development and implementation of sector specific support measures,
- Principle 3: Exclusive support measures that take into account the need for economic redress, and also responsive to the needs of entrepreneurs and specific conditions of the prioritised industrial sectors,
- Principle 4: Regional diversity and decentralisation to ensure that benefits are not just concentrated in the established industrial hubs and regions,
- Principle 5: Partnerships with the private sector and across Government agencies to ensure alignment and coordination of support instruments and delivery platforms,
- Principle 6: Majority black ownership, executive management and board control. At least 51% of shareholding must be in black hands;
- Principle 7: Reciprocal arrangements to ensure that beneficiaries in turn provide benefits to society and communities. These arrangements may include employment performance, skills development and transfers, corporate social responsibility, labour-standards, etc.
- Principle 8: Beneficiaries of state developmental support need to be committed to re-investment in industrial expansion to achieve an ever increasing narrative of economic growth and employment creation.

4.3 Targeted beneficiaries

The following categories of beneficiaries will be targeted and supported through special and exclusive support measures:

4.3.1 Established industrialists: This category includes those that have extensive experience, operations, and track record in their respective industrial sectors and value chains; and who require support to expand their operations and/or improve their business efficiencies.

4.3.2 Emerging industrialists: This category includes those that are new entrants and/or about to enter into operations.

Each category of beneficiaries will require unique support measures that respond to their needs, contexts, and sectoral dynamics.

4.4 **Priority sectors**

Prioritisation of industrial sectors will be informed by a combination of factors including industrial policy direction, presence of black players in specific value chains, taking advantage of strong state levers in certain industrial sectors. The following are the initial set of prioritised industrial sectors in which this programme will be carried out:

- i) Agriculture
- ii) Construction
- iii) Financial services
- iv) Manufacturing
- v) Mining and mineral beneficiation
- vi) Services
- vii) Creative Arts

4.5 **Support Programmes**

4.5.1 **Access to Finance**

The challenge of access to finance is the main constraint confronting black entrepreneurs in general. This is due to, amongst others, the limited pool of financiers, the high cost of borrowing, borrowing conditions that most entrepreneurs cannot meet, etc. to address the challenge of access to finance for black enterprises and industrialists, the following measures will be carried out:

- Low interest loans through the DFIs for priority sectors and value chains.
- Syndicated financing wherein the DFIs will agree and carry out common standards and protocols in assessing financing requests while also sharing costs, risks and rewards.
- Relevant incentives for black enterprises within **the dti** will be improved while at the same time improving processes and responsiveness.

4.5.2 **Access to Markets**

One of the critical success factors for any enterprise is the ability to sell its products in the market place at a price that allows that enterprise to cover all its production costs and make a profit. One of the major challenges confronting black enterprises is the huge barriers to markets. These barriers are caused by, amongst other things, the fact that

many sectors of the economy are highly concentrated and dominated by a few large corporations. To provide assistance to black industrialists to access markets, the following measures will be carried out:

- Leveraging state procurement through the Preferential Public Procurement Act and the set-a-sides. This will involve the deliberate and systematic ring – fencing of procurement opportunities within the public sector which can only be accessed by Black Industrialists.
- Export market support including export readiness measures and export marketing
- Support to access domestic supermarket shelves in partnership with supermarket chains that take part.

4.5.3 Training and Capacity Building

Technical skills and know-how are critical to the success of industrial enterprises. However, South Africa's history has resulted in the denial of access to technical skills and know-how to blacks in general. This has made it very difficult for black entrepreneurs to both acquire critical technical skills and access this technical know-how. In this regard, the following measures will be carried out:

- Specialised technical training, in partnership with development partners, will be provided in selected areas. Selection of training will be guided by the priority sectors, value chains and products for which technical skills and know-how are required.
- Mentorship support where experienced industrialists will provide guidance targeting development needs of participating individual entrepreneurs. The intention is to provide customised guidance in all the key areas such as financial management, operations and production planning, human resource development, administration, marketing and business continuity.
- Incubation support wherein upcoming entrepreneurs and enterprises will be given incubated support in protected conditions until they are able to operate on their own in the external unprotected environment and remain sustainable and profitable.

4.5.4 Quality Standards and Productivity Support

One of the challenges confronting domestic enterprises and black enterprises is a perception that local products are of poor quality compared to foreign ones. In addition, the high costs of accessing quality standards and approvals prohibit black enterprises from using acquiring quality standards such as ISO1400, etc. To address these challenges, measures will be in place to encourage acquisition of quality standards and continuous improvement and competitiveness of black industrialists and enterprises. This will be done in partnership with a range of organisations such South African Bureau of Standards, Productivity South Africa and others.

4.6 Delivery mechanisms

Given the significant challenge of developing Black Industrialists, a variety of delivery mechanisms need to be used to ensure responsiveness, relevance, efficiency and effectiveness. The following delivery mechanisms are to be used individually or in combination; to support the development of Black Industrialists:

- Government departments platforms;
- State-owned enterprises, especially Development Financing Institutions;
- Business organisations and chambers; and
- Research and education institutions such as universities, technical and vocational education institutions, etc.

The delivery mechanism used will be determined by, amongst others, the intervention programme design, capacity of entities, ability to deliver quality support speedily.

5. IMPLEMENTATION

The following are the planned steps and actions towards the full implementation of the Black Industrialists Development Programme:

- Development of a comprehensive Black Industrialists Programme within the 2014/15 financial year.
- Establishment of a Black Industrialist Programme Management Committee (PMC), Operations Centre and appointment of a competent programme manager within the 2015/16 financial year
- Identification of economic opportunities within major sectors for Black Industrialists on an ongoing basis.
- Identification of existing and proposed support interventions by the state and other role players that can support Black Industrialists on an ongoing basis
- Consolidation of institutional arrangements between primary PMC member organisations through legally binding agreements within the 2015/16 financial year.
- Embark on annual nationwide roadshows and outreach to solicit stakeholder views, opinions and support through a consultative process.

6. ETHICAL CONSIDERATIONS

In drafting this policy the following ethical considerations have been taken into consideration:

- Broad Stakeholder Consultation

- Transparency and Accountability
- Equitable Participation and Representation
- Social Responsibility
- Fronting and misrepresentation
- Environmental Conservation and Preservation

7. CONCLUSION

The development and implementation of a Black Industrialists Development Programme is both a constitutional and a pragmatic response to the socio-economic development challenges that the country faces. A small base of white industrialists cannot be expected to create the amount and type of wealth that will ensure economic success and prosperity for the majority.

On the other hand, a rapid expansion of the pool of Black Industrialists cannot take place without dedicated support measures that respond to the needs of the Black Industrialists and also the regional and sectoral contexts in which they operate. In addition, the delivery mechanisms should be responsive to the needs of the Black Industrialists. Partnerships with a wide range of public and private sector entities will be one of the key principles in the delivery of this Programme.

The measures outlined in this document signify the beginning of a concerted and government-wide effort to push forward the agenda of radical economic transformation. The ultimate goal is a successful and prosperous South African economy that adequately meets the needs of all its citizens and regions; and its wealth is shared equitably among all.