

Presentation to the Select Committee Trade
and International Relations
24 February 2016

Black Industrialist Policy
by The Department of Trade and Industry

Background

- In 2012, the President requested the previous members of the Presidential Black Economic Empowerment Advisory Council to define the concept of black industrialists
- In October 2013, at the National Broad-Based Black Economic Empowerment Summit, the concept of Black Industrialists was further discussed in detail.
- The Council's recommendations on the development of a Policy Framework for the development of black industrialists, together with the outcomes of the National Broad-Based Black Economic Empowerment Summit were tabled in Cabinet in March 2014.
- Cabinet then mandated the Department of Trade and Industry to develop the policy framework.
- The policy was approved by Cabinet on 4 November 2015 and launched in December

Background

- The Black Industrialists Policy is a key part of government's broad industrialisation initiatives to expand the industrial base and inject new entrepreneurial dynamism in the economy as highlighted in the latest iteration of the Industrial Policy Action Plan (IPAP).
- This policy complements the BBBEE by focusing support directly at black manufacturers.
- Current support measures provided to business in general by the department will continue as normal.

Problem Statement

- 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.

Problem Statement

- 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.

Problem Statement

- 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.
- 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.
- 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.
- 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.

Objectives

- 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.
- It proposes focused interventions to facilitate 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.
- These interventions must 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 are black industrialists

Definition: Black Industrialist

- A Black industrialist is a juristic person that includes co-operatives, incorporated in terms of the Companies Act (2008) that is 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.
- The following are characteristics of a Black industrialist:
 - Provides strategic and operational leadership to the business;
 - has a high level of ownership (>50%) and/or exercises control over the business;
 - identifies opportunities and develops business to take advantage of these opportunities (entrepreneurial);
 - takes personal risk in the business; does business in the manufacturing sector, with particular reference to IPAP focus areas; and
 - makes a long term commitment to the business and is a medium to long term investor.
- 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.

Intended Beneficiaries

- This policy targets Black Industrialists as defined
 - to expand, start a new operation or acquire an existing enterprise to become a major player in the domestic and/or global markets
- Such entities should be
 - operating in the manufacturing sectors
 - 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)
- Majority Black owners with operational and management control must be directly involved in the day-to-day running of the operation and have the requisite expertise in the field

Initial prioritised sectors

- 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
- Sectors designated for local procurement

These sectors will be reviewed from time to time in line with the country's development path

Envisaged contribution of Black Industrialists

- It envisaged that the industrialists will contribute towards South Africa's developmental objectives, including:
 - job creation,
 - exports,
 - skills development,
 - supplier development,
 - industrial decentralisation and
 - localisation.

- Support will be provided to:
 - access capital,
 - markets and contracts and
 - Improve visibility of Black Industrialists

Financial support

- 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 :
 - Early stage capital 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.

Financial support

- Support will be provided through concessional loans, investment grants and concessional export insurance funding and export market exploration support.
- The dti is working with all Development Finance Institutions to assist black industrialists.
- The Black Industrialist Financing Forum has already been established to facilitate syndicated funding for black industrialist.
- Some of the DFIs have already set aside funding for this purpose.
- We are inviting interested private sector funders to also join us.
 - A number of banks have already approached the dti, indicating their interest to partner with government on this initiative.
- Detailed guidelines and application process will be published

BI Funding package

- **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.
- Transactions will be 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.

Key Conditions for support

Projects to be supported must demonstrate some public benefits to justify Government's involvement by meeting the following criteria:

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

Market Access support

- 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.

Market Access support

- The dti is working with various institutions to facilitate access to market opportunities, these include:
 - State-Owned Enterprises
 - Government departments;
 - Chief Procurement Office – Transversal and Targeted procurement
 - Private Sector companies
- State Owned Enterprise Procurement Forum has already been established to facilitate access to contracts within the procurement rules of each State Owned Enterprise.
- 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.

Market Access support

- Specific interventions includes:
 - Export market support, including export-readiness measures and export marketing;
 - Support to access domestic supermarket shelves in partnership with participating supermarket chains;
 - partnership 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
 - 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.

Other support measures

- A suite of other support measures will also be made available to increase visibility of Black Industrialists these include:
 - Establishing a portal for networking and match-making
 - Facilitating mentoring and incubation of Black Industrialists
 - the incubation programme of the dti will be tailor made for this purpose.
 - Support 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
- 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

Implementation and oversight

- In **the dti**, specific resources will be re-directed to manage the financial and non-financial support aspects of the policy.
- The oversight of this programme will be done through the Presidency, supported by Cabinet, with advice from the Presidential Advisory Council on B-BBEE.
- Guidelines for the implementation of the policy will be developed
- 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. Areas where Cabinet support is required to fast-track implementation will also be highlighted
- Monitoring and evaluation of the policy will be undertaken every three years, working together with the Presidency.

Conclusion

- The black industrialist policy is an important intervention to contribute to transforming the industrial landscape.
- The policy will enable the necessary support mechanisms and financial products that could be taken advantage of by black business in stimulating rapid industrialisation.
- Implementation of this policy will take into consideration the participation of women, youth and people with disabilities.



THANK YOU