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**South Africa's Black Industrialists Scheme: Evaluating programme design,
performance and outcomes**

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Abstract

This paper reflects on the key insights from a 2019 survey of firms under the Department of Trade and Industry (DTI) Black Industrialists Scheme which was launched in South Africa in 2016 with the aim of effecting a 'qualitative and quantitative increase in the participation of black owned manufacturing firms in the economy'. The study also draws on data from the DTI's database and detailed interviews with beneficiaries, other development finance institutions (DFIs), and publically available information to critically review the performance of the programme relative to its objectives, and the evidence on the barriers to entry that face firms in the South African economy. By considering various themes such as outcomes in targeted economic performance areas, access to finance, market access, programme administration of applications and disbursements by the DTI and other agencies, the report makes recommendations on how to improve the programme even at this early stage given its substantial catalytic impact overall and the positive contribution of the beneficiaries in terms of investment and employment. Key issues identified are lack of coordination between DFIs, the complexity of application processes at DTI and other DFIs, lack of working capital support, limited market access, weak communication and operational responsiveness, and lengthy periods taken for disbursements under the claims-based grant system.

JEL classification: L60, O25

Keywords: Black Industrialist Scheme, barriers to entry, development finance, industrial policy

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Executive summary

The Black Industrialists Scheme (BIS) was created by the Department of Trade and Industry (DTI) with the primary aim of transforming the manufacturing industry in South Africa through prioritisation and inclusion of black businesspeople (NCOP, 2016). The underlying premise is that development of the manufacturing sector generally, and broadening participation within it including through the production of higher value products and associated jobs, is critical for establishing a new economic growth trajectory for South Africa. A key focus of the BIS in terms of the theory of change and policy framework, is to effect a qualitative and quantitative increase in the participation of black owned manufacturing firms in the economy.

This report draws together the survey responses of 39 companies supported by the BIS, based on an online survey conducted in May 2019. It also draws on data from the DTI's own database of BIS applicants and disbursements, detailed interviews with selected recipient companies, and those that have benefited from support from other initiatives, and publically available information. Interviews and verification workshops were also conducted with representatives of DTI and other government agencies.

The respondents to the survey represent an interesting cross-section of companies from various economic sectors, with a strong representation of those from the chemicals, pharmaceuticals and plastics industries. The respondents are also widely distributed, in terms of geographic location, across a wide range of municipal areas primarily in Gauteng and KwaZulu-Natal. The responses vary, albeit from a relatively small sample, in terms of the experiences of companies with BIS processes and participating in the economy with many companies raising both benefits and differing concerns with the programme specifically, and barriers to entry in the economy more broadly.

The report is structured to group key areas of interest regarding implementation of the BIS, beginning with performance against the main targeted economic performance areas, before considering the issues relating to access to finance, market access and challenges expressed regarding the administration of applications and disbursements by the DTI and other agencies.

The main findings are important for allowing the DTI and government generally to reflect on the strengths and opportunities of the design of the programme and its performance, even at this very early stage of its implementation. The approach of analysing the various issues raised within the first four years of the implementation of the programme is intended to enable a proactive and adaptive policy response to addressing the challenges faced by companies with respect to the programme's implementation and administration, as well as its design in line with the theory of change.

Key issues emerging from the assessment are as follows. While beneficiaries have expressed a positive view of the need for the programme and the manner in which it has aided their businesses, there are significant administrative problems with the time taken for processing applications, the complexity of application review processes at DTI and other co-funders such as the Industrial Development Corporation (IDC), weak communication and responsiveness of DTI in some cases, and lengthy periods taken for disbursements under the claims-based grant system. The set of recommendations proposed in this regard, drawing from the inputs of respondents, emphasise that the main challenges can be addressed in relatively practical and straightforward ways.

There are also broader challenges with the absence of programmes for working capital support for beneficiaries, and the very different and uncoordinated approaches of DTI and other government and private sector co-funders. These issues point to remaining challenges around access to finance, and particularly the need for finance which is patient and recognises the time it takes for entrant firms to learn and develop capabilities and start to become profitable. Despite these challenges, many respondents confirmed that they would not have been able to go ahead with the planned investments for which they applied for BIS support had they not received approvals from DTI. The latter is a very positive marker in terms of the contribution of the BIS overall, in that the programme is being responsive to needs of entrant and black owned companies, despite the observation that some of the companies surveyed are of sufficient scale and experience to have been able to source finance from alternative channels if their BIS applications had not been successful. Notably, the substantial investments by the BIS beneficiaries have gone along with positive outcomes in terms of employment (albeit concentrated amongst a few firms in the sample available), and other economic benefit criteria such as the progressive integration of new and green technologies, reduction of costs, and establishing increased market presence (growing output) over time.

Development of smaller and black owned firms also requires other forms of non-financial support given the scale of barriers to entry in the economy, and the persistent challenges of these firms with integrating into existing value chains and accessing private sector and state owned companies as customers. To the extent that these issues relate to the need for smaller companies to improve their competitiveness and operational effectiveness particularly in the first four years of their operations, the report recommends steps to provide cost and business development support in different ways, where feasible. Government, in fact, has various programmes and initiatives in place to assist companies in this regard. However, many respondents noted that they were either unaware of these programmes, or that they had not identified programmes that are aligned with their needs as businesses. That being said, there are some case studies which show that small enterprises have been able to graduate

successfully through different incubation, start-up and investment support initiatives of government (including the BIS), which suggests that the network of support initiatives that is in place can work to develop companies through various stages of their business lifecycle if there are improvements in the communication, coordination and administration around these initiatives. Areas identified for significant improvement in the design of the programme include coordination between government agencies and departments (including funders) providing different forms of support, as well as addressing the market access challenges faced by beneficiaries that have had poor experiences with accessing both state-owned company and private sector value chains. These improvements will be critical to achieve greater benefits from the additional funding which has been committed by government to the BIS over the coming years.

1. Introduction

The Black Industrialists Scheme (BIS) was created by the Department of Trade and Industry (DTI) with the primary aim of transforming the manufacturing industry in South Africa through prioritisation and inclusion of black businesspeople (NCOP, 2016). The underlying premise is that development of the manufacturing sector generally, and broadening participation within it including through the production of higher value products and associated jobs, is critical for establishing a new economic growth trajectory for South Africa. The emphasis on empowering black owned businesses in particular, relates to the continued concentration of economic power in the economy in the hands of the few, and the apartheid legacy of limited participation in the economy by black individuals as owners of productive assets and resources. There is therefore a compelling political and economic imperative to foster the inclusion of black business owners in the mainstream economy, going beyond those that have obtained ownership of established businesses through the Broad-Based Black Economic Empowerment strategy.

Early discussions around the BIS began in the mid-2000s, although the policy was only approved by Cabinet in November 2015 and launched publicly in February 2016. The scheme was initially intended to assist black industrialists (BIs) by providing concessional (grant plus debt) funding through a central office which sources funding from the other development finance institutions (DFIs) such as the IDC and various provincial DFIs. The BIS was also created to provide other market interventions to assist these businesses in terms of access to markets including through procurement and supplier development agreements with state-owned enterprises (SOEs) and the private sector. This would involve the creation of a monitoring mechanism to strengthen the provision of effective post-investment non-financial support.

In order to be effective and impactful, the BIS intended to collaborate and coordinate activities with other stakeholders (i.e. DFIs, private funding institutions, other government departments, and potential large private sector clients such as retailers) through establishment of fora that can act as implementation vehicles. In particular, reference is made to the Black Industrialists Funding Forum (BIFF) to place different funding houses together for effective and efficient allocation of funds, and the State-Owned Enterprises Procurement Forum (SOEPF) to explore market opportunities for black industrialists both in the public and private sector.

Therefore, given the clear strategic positioning of the programme to foster inclusive growth, especially through economic structural transformation, the Industrial Development Think Tank (housed at the Centre for Competition, Regulation and Economic Development) was tasked by the DTI to conduct an economic evaluation of the design and outcomes of the programme

to date. However, it is important to note that the programme has only been in existence for four years and so a full impact and institutional assessment would be premature. Nonetheless, it is possible to reflect at this stage in order to ensure that the programme can be improved and strengthened proactively.

This report reflects on the key insights from a survey of BIS beneficiaries – Black Industrialists (BIs) – conducted in May 2019 and interviews conducted with DTI officials, other government business support agencies and private funders. It analyses the performance of the programme relative to the objectives set out initially, and critically assesses whether the programme is appropriately designed to overcome some of the barriers to entry that characterize the South African economy. In addition, the paper seeks to match the value of the investments against the realized and expected economic wide benefits.

2. Research methodology and focus areas

CCRED conducted an online survey of all applicants and beneficiaries of the BIS using Google Forms for the analysis of support for small black-owned businesses in South Africa. With a total of 93 questions, the survey covered 13 topics including: the ability to access start-up capital, the size of the BIS and the ability to access BIS funding, the ability to access capital from other financial institutions, the efficiency of the BIS application process, the needs of BIs in terms of key cost parameters, and overall challenges facing SMEs. These topics and survey questions were developed through an iterative process with DTI, with several rounds of comments from the DTI and engagement with other agencies. The final version of the survey was thus developed to be responsive to the BIS guidelines and was also informed by previous barriers to entry research conducted by CCRED and other organisations.

Contact details of BIS applicants and beneficiaries were obtained from the DTI's BI database under confidentiality provisions, and where necessary the names of companies have been concealed in the reporting in this paper. A total of 255 BIS applicants were contacted and emailed with a link to the survey. Recipients of the email included those that have been approved onto the scheme, as well as those that were unsuccessful at the application stage. In the case where they were approved, these include industrialists that have not claimed their grant, and those that have claimed their grant and are awaiting full disbursements.

The survey was sent to the BIS contact list in May 2019, along with several follow up correspondence. A total of 39 responses were received. Eight additional emails were received from industrialists explaining that they could not participate for reasons such as not being approved on the BIS or having been recently approved but having not commenced trading. As it was not explicitly stipulated that the survey is targeted to all industrialists as long as they have had some experience with the BIS application process, this is likely to have affected the

response rate. We also appreciate that the length of the survey and some of the extensive detail required in the responses may have also negatively impacted the response rate.

The survey included questions relating to financial and production information of the businesses (projected investment, turnover, net profit, costs and production output) as well as questions relating to the economic benefit criteria as stipulated by the BIS guidelines. Responses to these questions were cross-checked with the DTI's database in order to verify information. In certain instances, the DTI's database was relied on as this was deemed a more complete source of information in conjunction with the survey data (these cases are indicated throughout the report where relevant). The survey questions are included in the appendix of this report. In this report, particular emphasis is placed on the following key issues relating to the policy priorities of the DTI, admission criteria to the BIS, and key performance and impact areas of the programme:

- **Theory of Change Analysis:** Although in its early stages of implementation, the BIS initiative is responsive to a Theory of Change premised on the potential developmental impact of providing targeted support to BIs. The report will, as far as possible, assess the preliminary outcomes of the BIS against the normative Theory of Change developed for the report, with reference to the below characteristics and outcomes of the programme, but not limited to these.
- **Employment:** Analysis of employment levels with emphasis on both employment created and employment sustained. The analysis considers employment levels prior to approval of DTI BIS grant, and levels of and changes in employment within beneficiary firms following disbursement. Where possible, data gathered and analysis thereof includes disaggregation at the level of specific categories (namely, youth, by gender, disability status, employment type etc.)
- **Investment:** Analysis of the level and nature of investments made by beneficiary companies, where possible indicating additional investments enabled by BIS.
- **Cost-Benefit Analysis:** Preliminary cost-benefit analysis of the BIS comparing in particular the economic benefits realised from the programme (including in terms of employment and job creation, investments etc.) against the DTI expenditure on the programme and disbursements to beneficiaries.
- **Economic Benefit Criteria:** Assessment of firm performance against economic benefit criteria as stated in the BIS guidelines. The report focuses, in particular, on the

following economic benefit criteria as set out for applicants in the DTI BIS guidelines¹, namely: Market Share, Quality Improvement; Green Technology and Resource Efficiency Improvements; Localisation; and, Regional Spread.

- **BI Procurement Practices and Economic Contribution:** Assessment of procurement practices of the BIS beneficiary firms with a focus on whether the companies are procuring various services from other black owned enterprises and B-BBEE compliant companies.

3. BIS policy and theory of change

This section briefly discusses the BIS policy and the relevant Theory of Change (ToC), drawing from publically available information. The ToC is essentially a comprehensive description and illustration of how and why a particular programme (in this case the BIS) is meant to achieve the desired long-term goals. Ideally this should be set out explicitly as part of the conceptualisation of the programme before implementation can commence. Although this does not appear to have been the case with the BIS, this report provides a ToC as part of this evaluation, drawing from various government policy documents used in the formulation of the scheme. Assessment against such a ToC allows for a more comprehensive evaluation of the scheme through scrutinising the design and objectives of the programme in arriving at its intended outcomes.

The key elements of the ToC, drawing from policy documents, are presented in Figure 1 below. The diagram depicts the long-term goals and envisioned impact of the BIS on the South African economy, along with the necessary measures required to realise these goals and impact. That is, for the BIS to contribute to the reduction of poverty and inequality, it seeks to contribute to inclusive growth and structural transformation, thus requiring investment in the productive economy, exports of high value products and creation of sustainable employment. As stated in the policy guidelines, this further envisages a qualitative and quantitative increase of black producers of manufactured products.

These objectives are themselves a function of other measures and inputs. Therefore, the ToC in essence indicates that if the relevant inputs are delivered, and if these are effectively implemented, this should be evidenced in a number of long-term outcomes and the overall impact in the broader South African economy. These inputs include provision of adequate finance, provision of complementary non-financial support programmes, and assistance with penetration into markets given the concentrated nature of the economy overall. These

¹ DTI BIS Guidelines, available: https://www.thedti.gov.za/financial_assistance/docs/BI_guidelines.pdf

measures are necessary (although not sufficient) for emerging black businesses to confront the high barriers to entry that characterise several South African industries.

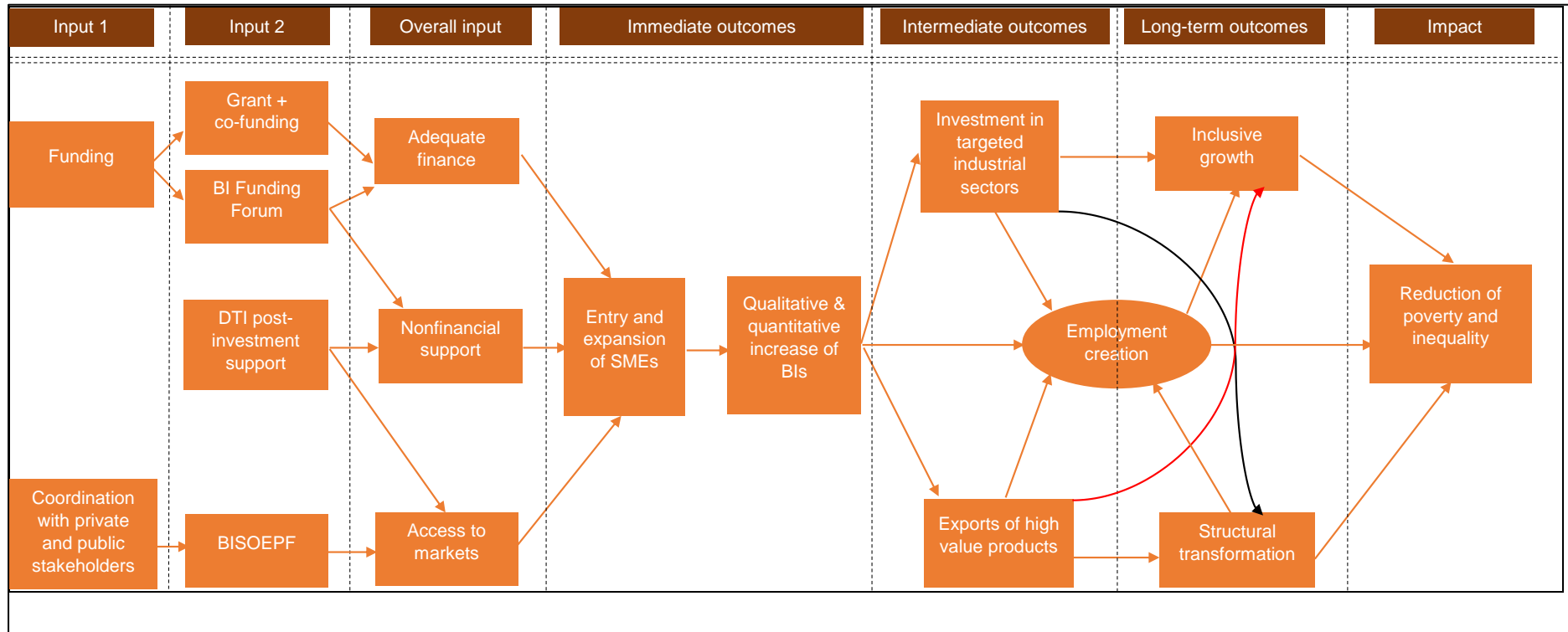
The expectation is that by addressing a specific set of barriers to entry through the various measures stipulated in the policy, the number of black industrialists as effective participants and competitors will increase. This expected outcome undoubtedly requires a multi-stakeholder approach. Hence these measures are highly dependent on the ability of the DTI to lobby, collaborate and coordinate the implementation process with different stakeholders such as other funding institutions, other government departments, and potential private and public sector consumers of industrial goods. Thus, the establishment of effective forums (with full representation from relevant stakeholders) are viewed as catalysts and engines of a process to reduce barriers to entry for black industrialists. The current Black Industrialist Funding Forum (BIFF) and the envisioned establishment of the Black Industrialists State-Owned Enterprises Procurement Forum (BISOEPF) are meant to play this role.

The BIFF consists of representatives of different funders that support the BIS, and aims to be a one-stop shop where BIs can easily and readily access finance. It is meant to have different funders under one roof, assessing applications and making funding decision timeously. On the other hand, the BISOEPF primarily targets issues of access to markets. Consisting of senior members from several SOEs and private sector representatives, it will be aimed at facilitating access to procurement opportunities, both in the private and public sectors. The committee of the forum will ensure that SOEs publish and fulfil long-term procurement opportunities as per their demand strategies. It will also facilitate access to domestic supermarket shelves by working with the retail industry and supermarket chains.

Underpinning the achievement of the desired outcomes through the programme implicitly relies on effective coordination within the DTI, but also with other stakeholders and government programmes that have the objective, in different ways, of increasing economic participation, labour absorption and growth. The effectiveness of the programme clearly also relies on it being sufficiently well resourced, monitored and evaluated. On the former, it is revealing that additional funding for the programme will be availed by government to enhance the reach and effectiveness of the programme.²

² Ensor, L. 'Billions in the pipeline for black industrialist projects, says Patel' (24 July 2019). *Business Day*. Available: <https://www.businesslive.co.za/bd/national/2019-07-24-billions-in-the-pipeline-for-black-industrialist-projects-says-patel/>

Figure 1: BIS Theory of Change



Source: DTI BIS policy documentation and adapted from DPME DNA Economics and Rebel Group (2018) 'Report on the Evaluation of Government Business Incentives'.

4. BIS policy criteria

This section sets out the key elements of the policy and guidelines for the BIS, including application criteria, funding approach, and the nature of support measures provided, which lays the basis for the assessment of the outcomes which is presented in sections to follow.

A black industrialist is a juristic person that includes co-operatives, incorporated in terms of the Companies Act (2008) that are owned by black South Africans, as defined by the B-BBEE Act, who create and own value-adding industrial capacity and provide long-term strategic and operational leadership to a business. A Black Industrialist can also be a natural person. BIs are African, Coloured and Indian persons who are natural persons and are citizens of the Republic of South Africa by birth or descent, or by naturalization before the commencement date of the Constitution of the Republic of South Africa Act of 1993. The term also refers to individuals who became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, had it not been for the Apartheid policy, would have qualified for naturalization before then. The definition includes South African Chinese people as per the Pretoria High Court ruling of the 18th June 2008.

Particular focus is also given to entities owned by individuals with disabilities, and those based in historically disadvantaged regions.

In addition to the definition above, a Black Industrialist has the following characteristics³:

- Has a high level of ownership (more than 50%);
- Exercises control over the business;
- Takes personal risk in the business;
- Identifies opportunities and develops the business to take advantage of these opportunities (entrepreneurial);
- Conducts business in the manufacturing sector, with particular reference to IPAP focus areas;
- Is a medium- to long-term investor with a long-term commitment to the business.

In addition to these characteristics, which also form part of the mandatory conditions for applicants, the following are required in terms of the mandatory conditions:

- The applicant must have a valid B-BBEE compliance certification;

³ DTI, Black Industrialists Scheme policy document.

- The applicant must be a taxpayer in good standing, with a valid tax clearance certification at assessment and before the grant is disbursed;
- The applicant must be involved in the day-to-day running of the operations with requisite expertise in the area;
- The applicant must have a project with a minimum investment of R30 million;
- The project should result in securing or increasing direct employment.

While the emphasis is on companies with significant and dominant black ownership and control, it is acknowledged that there may be a need to include other shareholders to attract the relevant skills, finance and opportunities, and so some discretion is exercised in this regard. This means that in some cases companies can have less than 50% black ownership, although this is considered on a case-by-case basis.

Furthermore, the policy targets entities that have experience, operations and a track-record in their respective or envisaged industrial sectors.

In terms of the economic sector criteria, and in line with sectors identified in various iterations of the Industrial Policy Action Plan (IPAP), only entities operating in the following productive sectors are eligible:

- 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, Pharmaceuticals and Plastics
- Nuclear
- Manufacturing related logistics
- Designated Sectors for localization

Other manufacturing activities may be considered based on economic impact in terms of job creation, geographic spread and strengthening supply chains. Further, these sectors will be reviewed from time to time, in line with government priorities.

4.1. BIS business support measures

The BIS proposes three measures of intervention: 1) access to capital; 2) access to markets; and, 3) non-financial support.

4.1.1. Access to capital

The DTI works with DFIs to assist BIs with financial support, through concessional loans, investment grants and export market exploration support. Some DFIs have already come on board. Commercial banks have also shown interest to partner with government on this initiative. Moreover, the BIFF has been established to facilitate syndicated funding for BIs. The DTI partners with other DFIs and commercial banks on a co-funding basis, with the DTI contributing in the form of a grant against which the BI can submit a claim. The other institutions typically contribute in the form of concessional loans repayable over an agreed upon period.

The DTI essentially offers a cost-sharing grant, specifically ranging from 30% to 50% of the approved funds up to a maximum of R50 million. For example, if a company is approved for an amount less than (or equal) to R100 million, say R90 million, the DTI will contribute between R27 million (30%) and R45 million (50%) in the form of a grant, with the rest contributed by a co-funder. If the amount approved is greater than R100 million, say R150 million, the DTI will contribute between R45 million (30%) and R50 million, as the maximum contribution is capped at R50 million, and not the 50% threshold amounting to R75 million.

The exact quantum of the grant within these thresholds depends on the level of black ownership and management control (Table 1), the economic benefits of the project (Table 2), and the project value. To date, the programme has catalysed just over R12 billion worth of funding to 135 black industrialists since inception. Of this, about R4 billion came from the DTI in the form of grants, and the rest from the co-funders. There are no stated performance conditionalities placed on BIs, nor are there dynamic incentives associated with the programme. As such, even though the BIs may perform favourably in terms of the economic benefit criteria analysed further below, there is no explicit requirement that they do report on performance on these factors.

Table 1: Ownership and Control Criteria

Points on Economic Benefit Criteria	Percentage Black Ownership		
	50% - 75%	>75% - 90%	>90% - 100%
4 to 6 points	30%	35%	40%

7 points	40%	45%	50%
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Other factors that contribute to the points are economic benefits expected to be derived from the funding provided, as listed in Table 2 below. Each economic benefit criterion is allocated one point, with the Black Industrialist expected to achieve at least four points out of eight for an award.

Table 2: Economic Benefit Criteria

Benefit	Description	Points
Employment	Securing/retaining/increasing direct employment	1
Market share	Securing new business operations, and/or increasing existing business operations	1
Quality improvement	Reduction of relative prices and/or increasing the quality of products to consumers	1
Green Technology and Resource Efficiency Improvements	Savings or better utilization of energy or materials and/or cleaner production improvement and/or waste management improvement and/or water usage improvement and/or use of renewable energy	1
Localization	Increasing the localization of production activities (diversification and exports)	1
Regional spread	Projects should be located in rural areas or areas with unemployment higher than 25%	1
Personal risk	Demonstrate own financial and/or non-financial contribution to the business	1
Empowerment	Achieve at least a level 4 B-BBEE contributor status as per revised B-BBEE codes of good practice published in October 2013	1

The BIS offers cost-sharing grant support towards four key items: capital investment costs; feasibility studies towards a bankable business plan (to a maximum of 3% of projected investment project cost); post-investment support (to the maximum of R500 000); and business development services (to the maximum of R2 million). The maximum grant of R50 million may be fully utilized on capital investments or can be split between capital investment and other support measures (i.e. investment support, business development services and working capital). In this regard, the following costs are eligible:

Capital investment costs

- Machinery and equipment (owned or capitalized financial lease), tools, jigs and dies and forklifts, at cost and will also include green technology, energy and resource efficiency equipment.
- Owned and leased (capitalized leased) factory buildings, at cost. The investment in qualifying buildings must either constitute newly acquired buildings or the acquisition of an existing building at cost. Building costs must be directly associated with the purchase or construction of a new production facility for the investment project under consideration, and must be located on land that has been zoned for either industrial, agricultural or commercial activity, with respect to buildings, will be based on the amount of the factory and administrative space utilized.
- Commercial vehicles (owned or capitalised financial lease) are only eligible if such vehicles are to be used for commercial purposes linked to the production process. This includes vehicles such as for collection, delivery and distribution of goods. Commercial vehicles must be registered in the name of the approved entity and must be in the asset register for a period of 3 years.
- Assets purchased from a connected party and business development services including feasibility studies and post-investment support sourced from a connected party are excluded from qualifying costs.

Investment support costs

Feasibility studies. The objective of this component is to offer support for project feasibility studies and related assessments that have a positive impact on the development aspects including job creation, skills development, as well as black business empowerment. The feasibility studies include licenses, quality assurance, conformity assessments and standards. Furthermore, the appointed service provider for the feasibility studies must be sourced from the DFI's list of accredited service providers.

Table 3: Qualifying Investment Costs

Focus areas	Categories	Consulting fees and expenses
<ul style="list-style-type: none"> • Product development 	Product design	Pattern-making, prototyping, grading, sizing and counter-sampling
	Product development	Introducing product ranges and product adaptations for new markets

	Conformity assessment of products e.g. testing, inspection, certification	Costs for conformity assessment of products
	Consumer acceptability studies	Marketing new products to focus groups before product launch to market
	Packaging design	Consultancy and design
<ul style="list-style-type: none"> Conformity assessment certification 	Quality management improvement, environmental management improvement, process capability improvement and product quality improvement	Cost of installing or improving quality management systems; and costs for preparations for certification and pre/initial assessment costs
<ul style="list-style-type: none"> Information technology systems 	Acquisition and deployment of systems	Acquisition software for integrated production management information
<ul style="list-style-type: none"> Procurement process improvement 	Introducing improved and efficient procurement process	Cost of introducing new procurement process
<ul style="list-style-type: none"> Patents costs 	Registration of patents	Registration costs

In summary, access to capital forms the core target of the BIS, as evidenced by the broad variety of items prioritized, which is a critical milestone given the wide acknowledgment that access to funding is one of the barriers faced by entrepreneurs in South Africa. Importantly, and notwithstanding the list of qualifying items above, the BIS lists several other items that do not qualify for funding. These include: salaries and wages; passenger vehicles (i.e. non-commercial vehicles) such as sedans, luxury 4x4s, SUVs and People Carrier Minibuses, even if registered in the applicant (entity's) name; VAT and finance charges on assets; rates and taxes; training that is not related to the manufacturing operations of the entity; staff wages and salaries, and staff related costs incurred in implementing any of the above projects; and costs incurred before approval.

4.1.2. Access to markets

The DTI works with various institutions to facilitate access to market opportunities for BIs, including with SOEs, government departments, chief procurement offices and private sector companies. This follows from cabinet approval of the policy, which indicated that the DTI will work with the SOEPF to explore market opportunities in government departments, SOEs and

private sector. The DTI is leading this area of work and the process of amending the current SOEPF Memorandum of Understanding has been initiated. The objective is to establish a dedicated Black Industrialist State-Owned Enterprise Procurement Forum (BISOEPF) that will focus on facilitating access to procurement opportunities, both in the private and public sector.

Senior members from all SOEs are expected to participate in the forum to facilitate access to opportunities for BIs after careful consideration of capacity, skills requirements and due diligence of the proposals. SOEs are further expected to publish long-term procurement opportunities as per their demand management strategies. The forum aims to target procurement for local production, as well as facilitate access to domestic supermarket shelves when working with the retail industry and supermarket chains. Furthermore, the DTI seeks to champion engagements with the private sector to negotiate off-take agreements and enterprise and supplier development to strengthen and empower BIs.

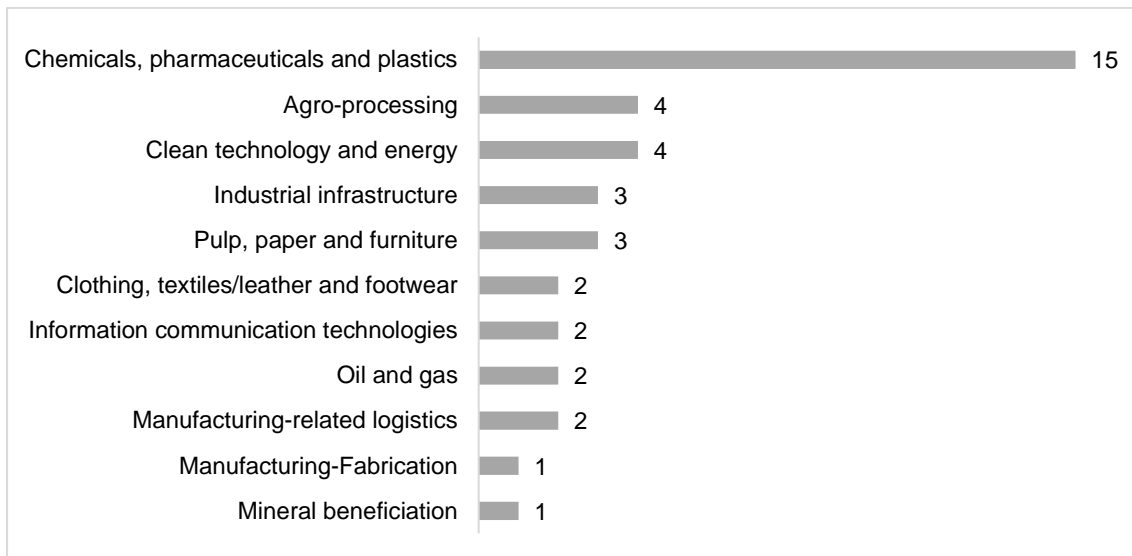
4.1.3. Non-financial support

The DTI also aims to provide post-investment support. This includes specialized technical training and mentorship support. Technical training is provided in selected areas identified by the BI with the assistance of the DFIs. Mentorship and guidance includes financial management, operations and production planning, human resource development, administration, marketing and business continuity. Additionally, the DTI aims to develop a suite of other non-financial support measures to increase the visibility of BIs. These include: a portal for networking and matchmaking; mentoring and incubation of BIs – the incubation programme of the DTI will be tailor-made for this purpose; and access to Black Industrialist support measures.

5. Survey descriptive statistics

The section sets out key descriptive statistics about the respondents to the survey and the survey responses received. Of the 39 respondents to the survey, 15 are in the chemicals, pharmaceuticals and plastics sector as defined in the Industrial Policy Action Plan (IPAP). The other significant sectors in terms of representation are agro-processing and clean technology and energy, with 4 industrialists for each sector. The sectors relate to those set out in the BIS guideline documents, which are based on the IPAP focus areas.

Figure 2: Number of respondents by sector



Source: Responses to question 6 of the survey

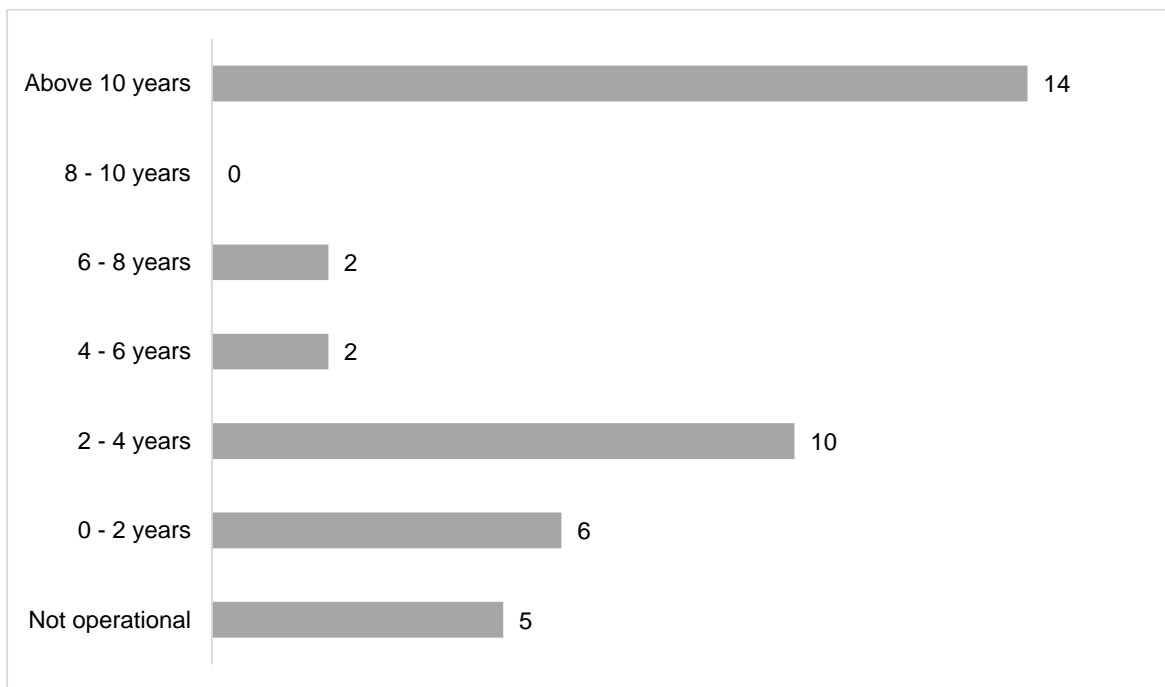
The representation of firms in different sectors is restricted by the limited number of respondents to the survey. We have thus been cautious in interpreting the results. There is nonetheless good representation of different IPAP sectors in the sample, which lends support to the DTIs approach of targeting manufacturing activities in a broad range of sectors, rather than using the programme to target a narrow set of industries. Notable omissions from the DTI list are the machinery and equipment sectors despite the potential for employment generation and upgrading of industrial capabilities.

In terms of years in operation, the survey results show that more than half of the BIs funded are relatively new firms which have been in business for no more than four years (**Figure 3**). Many of these companies are effectively start-ups, which addresses a previous concern that the BIS would not find or should not only focus on well-established companies in general (NCOP, 2016). Notably, a significant proportion of the black industrialists surveyed have been in existence for more than 10 years since establishment, implying that the BIS has also successfully attracted established enterprises, and that to some extent black owned firms with established presence and operations are present in the South African economy, which was a concern raised in public commentary about the programme at its inception. Of course, the presence of a significant proportion of firms that are well-established in the sample and the DTI database overall does not necessarily allow for a full assessment of the wider existence and number of such firms in the economy overall due to unavailability of this data.

The data raises an important question as to whether the programme should be funding well-established firms, and/or smaller start-ups. Our view in this regard is that there is a beneficial impact of supporting industrialists that are more established, on the one hand. These are

typically firms that leverage the BIS support to make much needed new and additional investments – medium-sized firms are also better positioned in terms of their scale of operation and market share to challenge incumbent firms in the economy, which brings with it the benefits of greater rivalry and productivity in a highly concentrated economy. Smaller firms take some time to reach scale in their operations and become effective rivals – however, it is also important to support these entities to the extent that they may not have access to funding of the magnitude available from the BIS from other platforms due to risk, lack of collateral, and other constraints. Based on the sample of firms assessed, it also appears that the ‘smaller’ entities supported, or those in the early years of operation, are capable of making large scale investments in manufacturing activities, which sets them apart from more traditional SMEs involved, for example, in provision of consumer services in niche local markets. As such, it is prudent at this early stage of the implementation of the programme to allow applications across this wide range of firms, perhaps with a view to narrowing down the subset of firms funded over time as the full outcomes of the programme become evident.

Figure 3: Number of BIs by years in operation

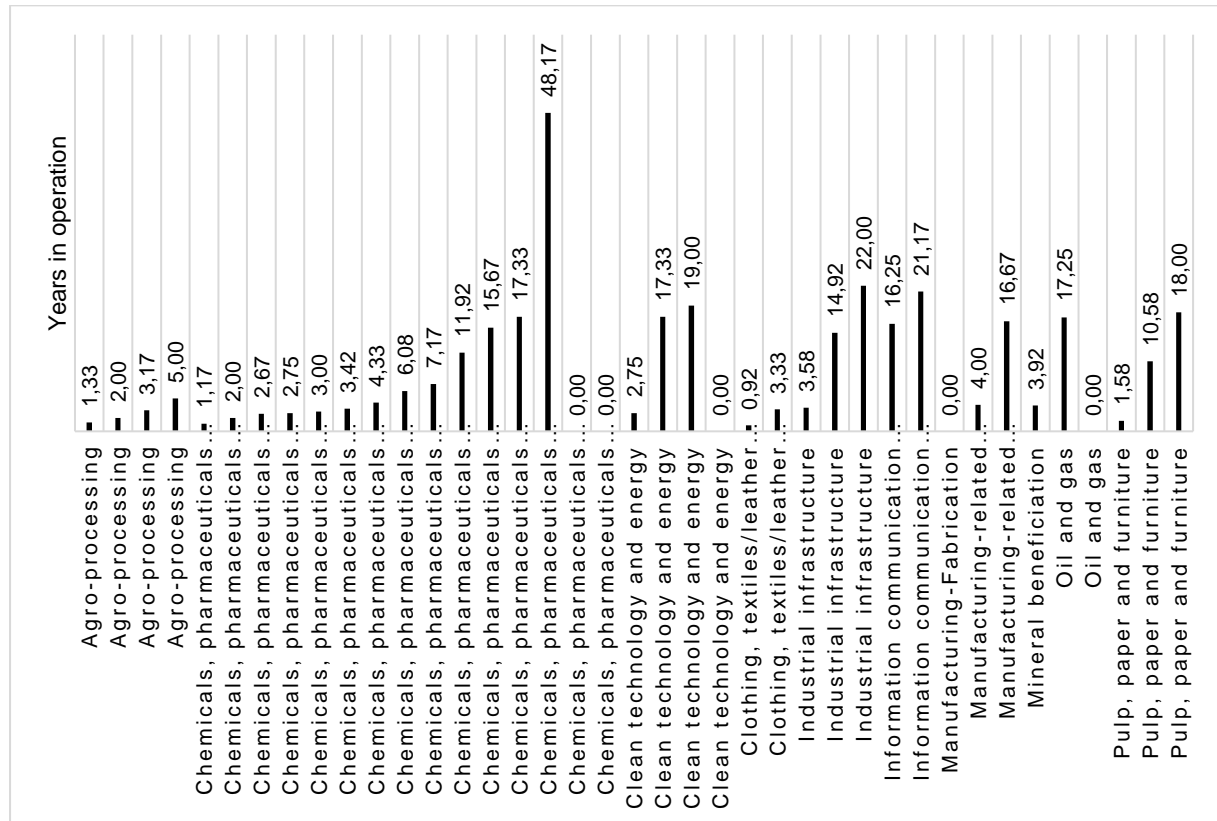


Source: Responses to question 3 of the survey

A majority of the BIs in the chemicals, pharmaceuticals and plastics grouping are relatively younger businesses (60%), with not more than four years in operation (**Figure 4**). This is also the case in the agro-processing and clothing and textiles industries. However, support for these relatively younger businesses is justified to some extent by the expected employment impact, which is relatively high in each of these sectors, if firms are able to set up and expand operations. Notably, it is also likely that some companies may have declared the age of their

businesses in terms of when the business became formalised, but may have built up capabilities in more basic operations prior their application to the programme for investment support to become manufacturing businesses.

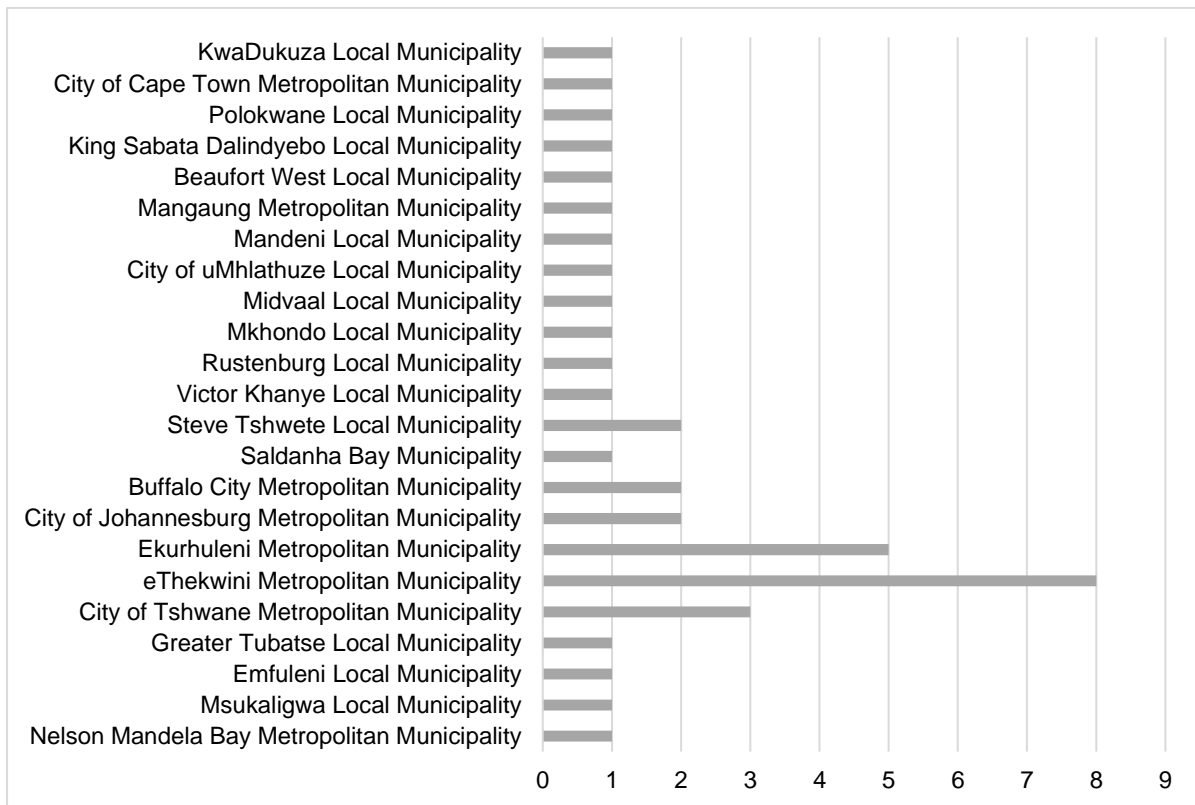
Figure 4: Breakdown of sectors by age of BI



Source: responses to questions 3 and 6 of the survey

The highest concentration of survey respondents were based in the eThekweni Metropolitan Municipality, followed by the Ekurhuleni Metropolitan Municipality and City of Tshwane Metropolitan Municipality (**Figure 5**). The high number of recipients from eThekweni Municipality may also be a function of the proximity of the municipality to the main port in Durban, which may mean there are operational and cost advantages for companies that also import components and key inputs. A large proportion of remaining firms are located in major industrial areas such as Tshwane and Ekurhuleni which is consistent with the tendency of firms to locate where there are agglomeration economies and opportunities to leverage and supply other firms in close proximity. On the other hand, the location of many firms in more diverse, smaller and in some cases rural municipal areas may be reflective of various factors including proximity to raw materials and labour resources, which is in line with the emphasis in the BIS application criteria on supporting firms located in rural areas with a view to contributing to uplifting of local communities and rural economies as well.

Figure 5: Number of BIs by municipality



Source: Responses to question 8 of the survey

45% of the survey respondents are located within or near some of the special economic zones (SEZs) that are found in the country. For instance, Yekani and Nulatex are located within the East London SEZ; EMv Nanomaterials (Pty) Ltd is located in the Richards Bay SEZ; and BELGAZ is located within the Saldanha Bay SEZ. However, the nature of survey responses does not allow for a further assessment of the extent to which the various firms located in SEZs have benefited from this additional support through various government programmes.

6. Economic performance and outcomes

This section focuses on the major outcomes of the programme in terms of investment and employment creation, before considering more specific outcomes linked to the economic benefit criteria in the following section.

6.1. Investment

The BIS cost-sharing grant offers support towards three main categories of interventions: capital investment, investment support and business development. Capital investment is geared towards funding for machinery and equipment, property, and vehicles while investment support covers feasibility studies and related assessments. Costs relating to product design,

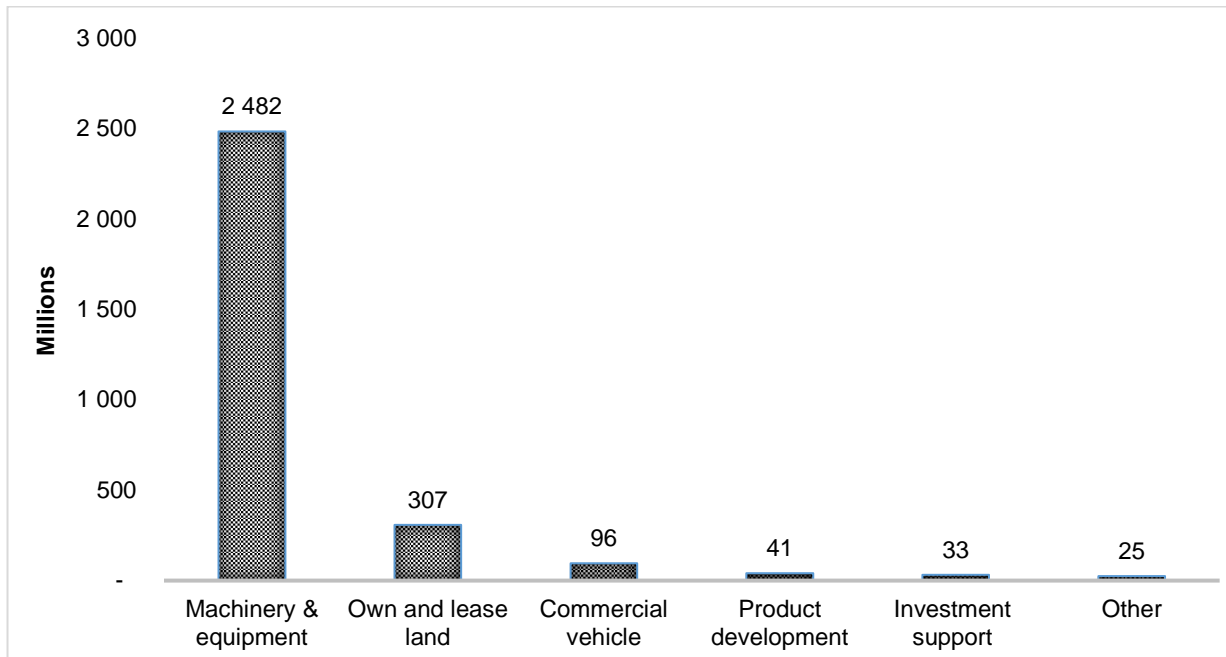
information technology systems and patent costs are covered under the business development intervention.

At the application stage, the DTI records how the investments of the BIs will be allocated according to the three categories of interventions. **Figure 6** shows the total investment allocations for approved BIs that responded to the survey, matched against data from the DTI database. It is important to note here that these investment amounts include both the DTI approved grant amount as well as the loan amount from the co-funder.

Capital investment accounts for the highest Rand value investments with a total of R2.9 billion of projected investment among the BIs allocated to it, amounting to 97% of total investment. Over 80% of these funds were expected to be invested in machinery and equipment, with only R307 million and R96 million being allocated to property and vehicle spend, respectively. An amount of R24.7 million was allocated to 'other' forms of investment including feasibility studies, IT systems and patent costs. The large amounts of investment in capital can be expected, with the majority of BIs applying to the scheme to start businesses or for expansion purposes, which are expected to require large-scale investments. In contrast, spending on business development such as product development and patent costs is much smaller, also due to the scale and nature of these investments and the cap on how much will be disbursed for these purposes, despite arguably being complementary in nature to capital investment.

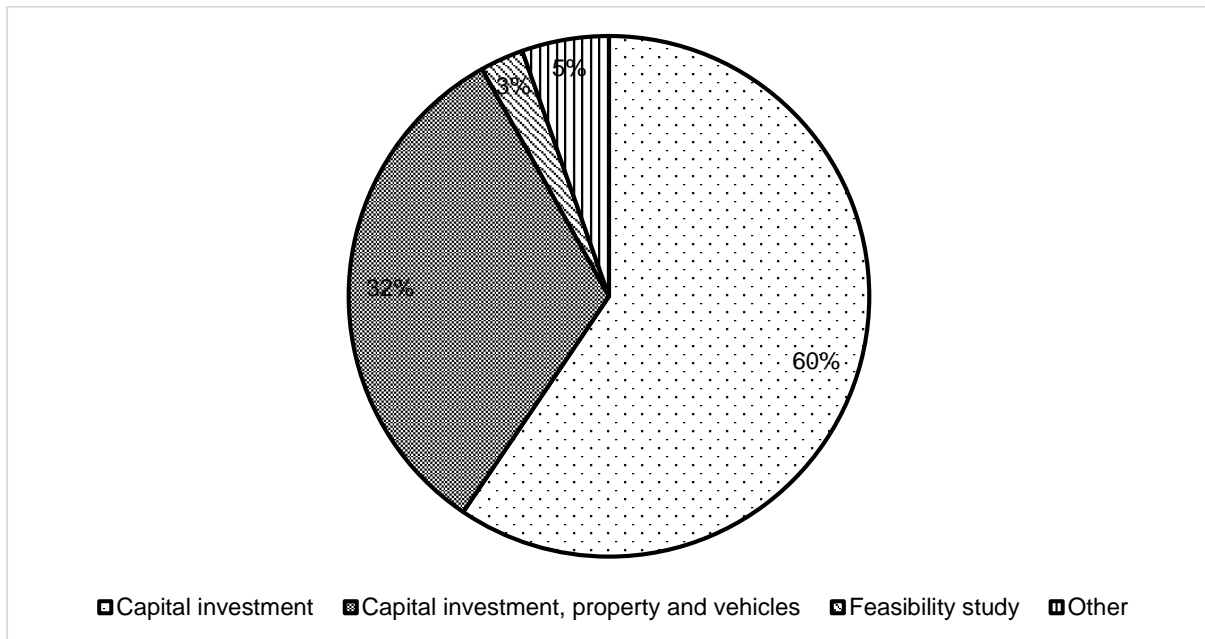
The information from the survey corresponds with the information in the DTI's database in that more than 60% of the respondents to the survey expressed that the reason for their application to the BIS was to meet their capital investment requirements (**Figure 7**). On the other hand, 32% of the respondents applied to the scheme for what they describe as a combination of capital investment, property and vehicle spend. However, in practice, these forms of investment all fall under the capital investment intervention category as described by the DTI. Other stated reasons for seeking funding with the BIS included to maintain partial ownership and seeking funding as a mechanism to secure funding that had been obtained from DFIs.

Figure 6: Investment allocations for approved BIs



Source: DTI BIS database

Figure 7: Purpose of application to the BIS



Source: Responses to question 46 of the survey

Note: 37 responses to this question

As the majority of investments made by the BIS beneficiaries are expansionary in nature, it is evident that the programme has contributed to encouraging growth in investment in new productive assets in the economy. These investment trends are in contrast to stagnant levels of investment in the economy as a whole. Investments undertaken by these larger firms largely

comprise of expenditure on replacement capital and mergers and acquisitions, rather than expansionary expenditure (Bosiu et al., 2017). Nonetheless, it is important to note that the investment patterns of BIs in particular are as a result of the design of the programme. That is, there are caps in terms of which the BIs spend on different categories of investments. For example, there is a cap on the amount that can be spent on vehicles and feasibility studies vis-à-vis expenditure on machinery and equipment. The programme is designed such that expenditure largely goes to capital investments.

Although the businesses of BIs are relatively small compared with firms listed on the JSE, the survey has shown that these businesses have made significantly large projected investments, falling within a range between R15 million and R390 million in value for the individual firms analysed.⁴ Analysis to follow also shows that access to funds through the scheme has led to significant impacts in terms of the DTI's economic benefit criteria such as employment, quality improvement and empowerment, noting, however, the challenges in terms of completeness of available data and limitations with survey responses.

The survey also established the value of investments made by BI companies between 2016 and 2018, aside from those made leveraging BIS funds. A total of R1.6 billion has been invested, and individual investments have ranged from R350 000 to R800 million for 25 of the 39 respondents. The remaining 14 respondents have not made investments outside of those linked to the projects for which they applied for BIS support. Further data would need to be obtained in order to determine the industrialists' actual investments against expected investments at the application stage. This would also assist in quantifying the multiplier effects of the actual investments. To get a full picture of these effects, companies would have to be assessed after receiving full disbursements of the grant and loan. However, we are still able to give a partial picture of the yields of investment on employment, for example, to date even though the BIs have not received their disbursements in full.

6.2. Employment

At the core of the BIS is to achieve improvements with respect to key economic outcomes, which includes emphasis on securing, retaining and increasing direct employment. As a result, one aspect of the survey was to analyse employment outcomes associated with the BIS. Specifically, the survey considered employment created, and levels of and changes in employment by beneficiary firms following disbursement.

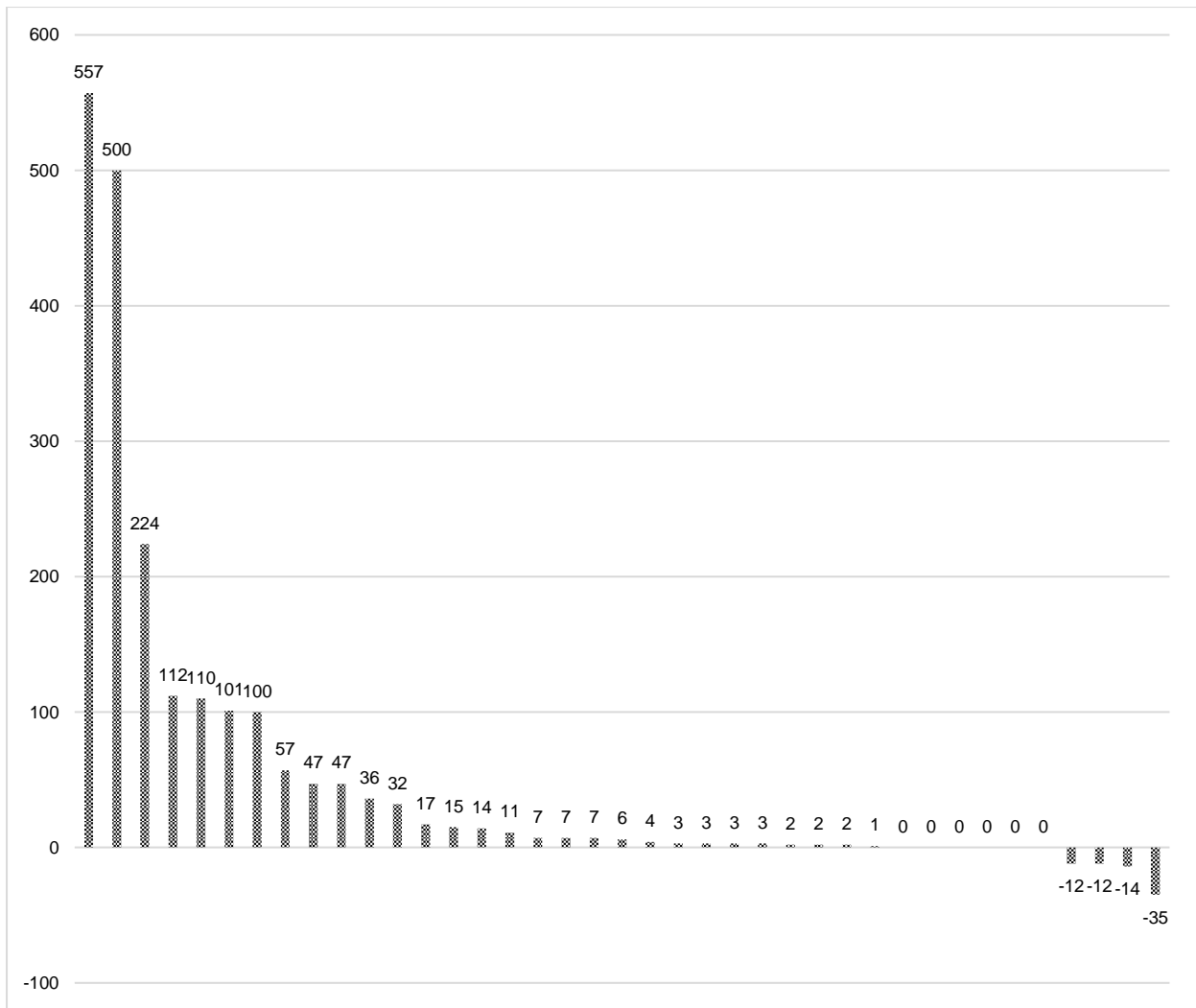
⁴ DTI Black Industrialists survey question 47

The survey asked respondents how many employees they had at the time of their application to the BIS, and as a follow up, how many employees they currently have. Respondents were also requested to provide disaggregated employment data according to employees that are youth, disabled persons, and male and female employees by racial group. Furthermore, disaggregation of current employment by profession (management, operations, administration, engineers, scientists, technicians, artisans and 'other') was also requested. As part of the application process, the DTI also requests applicants to submit employment information. Survey responses were compared and checked against the DTI database information on employment at the application stage.

Previous studies have also raised concerns over the need for patient capital to sustain industrialists until they are better positioned to become profitable. In the case of these 'younger' enterprises, positive impacts on employment are likely to be marginal. Despite this, the data shows that the BIS has created an average of 50 jobs per industrialist in the group of firms that responded to the survey, which is a significant impact particularly considering that the scheme is in its early stages of implementation. However, within this group there are some significant outliers.

The differences in employment in industrialists' companies at the time of application and employment at the time of the survey are set out below (**Figure 8**). The scheme has had some positive impact on the ability of BIs to create and retain jobs, with a total of 1957 jobs created. However, a number of industrialists have not been able to positively impact employment levels, with others even failing to retain jobs. This could be due to a number of reasons. As has been highlighted in other sections of this report, respondents to the survey have included applicants that were not approved onto the scheme, as well as those that have been approved but have not received disbursements; these respondents are likely to not have increased employment and may have even had to lose jobs if funding was not available elsewhere.

Figure 8: Jobs created by surveyed BIs



Source: Responses to questions 19 and 20, and DTI BIS database

In terms of the distribution of the jobs created by industrialists, 54% of these jobs were created by two companies (namely, Africa Blaize Apparel and The FX Group). Omission of the jobs associated with these two companies, means that in total 900 jobs were created by the remaining 27 firms.

Africa Blaize Apparel (ABA) has managed to create 500 jobs following approval onto the BIS in 2016. Interestingly, ABA's application for co-funding was initially rejected by the IDC based on its assessment which found that the business was not economically viable.⁵ In this case, ABA was subsequently able to secure co-funding from the KZN Growth Fund.

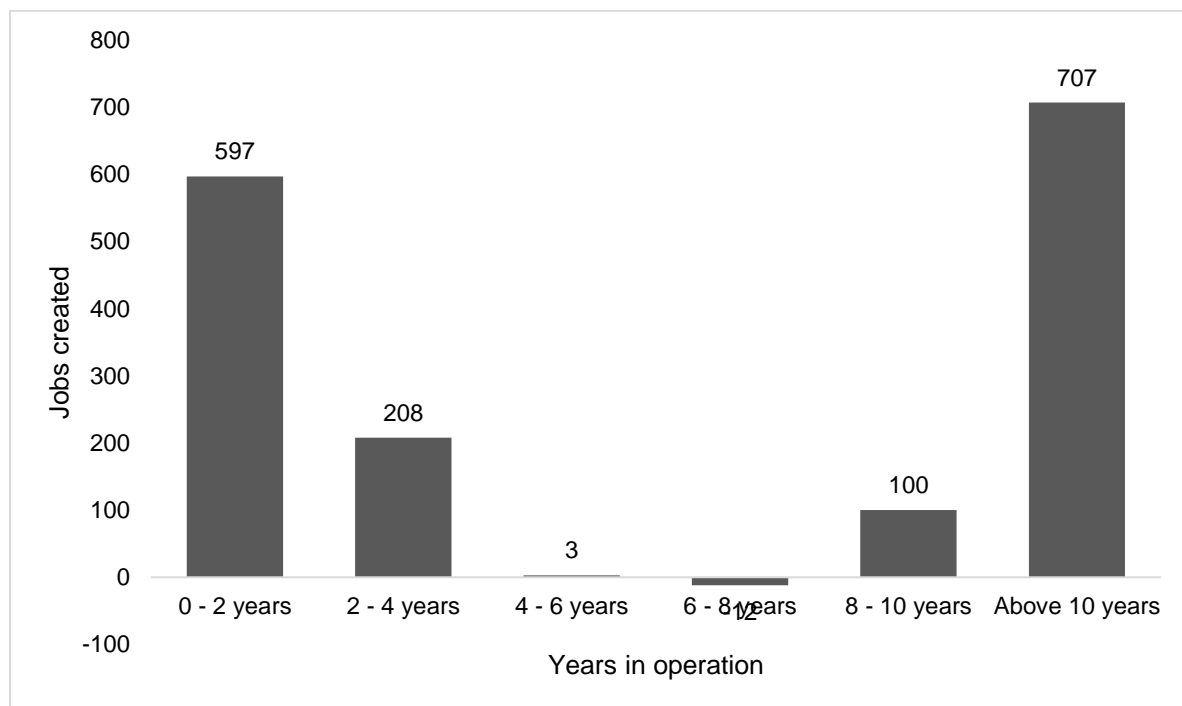
557 jobs have been created by the FX Group, who are wood based panel processors providing board products and accessories. Headquartered in Benoni, the Group has established 24

⁵ Interview with Africa Blaize Apparel, 25 March 2019

board, timber and home décor outlets across the country.⁶ The Group is a successful recipient of the BIS, having been co-funded by the IDC.

A significant proportion of the jobs have been created by relatively younger firms (less than 4 years), although a significant number was also created by much established firms (above 10 years) (**Figure 9**). The number of jobs created in the 0 – 2 years category is largely influenced by the jobs created by Africa Blaze alone. In a similar manner, jobs created by FX Group influenced the total number of jobs under the ‘Above 10 years’ category.

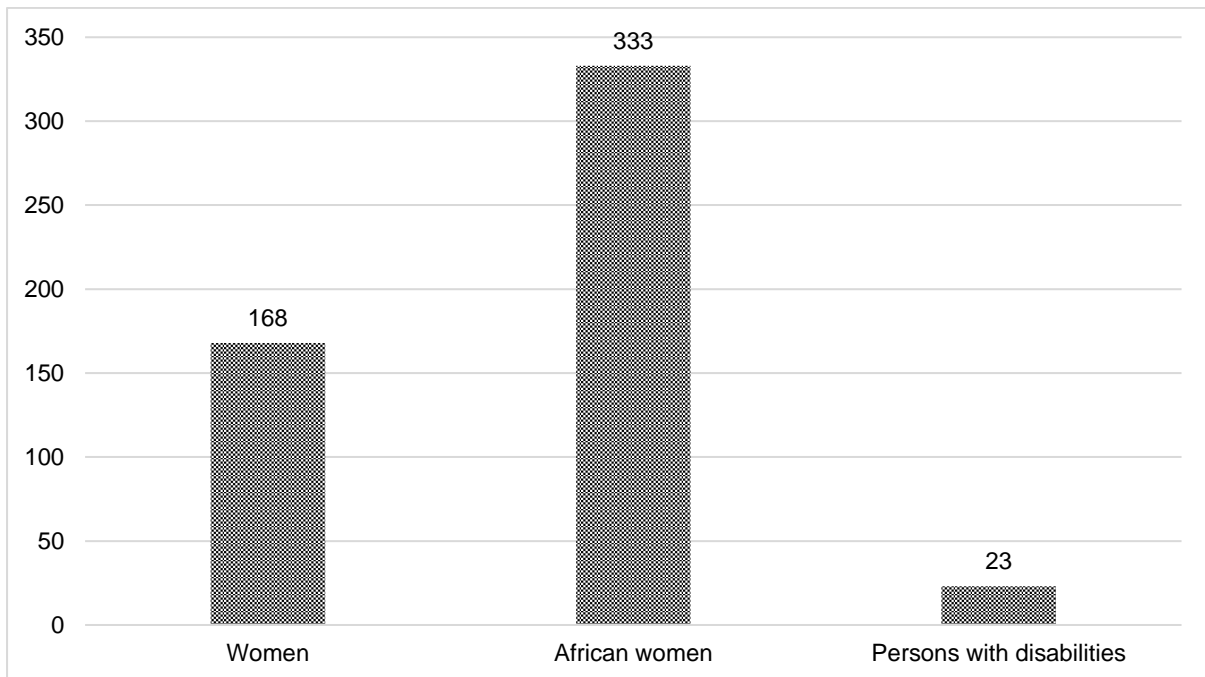
Figure 9: Breakdown of jobs created by age of BIs



Employment outcomes have been strong when considered by race and gender and the employment of youth, where there have been increases in employment in each categorisation and overall, amongst the surveyed firms. In particular, the employment of females was generally driven by increased employment of African females (**Figure 10**). The increase in employment of African females accounts for 17% of the total increase in employment, whereas the increase in employment of persons with disabilities accounts for 1% of the total increase in employment by the surveyed companies. BIs have employed a total of 1156 youth, accounting for 31% of those currently employed by industrialists.

⁶ <https://www.thefxgroup.co.za/>

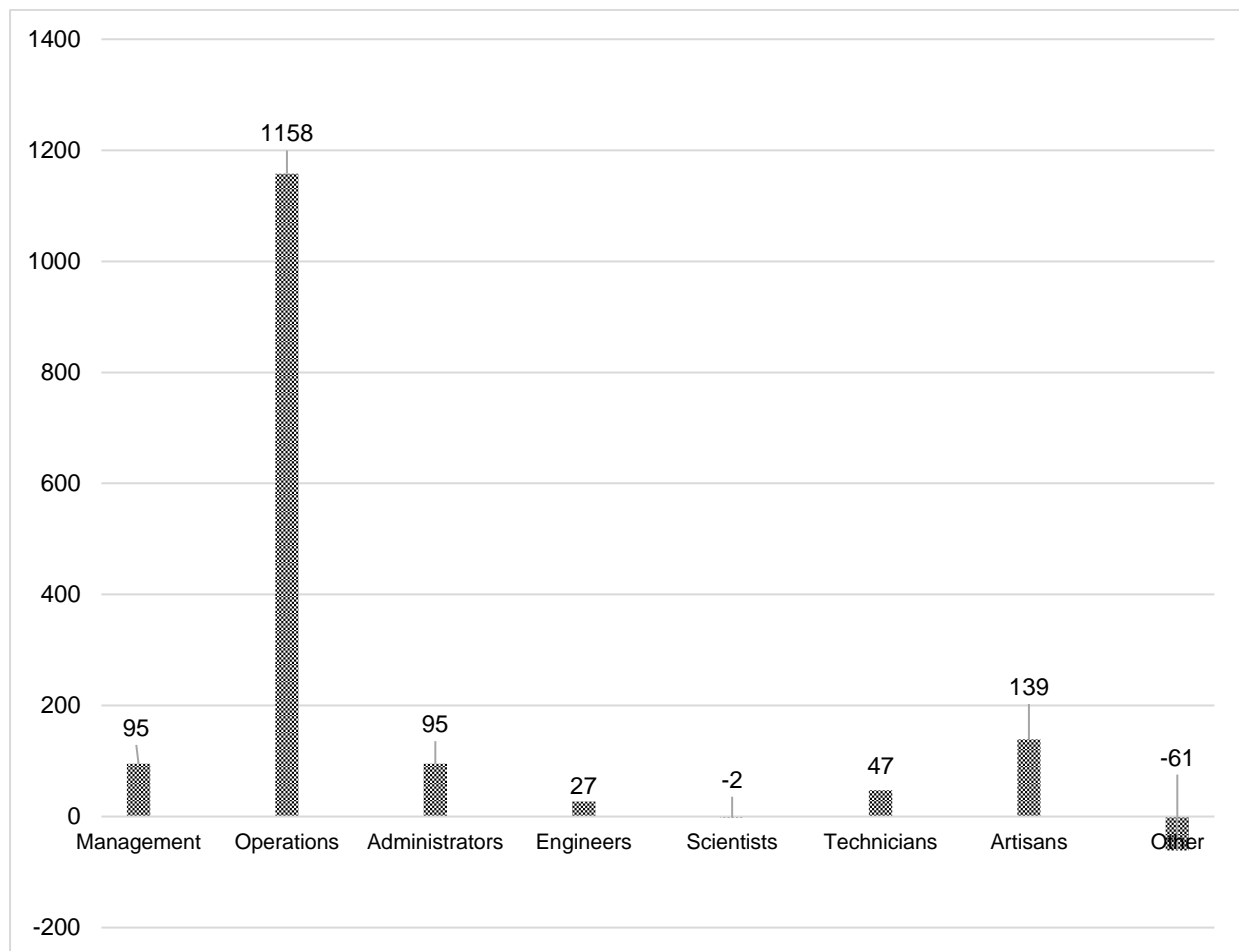
Figure 10: Employment growth - females, African females and persons with disabilities



Source: Responses to question 21 and DTI BIS database

There has been a significant increase in the employment of persons working within operations, with a total increase of 1158 jobs along with an increase in management and administration jobs by 95, respectively. Growth has been much lower for categories requiring more technical skills such as engineering, and the number of scientists employed has dropped overall in the sample (**Figure 11**). Given that the economic sector criteria for the BIS is in line with productive sectors as identified in the IPAP such as oil and gas, clean technology and energy, and chemicals, pharmaceuticals and plastics; it could be expected that there would be increased demand for technical skills. Various reasons could contribute to this finding including low supply of specific technical skills along with the high costs of acquiring technically skilled individuals, although this is difficult to confirm using the data available.

Figure 11: Increases in employment by profession



Source: Responses to question 93 and DTI BIS database

The ability of a company to build a good reputation takes some learning as well as time, which have been characterised as factors that reinforce existing advantages for larger firms (Roberts, 2016). This also has an effect on not only the skills that a company can retain, but also those that it can attract. Given that 64% of the firms that responded to the survey have been in operation for less than 5 years, it can be reasonably expected that employment in professions requiring more technical skills has increased at a relatively lower rate as seen through the survey responses. However, further information regarding skills needs of BIs and other SMEs would have to be obtained to draw conclusions on this issue.

7. Performance on economic benefit criteria

As discussed above, the DTI sets out a range of criteria against which applicants to the programme are assessed, including in terms of their expected contribution to the economy in terms of localisation, regional spread, use of green technologies and cost improvements. The performance of the surveyed BIs on some of these criteria is set out below.

Notably, the BIs are not ordinarily required to report to the DTI on their performance against these criteria once they have been approved for funding or at the post-investment stage. A key question which arose in discussions with the DTI was whether there should be a process in place which requires the companies to report regularly to the DTI on these and other performance areas at the post-investment stage. While this form of reporting would be important for ensuring that the progress of firms under the programme is tracked, and that the firms meet the commitments that they have made at the application stage, it would be important to consider the additional compliance and reporting burden that would be placed on the entities, particularly those in the early years of operations.

There are, of course, good arguments for placing conditions on firms funded under government industrial development programmes, not least for ensuring value for money and returns from the investments made (given scarce state resources). However, if the intended outcome of the programme is to catalyse large scale investments in manufacturing capacity primarily, then the claims-based approach of the BIS ensures that companies will at the very least have to show that those investments have in fact been made in order to receive their disbursements. At one level, this should provide sufficient certainty that investments are made as expected and achieves a major goal of the programme. Notably, this puts the BIs on par with companies funded through private sector channels, for example, where it is not ordinarily the case that companies have to conduct additional reporting along with paying back funds received.

In this regard, it would also be difficult to commit BIs to this form of post-investment reporting, nor is it a requirement of the policy as it stands (such that a policy amendment would be required to enable the reporting requirement). Once firms have received their disbursement, they do not face the incentive to still comply with further reporting requirements, unless perhaps they expect to reapply for DTI funding in future. This means that tracking this data from companies would become a resource-intensive exercise for the DTI, most likely with a low compliance rate (just as there was limited responses to the survey in this study). Introducing additional requirements on companies for reporting would also require careful specification of measures to assess these outcomes comparably on criteria such as the use of green technologies (which differ considerably in their nature and application in different businesses). Ultimately, the net effect of these various considerations is that significant caution would need to be exercised prior to introducing this form of reporting for companies, taking into account the additional reporting burden that BIs would have to take on that is not faced by other rivals in the market, relative to the benefits to the DTI overall of obtaining this form of information on these outcomes which are not, as it stands, in line with the main outcomes envisaged for the programme in its theory of change. One consideration in this regard is that

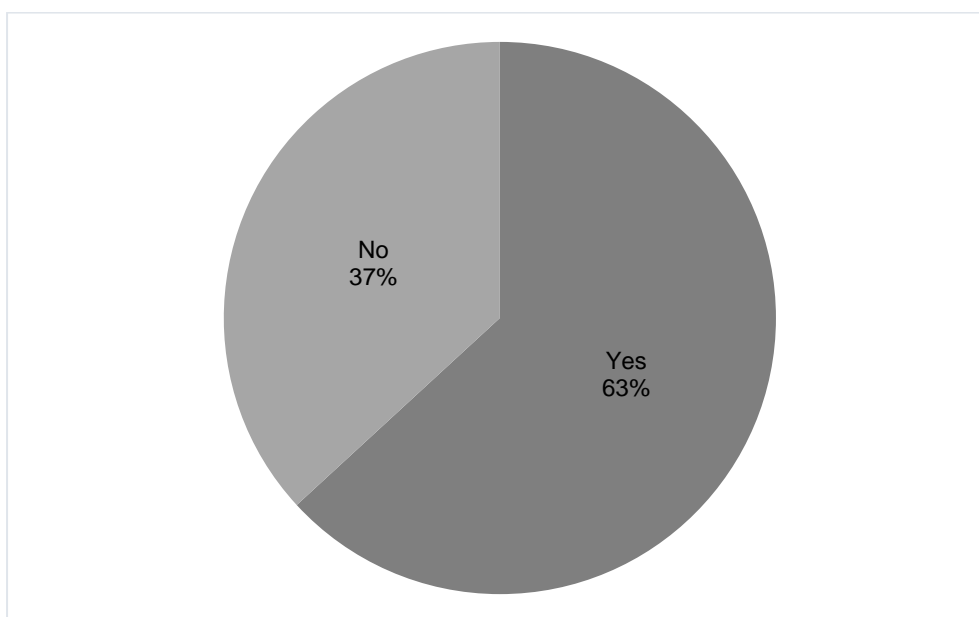
because the economic benefit criteria are currently requirements at the application stage, more stringent verification of the expected benefits to the economy under each of these criteria could be conducted at this stage prior to awarding grants (although this too may increase the risk of rejecting applicants that are riskier but may in fact have viable business cases on other grounds).

7.1. Application of green technologies

The DTI lists increases in the application of green technologies and resource efficiency improvements as part of the economic benefits expected to be derived by BIs from the funding provided. Specifically, the economic benefit criteria form part of the set of scorecard used to determine the extent of funding that BIs will receive upon application. This specific outcome considers savings or better utilization of energy or materials, including but not limited to cleaner production improvement, waste management improvement and use of renewable energy.

63% of the respondents to the survey indicated that they have managed to directly improve in terms of the application of green technology and/or improving resource efficiency in their businesses since the time that their BIS application was approved (**Figure 12**). BIs have put in place a variety of measures to improve the use of green technology and resource efficiency including the installation of solar panels and the use of solar energy, investments in carbon capture technology, decreasing poly usage and the use of recyclable packaging materials, as well as the adoption of water recycling systems.

Figure 12: BIs that improved use of green technology or resource efficiency



Source: Responses to question 27 of the survey

Note: There were 38 responses to this question

The industrialists explained some interesting ways in which they are able to improve the use of green technology and reduce their carbon footprint. One industrial gas manufacturer has, since approval for the BIS, been able to invest in a manufacturing plant that can clean waste gas and remove a significant amount of carbon dioxide as a means of recycling.⁷ Another BI involved in the manufacture and supply of transformers is currently the only designer, manufacturer and supplier of dry type cast resin transformers which does not use flammable mineral oil which contaminates the ground, and one which is self-extinguishing, and is fully recyclable.⁸

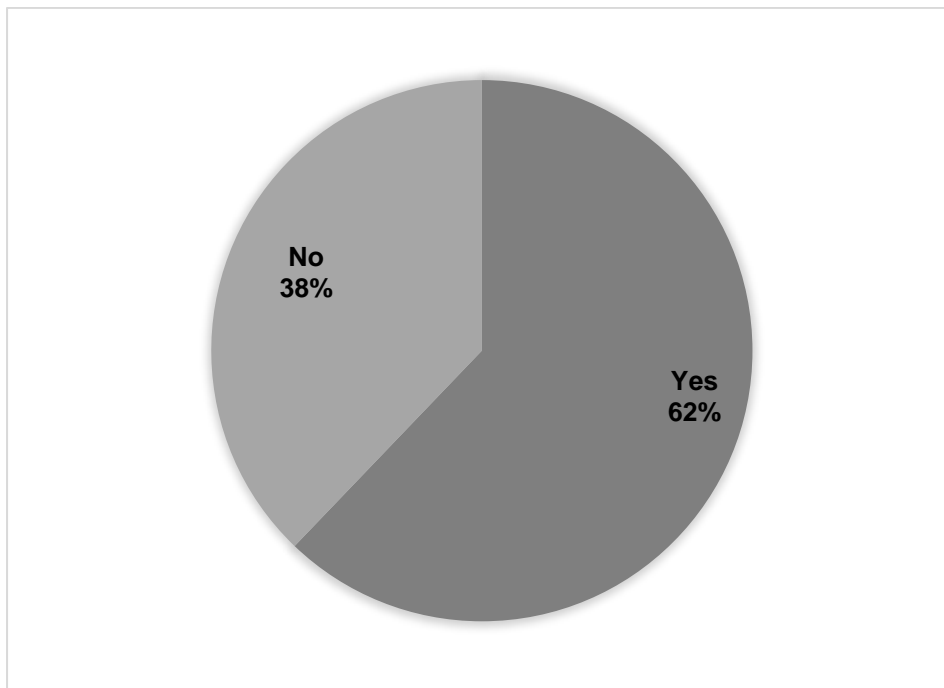
7.2. Quality and efficiencies

Respondents to the survey were also asked whether they have been able to increase the quality of products or services offered. 62% of the respondents to this question expressed that they have managed to do so following approval onto the BIS (**Figure 13**). Research and development, improvements in technology and investments into new machinery have been the main mechanisms by which industrialists have managed to improve the quality of their products. At the same time, investments in highly skilled labour have not only contributed to better quality for some BIs, but also improved production efficiencies.

⁷ Survey response to question 28

⁸ Survey response to question 28

Figure 13: Proportion of BIs who managed to increase the quality of products/services



Source: Responses to question 25 of the survey

Note: There were 37 responses to this question

Others have achieved positive outcomes through improved production planning, strategic partnering with suppliers and customers, as well as expanding in-house business activity to include activities that would have otherwise been outsourced. For instance, among the respondents is an entity involved in cold storage services for imports and exports; and efficiencies have been realised from the installation of bar code scanners for an improved stock management system.⁹ Similarly, a manufacturer of electronic products has built strong partnerships with its clients, forming part of their respective design teams as an efficient way of designing customer specific products.¹⁰

7.3. Costs

The main cost drivers for the surveyed black industrialists are input costs (such as raw materials), followed by salaries and wages (**Figure 14**). That is, BIs spend about 45% on average on input costs, and 24% on wages and salaries, as a proportion of total costs. Transport costs also feature in the cost base at approximately 12% on average, although this is skewed in the sample by the costs of logistics companies or those with logistics operations

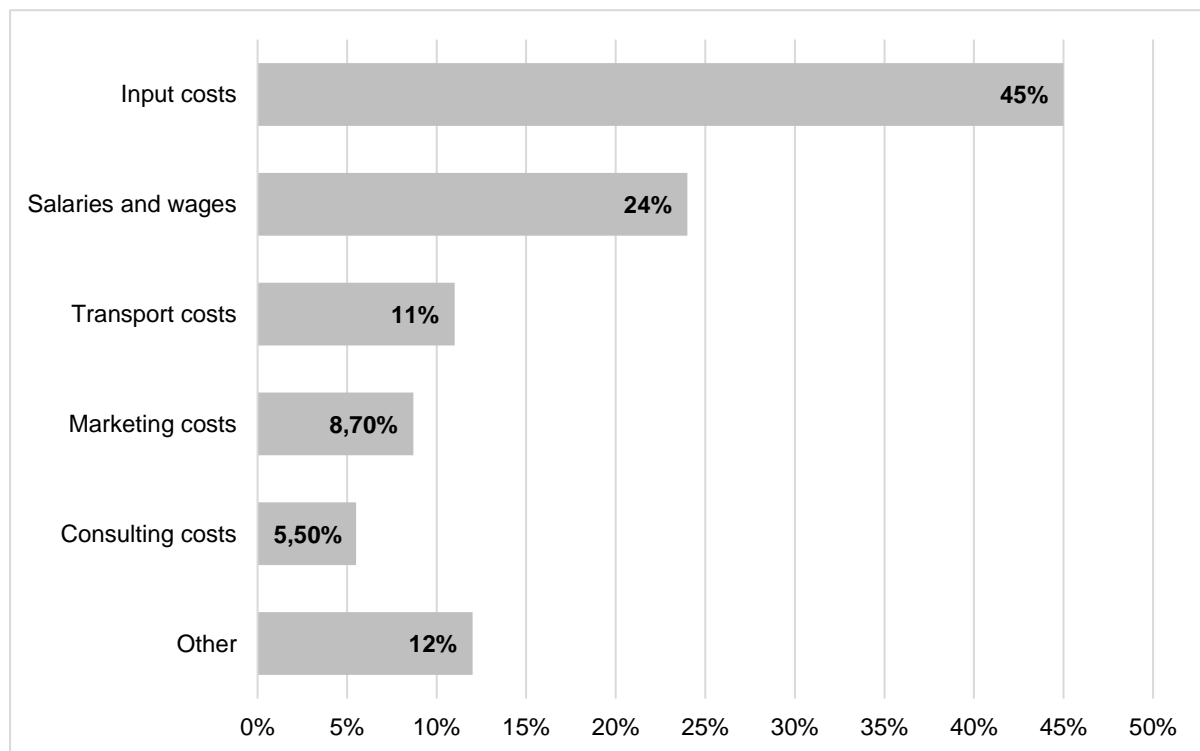
⁹ Survey response to question 26

¹⁰ Survey response to question 26

forming part of their core operations. Excluding the logistics companies, black industrialists spend about 9% on average on transport costs. The survey also shows that marketing costs are quite important for black industrialists, illustrated by the average 9% spent on these costs. It is important to note here that although the question asked of industrialists is clear in terms of the categories of costs required, it may be that different companies report or account for different cost components in different ways which cannot be disaggregated and analysed further with the available data.

The companies specifically identified increasing energy costs (largely electricity) as one of their main concerns. In fact, BIs indicated that any assistance from government in this regard would go a long way in helping them to reduce their overall costs to become more competitive. One of the proposals raised is for the government to provide subsidized electricity specific to the black industrialists, and by extension SMEs, in their first few years of operations.

Figure 14: Average proportion of key costs as a proportion of total costs



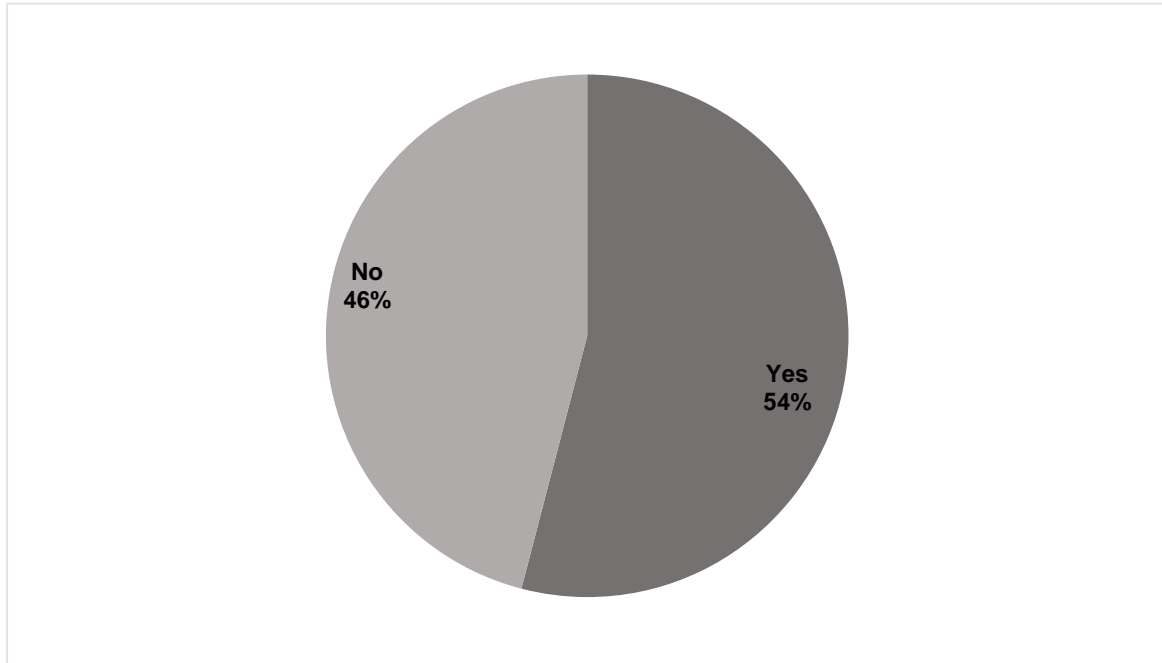
Source: Responses to question 87 of the survey

Note: 18 companies responded to this question

Given the key costs listed above, black industrialists were asked to indicate if they have managed to reduce their overall costs as a result of participation in the BIS (**Figure 15**). At least half (54%) of the respondents answered in the affirmative indicating that they had successfully implemented mechanisms to reduce costs and/or prices. Many of the firms that have not been able to reduce costs stated that this was because their business operations

have not commenced. Others indicated that they have attempted to carry out measures for cost reduction such as ongoing processes of cost management and investments into research and development, however results have not been realised as yet.

Figure 15: Proportion of BIs who reduced costs and/or prices as a result of the BIS



Source: Responses to question 23 of the survey

Note: There were 37 responses to this question

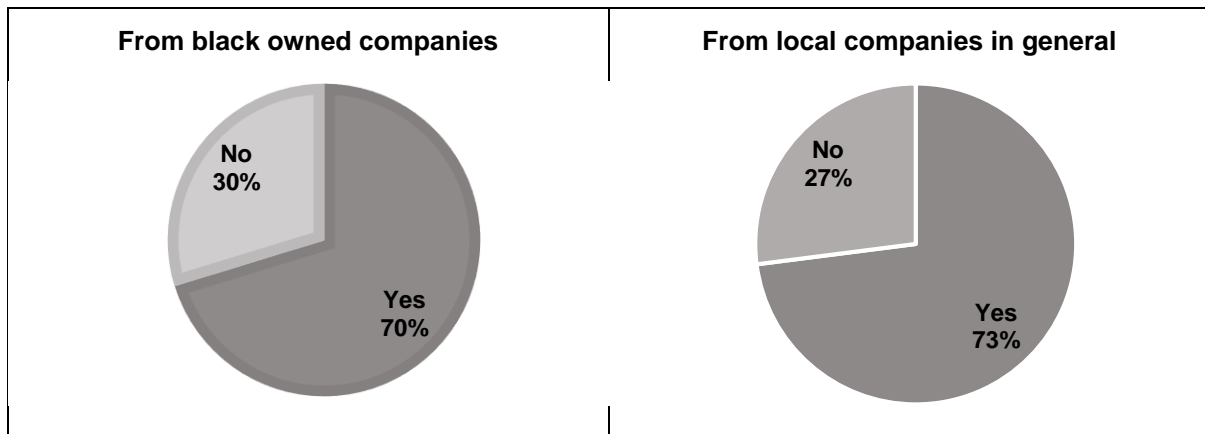
For those that have managed to reduce costs, this has been due to a variety of mechanisms put in place. These include investments in cost management such as purchases of accounting and enterprise management software; and increased focus on the manufacturing processes such as purchasing new packaging equipment, redesigning the process flow and carrying out plant audits. Moreover, the survey has also highlighted that participation in BIS has improved the purchasing power of BIs, enabling them to procure in bulk and leverage economies of scale to negotiate better input prices from suppliers – although it is important to note that these outcomes may also be driven by factors unrelated to the BIS.

7.4. Localisation

Economic inclusion of black business people in the main stream economy means that measures should be taken to entice existing and potential black owned businesses to increase trade amongst themselves as well, and not only their inclusion in existing value chains. One of the criteria for participation in the BIS is that successful BIs should put in place measures to improve localisation including through trading with other black and South African companies.

In the survey, participants were asked if they have managed to increase the share of their inputs that are sourced from black companies and/or service providers, since approval into the programme. The majority of companies, 70%, stated that they are increasingly sourcing from black owned companies. The results are not significantly different when looking at the proportion of BIs that increased sourcing from local companies in general (irrespective of whether they are black owned or not), as shown on the right panel below (**Figure 16**).

Figure 16: Proportion of BIs that increased local sourcing

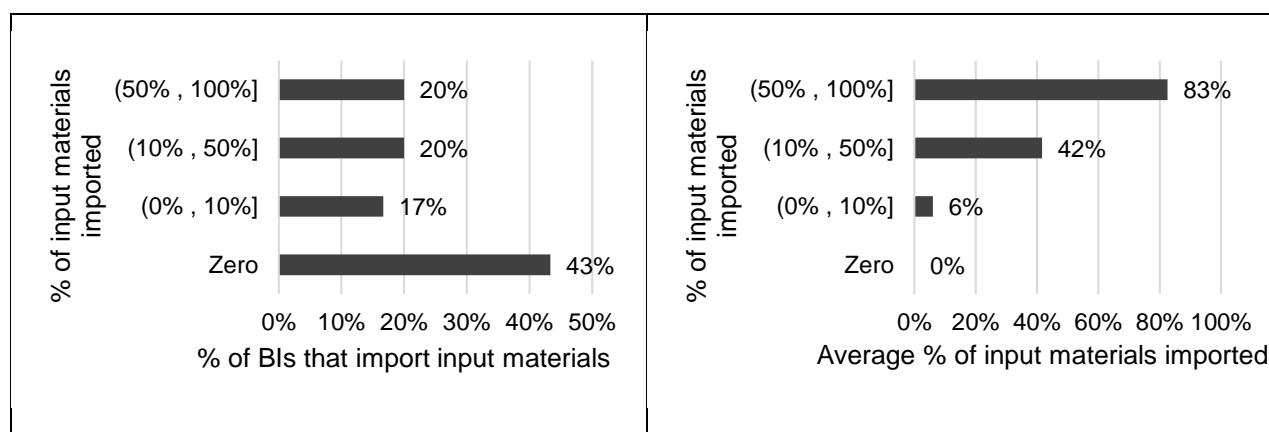


Source: Responses to questions 29 and 31 of the survey

Note: There were 37 responses to question both questions

The observation that black industrialists do source locally to a great extent is corroborated in **Figure 17** below. The left panel of the figure shows that a significant proportion of respondents (43%) sourced almost all of their input materials locally. This is important and shows that the local economy has some capabilities in production of some of the key input materials critical for industrialisation. However, 57% of black industrialists still import input materials in some form, in many cases because inputs are not available locally. Moreover, 20% of the black industrialists import 83% of all their input materials, on average. In addition, a further 20% of BIs import about 43% of all their input materials, on average. In effect, 40% of the BIs source at least 43% of their required input materials from outside the country. This raises an important issue about the types of inputs that companies require, and the extent to which they could increasingly be produced or supplied locally, although this issue lies beyond the scope of this report. It is also important to recognise that production capabilities for some of the inputs required may not exist in South Africa, or at least in quantities and specifications which align with the needs of the different companies.

Figure 17: Proportion of input materials imported by the black industrialists (BIs)



Source: Responses to question 88 of the survey

Note: There were 30 responses to this question

The main reason stated for importing input materials is the unavailability of local producers or manufacturers of these inputs. This reason was stated by almost all the BIs that import input materials. Another reason stated is that imports are cheap relative to locally produced inputs. One respondent alluded to unwillingness to supply by the local suppliers as being a key reason why the company sourced inputs from international markets, which is potentially a competition law issue, although this aspect is largely not true for most of the firms surveyed.

The responses show that input materials into manufacturing processes of BIs are not even available in Africa, with the exception of one BI that sources from Egypt (see **Table 4** below). This has implications for regional industrialisation strategies, and demonstrates opportunities for the entire continent to improve capabilities, in some markets, in order to absorb the regional demand for these products. **Table 4** shows that China is the most frequent supplier of the inputs required by the BIs, followed by the USA, European countries and India.

Table 4: Source of input materials imported by BIs

Country	Frequency
China	7
United States	4
Europe*	3
India	3
Germany	2
Taiwan	2
Thailand	2
Turkey	2
Egypt	1
France	1
Malaysia	1
Portugal	1

Saudi Arabia	1
Switzerland	1
United Arab Emirates (UAE)	1
Uruguay	1

Source: Responses to question 89 of the survey

Note: There were 30 responses to this question. However, only 19 respondents stated the country from which they import. (*): Respondents did not specify actual countries.

Notably, the substantial proportion of inputs sourced internationally should not, in our view, lead to a conclusion that there should be strategies in place to encourage import replacement. In most cases, and given the very broad spread of different firms that are supported by the BIS in different industries, it may not be viable in terms of scale economies or local capabilities to seek to localise production of certain products that are currently imported. Companies may in fact benefit from accessing high technology inputs from international markets, given this also contributes to their global competitiveness and upgrading. On the other hand, it would be of some benefit if the BIs that are being supported where in fact operating in industries where they are in a position to manufacture products which compete with similar imported products. The survey responses do allow for further assessment of this issue in greater depth.

7.5. Securing and increasing production/market share

One of the economic criteria to participate in the BIS is the requirement for black industrialists to demonstrate that they will impact the sectors in which they operate by way of increasing market share. It is important that black industrialists can become effective and sustainable competitors, able to affect competitive outcomes in different sectors over time. This, of course, is also a function of the marketing, branding and advertising activities of the companies, as well as the willingness of consumers and customers to switch to new providers (Roberts, 2017).

Given the limited data on the market structure at the product level in various sectors of the economy in which BIs operate, this report does not attempt to compute the actual market shares of BIs. However, it is possible to provide a simpler illustration of growth (or lack thereof) using changes in production output overtime as stated by the respondents.

Production output of each respondent recorded at the time when they initially applied for BIS support, to May 2019 when the survey was conducted, is compared in broad terms below (**Table 5**). This allows for an indicative assessment of whether black industrialists have grown as a result of participation in the BIS, although it is important to note that growth may also be underpinned by various other factors not captured in the available data. Notably, the survey

has been conducted in a period where there has been a significant decline in economic growth in South Africa. The programme is also still in its early stages, which means it is likely that the effects of the intervention may not have been realised as yet for some BIs.

A significant number of black industrialists (i.e., 24 out of 38 respondents, equivalent to 63%) have increased their production output since the beginning of their participation in the programme. Other things equal, this means the BIS has contributed to (counter-cyclical) increases in output and investment in the economy. This is important and shows the potential of the programme if implemented at a much bigger scale. Notably, while private funders may be less likely to support riskier investments in a period of economic downturn, state-funded support mechanisms are more likely to continue funding businesses given the nature of government funding cycles and the imperative to deliver on commitments to support entrants and smaller businesses.

The high number of BIs that have shown growth in output include businesses that are start-ups, as indicated by those that increased production from zero at the time of application to some positive levels at the time the survey was conducted. This is obviously important in ensuring the *quantitative* increase of BIs in the economy, as stipulated in the theory of change.

However, assessing growth from the perspective of start-ups will tend to overstate the actual growth realised, because new businesses are expected to produce some positive output through securing some initial investments and customers. Therefore, in order to assess if the programme has had an impact on the *qualitative* increase of BIs participating in the economy, it is also important to focus on the companies that were already in operation at the time of application to the programme. Excluding start-up businesses from the sample in this way shows that only 15 out of 38 respondents (39%) have experienced growth in production output since approval onto the BIS.

In contrast, a large number of BIs (26 out of 38 respondents) appear to have not grown at all. However, a majority of these are companies that had not yet commenced operations at the time when the survey was conducted. Excluding these shows that actually only a few black industrialists in the sample did not realise any growth since enrolment into the BIS, which reflects positively on the contribution of the BIS to the growth of companies despite the programme having been in place for less than four years.

Table 5: Change in production output since enrolment into BIS

Company	Production output at the time of application vs current output		
	At time of application	Current output	
1. *	R340 000 000	R480 000 000	INCREASED
2.	6000 tons	24000 tons	
3.	4 tons	4.5 tons	
4.	2000 pallets	8600 pallets	
5.	1 100 000 boards, 538 devices	440 000 boards, 140 000 devices	
6.	20 MvA	50 MvA	
7.	5000 transformers	7000 transformers	
8.	1400 tons	2000 tons	
9.	75 161 595 units	141 061 022 units	
10.	8732 tons	9944 tons	
11.	200 000 units	1 500 000 units	
12.	3 000 tons	30 000 tons	
13.	0	300 000 units	
14.	0	3600Nm3	
15.	0	9 000 tons	
16.	0	12000 tons	
17.	0	12 tons	
18. #	0	2400000	
19.	0	24192 tons	
20.	0 tons	25 000 tons	
21.	12 tons	5280 tons	
22.	600 tons	600 tons	UNCHANGED
23.	30 00 tons	30 00 tons	
24.	0	0	
25.	0	0	
26.	0	0	
27.	0	0	
28.	0	0	
29.	0	0	
30.	0	0	
31.	0	0	
32.	0	0	
33.	0	0	
34.	0	0	
35.	0	0	
36.	3 600 000 litres	600 000 litres	DECLINED
37.	1-5 tons	0	
38. \$	R 7 219 025	Declined, but unspecified	

Source: Responses to questions 10 and 11 of the survey. There were 38 responses.

(*): Respondent gave values in Rands, assumed to represent the value of output in Rands. (#): Respondent did not provide measurement units. In cases where respondents have omitted the units of measurement in their response, we assume that their stated output at both application and survey stage is nonetheless stated in the same unit such that the change in level of output in terms of orders of magnitude, which is of interest for this assessment, can still be assessed. (§): No production output. Revenue values used instead.

It is concerning that 3 out of the 38 respondents have experienced contraction in their output. Reasons for declined production output vary across these companies. One company had to cease operations during the application processes due to challenges with meeting regulatory environmental standards, and delays in getting funds from the IDC, in particular. Funding from the IDC was approved 20 months prior but the company was yet to receive funds at the time of the survey. The investment was expected to significantly improve the quality of the

company's products and increase the company's buying power relative to input suppliers, thereby improving efficiencies. Although the details of the environmental standards issues faced by the company and the specific application with the IDC are not known, this case is illustrative of the importance of coordination across government departments in terms of supporting the objectives of increasing participation of black owned firms and SMEs in the economy.

The output of the other two companies declined because their applications to BIS were rejected (based on their survey responses). Had they been approved, the investments were expected to maintain and/or improve production. One company stated that their production output declined due to loss of business to foreign competitors, and that it struggled with access to new clients locally. It is not entirely clear the extent to which these challenges, which seem to affect companies generally (see assessment of market access further below), can be attributed directly to a failed application to the BIS, although it can be expected that a failure to secure additional funding for investments would have contributed to the poor outcomes.

8. Funding, non-financial support and market access

Studies of barriers to entry have raised many factors that hinder SMEs from entering markets and sustainably participating in the mainstream economy as effective rivals (Roberts, 2017). Key amongst these factors is the inability to access finance (and an absence of patient finance), significant difficulties with accessing markets, and the insufficient non-financial support critical to prepare and nurture SMEs to overcome other barriers and become effective participants in the economy. As part of this evaluation, the report considers some of these factors to assess if they are consistent with the experiences of the black industrialist companies, and how the BIS has performed in addressing these constraints.

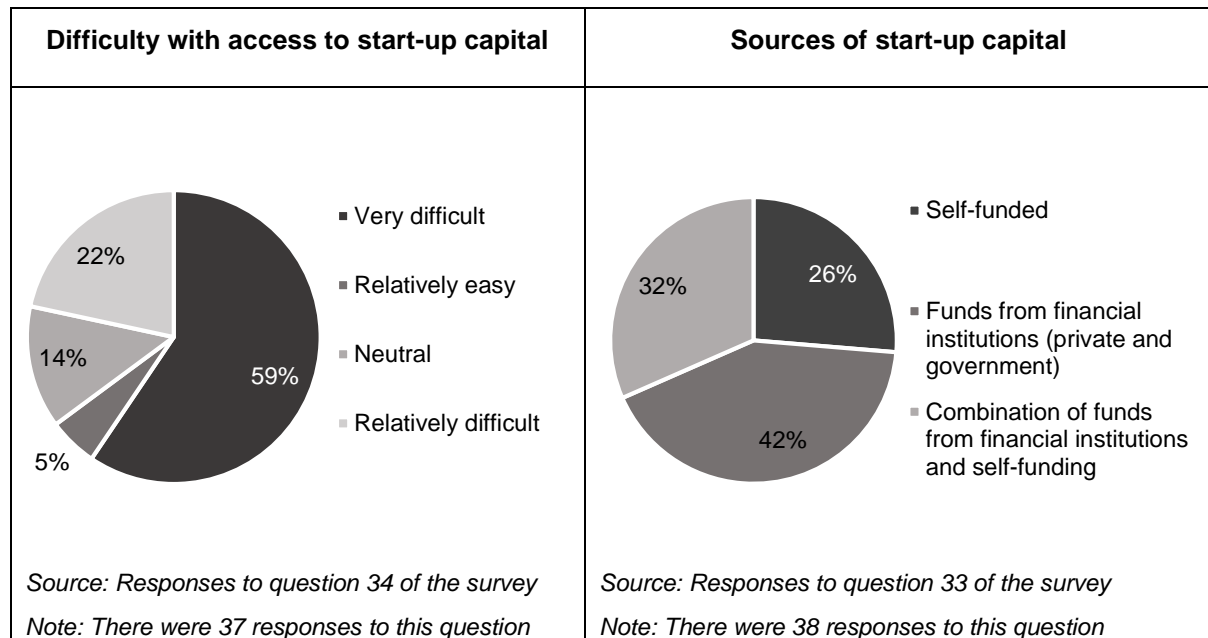
8.1. Access to funding

The results of the survey demonstrate strongly that access to finance remains a major challenge for effective entry and participation of SMEs in the economy. This is the case irrespective of the form of financial support required (i.e. whether it be start-up capital or working capital). Specifically, 59% of the respondents indicated that it was very difficult to access start-up capital, as shown on the left panel of below (**Figure 18**), whilst only 5% said it was relatively easy.

Challenges with access to start-up capital are further confirmed by looking at the different sources used by the BIs to get initial start-up capital, as shown on the right panel (**Figure 18**). The responses show that only 26% of black industrialists were completely self-funded to establish their businesses. This would mean that a significant proportion (74%) sought finance

from a combination of financial institutions, government and other networks. Furthermore, about 68% of black industrialists had to inject some personal funds to establish their businesses. Only 32% received start-up capital purely from external sources such as financial institutions and government departments.

Figure 18: Challenges and sources in accessing start-up capital



Access to working capital is an additional concern for SMEs. The majority (63%) of the black industrialists surveyed indicated that they have had challenges with working capital (**Figure 19**). Half of those who have challenges with working capital are relatively younger businesses, having been in operation for not more than four years (**Figure 20**). Nonetheless, a significant number (half) of relatively established (on average 15 years in operation) BIs also corroborated the issue of challenges with working capital. Surprisingly, the majority (64%) of the BIs that indicated no challenges with working capital are younger businesses (not more than four years in operation).

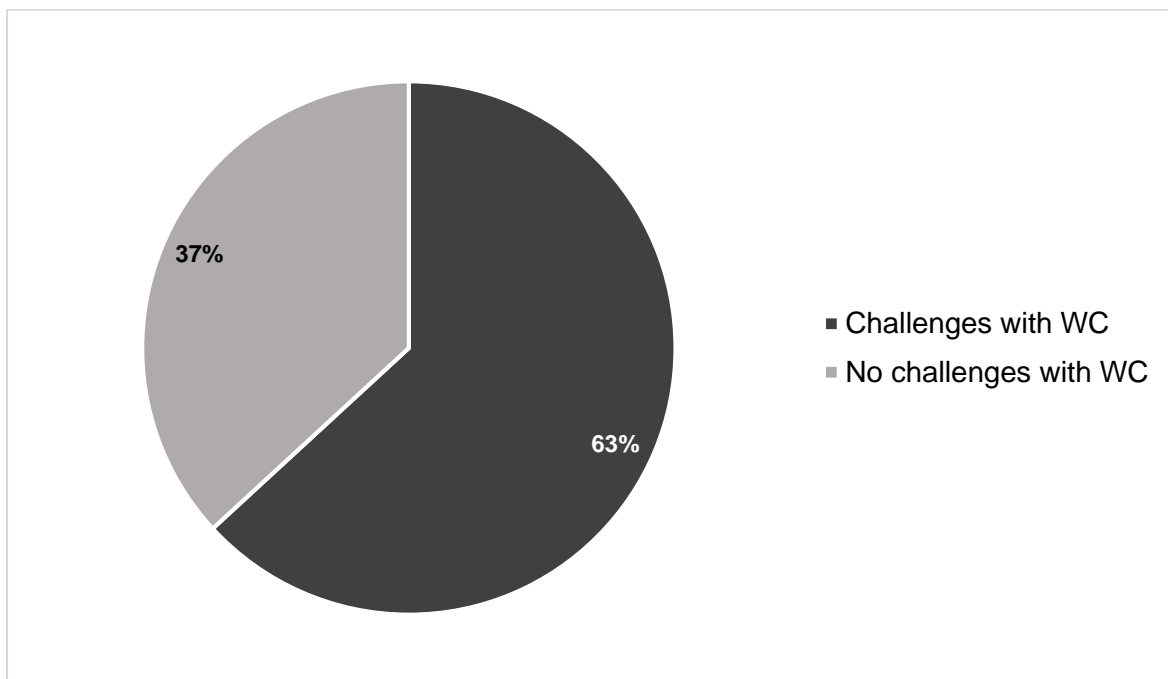
In addition to the survey, individual interviews with selected BIs have confirmed the experiences relating to challenges with working capital. Makhamisa Foods, for example, struggled with working capital because the funding they received from the BIS did cover other expenses such as labour and utilities in the building of their plant.¹¹ As a result, the contractor on the project managed to pay for machinery but fell short on labour and other ancillary costs. As a start-up project, Makhamisa did not have the asset base to obtain finance for the project, and that resulted in serious consequences for the turnaround time of the project and

¹¹ Interview with Makhamisa Foods, 20 February 2019

commencement of operations of the business. This impacted negatively on their ability to honour an offtake agreement they had secured with one of the major food retailers.

The challenges with working capital were corroborated by Mthembu Tissue, a manufacturer of tissue paper products. The entity is also a recipient of both BIS and the Manufacturing Competitiveness Enhancement Programme (MCEP) support. Despite being a recipient of both grant funds towards capital expenditure, Mthembu Tissue still faces difficulties regarding working capital for the day-to-day running of the business, particularly during times of expansion and increased orders. Founder and director of the company, General Mthembu, highlighted that his 25 years' experience in the industry has been instrumental in the business' successes, however, shortfalls in working capital heavily constrain operations.

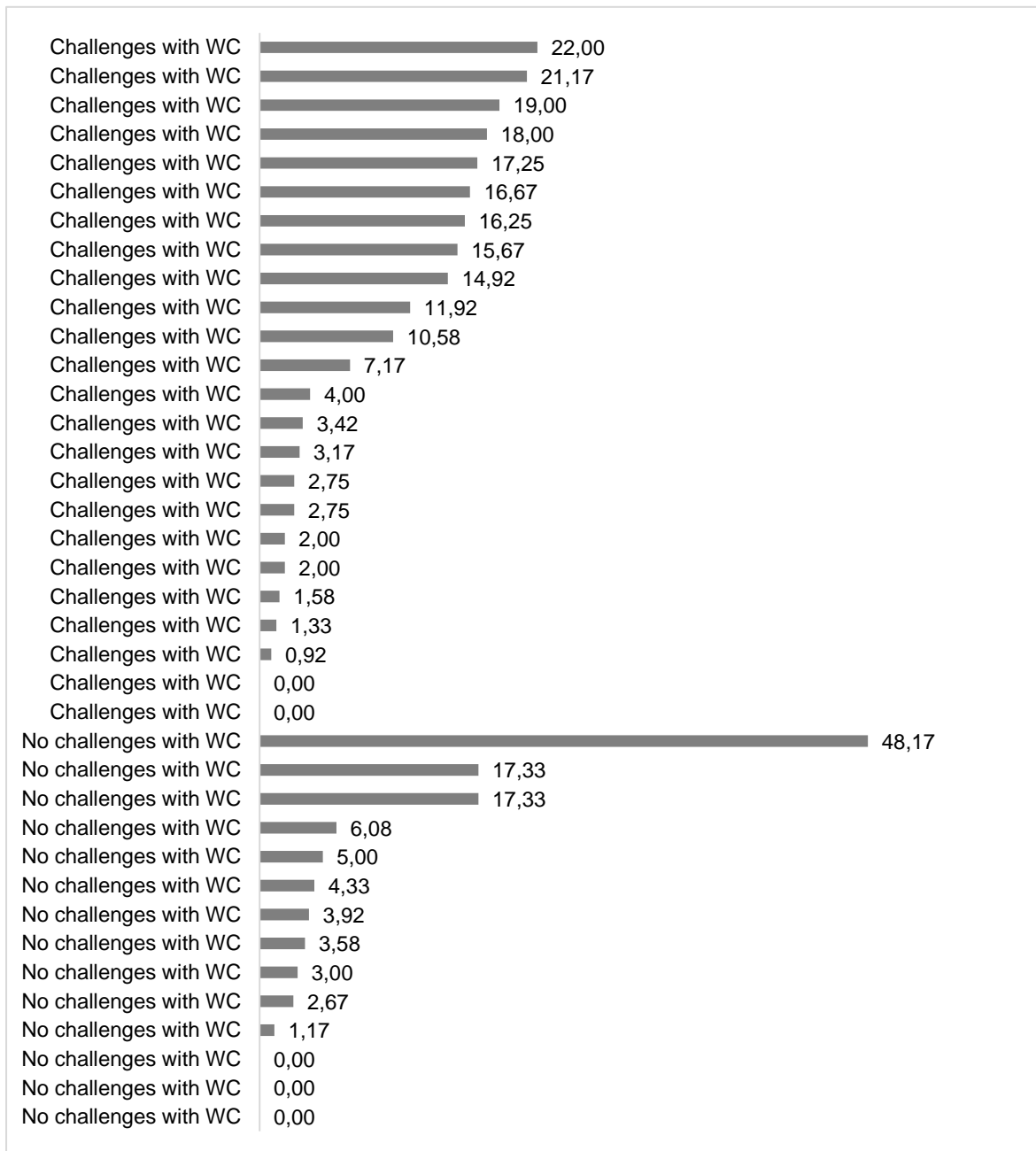
Figure 19: Proportion of BIs that experience challenges with working capital



Source: Responses to question 36 of the survey

Note: There were 38 responses to this question

Figure 20: Breakdown of working capital challenges by age of BI



Source: Responses to question 3 and 36 of the survey

Black industrialists have attributed the challenges with working capital to various factors, including the following:

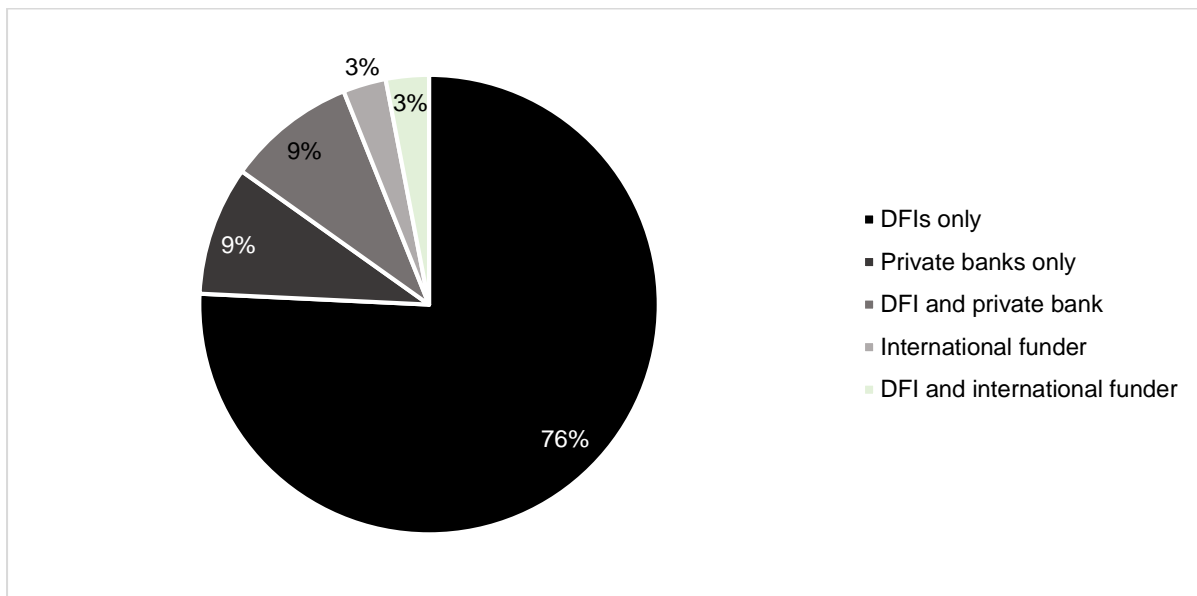
- Delays to complete projects, especially due to delays with accessing additional funds.

- It is difficult to raise funds to purchase raw materials. Trade volumes affect the ability to access inputs credits. Insignificant volumes, or extremely large ones¹², make it difficult to qualify for credit from suppliers. Moreover, larger raw material suppliers demand upfront payment.
- Extended payment terms on debtors, due to bad economic performance.
- Payment delays from customers. For example, major retailers pay long after the products have left the store floor. Further, there are other factors including the return or high discounting of products which has a bearing on the return against the input costs. Payment delays are equally experienced with regards to SOE's and government departments.
- Most funders do not provide funding for rental and additional human resources that are necessary to accelerate progress in the company. Companies judge one another by their operational situation - namely, offices, human capital etc. This is important when a small company has to negotiate with suppliers, strategic partners and customers etc.

The difficulties with access to finance (whether working capital or start-up capital) are exacerbated by the known challenges of accessing funding from private financial institutions. For instance, 77% of the black industrialist received co-funding only from development finance institutions (**Figure 21**). The leading DFIs in terms of funding the companies in the survey have been the IDC, followed by the KZN Growth Fund and NEF. The support received from the KZN Growth Fund highlights the importance of provincial DFIs, which is potentially a function of their accessibility at a more local level, and their ability to understand local businesses dynamics. There is evidence of significant differences in the risk aversion and criteria of DFIs at provincial and national level – for example, one BI stated that their application was rejected by the IDC because the project was considered to be unviable, whereas the same project was approved and funded by the KZN Growth Fund, which has meant that the operation is now functional and showing evidence of growth.

¹² Respondents indicate that suppliers of raw materials also typically offer credit which assists companies with working capital. However, if the order is too large suppliers become reluctant to sell on credit, most likely due to risk of substantial non-payment.

Figure 21: Distribution of sources of co-funding for BIs



Source: Responses to question 49 of the survey

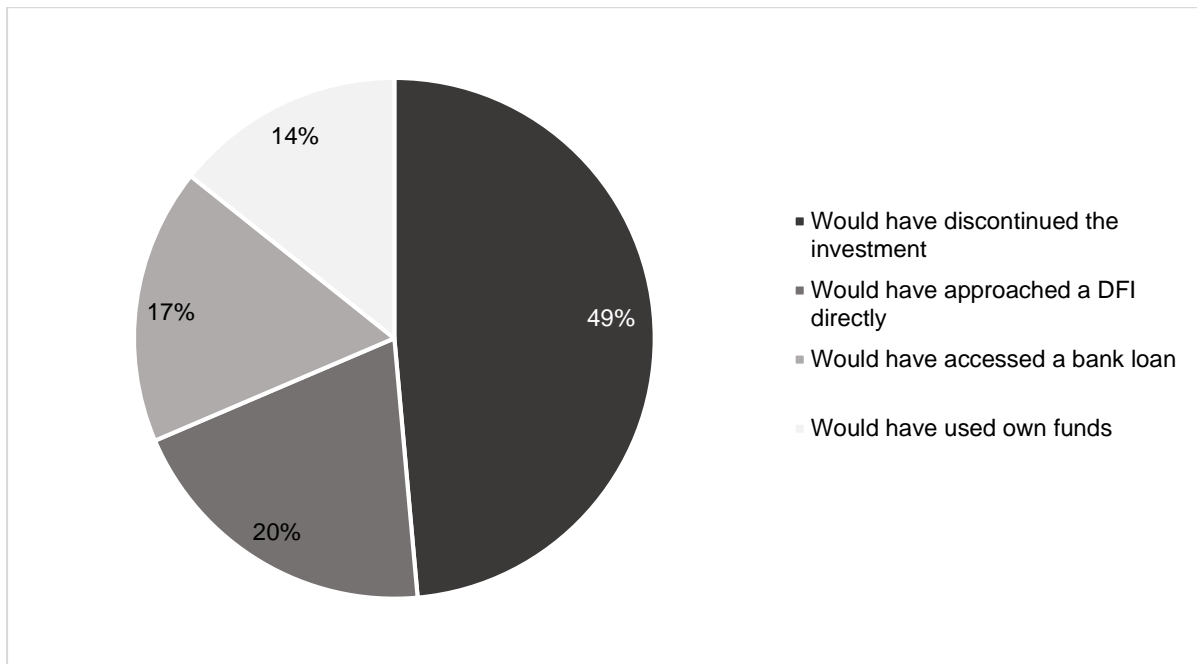
Note: There were 37 responses to this question. 4 of these had not yet received confirmation from co-funders. The remaining 33 companies which are represented in the chart had confirmed co-funders.

Only about 9% of the BIs managed to get funding strictly from private banks. This indicates that private financial institutions still lag behind in terms of extending funding for industrial development and smaller companies. The difficulties with access to finance compelled other BIs to look to international sources for funding opportunities. For instance, one secured co-funding from Malaysia, while another company received co-funding from the United States Trade and Development Agency (USTDA).

The overall difficulties with access to finance are further validated by the fact that 49% of the BIs indicated that if their application to BIS was rejected they would not have been able to continue with that particular investment (**Figure 22**). This highlights the importance of the BIS as an alternative source of funding, which makes the case for greater resourcing of the programme and/or addressing the broader challenges companies face in accessing funds from DFIs and private institutions. The fact that 51% of companies indicated that they would have gone ahead with their investments by accessing funds from elsewhere (i.e. from own retained funds, or approaching DFIs or private banks directly) does not contradict this observation, but rather further supports the view that there are significant opportunities to improve access to these complementary sources of funding for BIs and collaboration between these different funders given the limited scope of BIS funding. In this context, BIS funding seems to play an important catalytic role in de-risking investments by BIs and reducing the capital required from co-funders. However, the fact that a large proportion of companies felt that they could access capital from other funders does also point to the fact that BIS funding

may have been provided to companies that had access to alternatives (rather than those needing it most), although it is not clear that these companies would have received funding from the alternative sources if they had in fact applied. Furthermore, as discussed above, there is some value in providing support to more established entities as well, given their significant potential for job creation, their greater capacity to compete as effective rivals in different markets, and to contribute to further development of their capabilities and upgrading.

Figure 22: Counterfactual if BIS application was rejected



Source: Responses to question 62 of the survey

Note: There were 35 responses to this question

The BIs that indicated that they would have accessed funding from other sources have been in business for approximately 112 months (around 9 years) on average, indicating that they are relatively established and perhaps more likely to be able to demonstrate their viability to private funders and DFIs. In particular, 57% of the businesses have been in operation for more than 5 years (60 months). By comparison, of those businesses that indicated that they would not have gone ahead with the particular investment in the absence of BIS funding, 64% had been in operation for less than four years. These observations lend support to the view that there is a need for focused support for ‘younger’ firms in their first four years of operations, where they are generally viewed as riskier and less bankable investments by private funders and DFIs. This recognises the critical point raised in previous studies of barriers to entry that the first 3-4 years of operations are critical for the survival of start-up businesses because that is when they typically sustain losses before becoming profitable, and given the lengthy period of time it takes for new businesses to test different business models, derive efficiencies, build

capabilities, and learn and adapt (Ncube et al., 2016; Roberts, 2017). Funding for these firms necessarily has to account for these initial challenges, and needs to be 'patient' if it is to adequately support greater entry and participation by new enterprises in the economy.

Overall, there are several factors put forward by black industrialists as key reasons for why their previous funding applications from various sources have been rejected. Firstly, they lack a track record of operations in their industry and often only demonstrate profitability after four years or more. Secondly, they are not able to meet the requirement to have significant collateral and shareholder contribution in their businesses. Although this is less of a challenge for established businesses, the various interviews conducted with some of the BIs have confirmed that this factor can be a serious challenge for young and start-up businesses. This is exacerbated by the fact that this requirement relates to both banks and DFIs, making the process of securing co-funding extremely difficult given the limited alternative funding sources (such as own or venture capital) that are available beyond this in South Africa.

Thirdly, BIs have expressed a lack of knowledge of new projects, ideas and technologies by funders, which has meant that funders are less likely to fund projects involving investments in new or less familiar technologies and business models. This has implications for innovation because completely new projects or technologies that may enhance competitiveness of firms overall in local and international markets, are in fact the types of projects which can improve productivity and introduce productive and dynamic efficiencies into existing industries.

Lastly, there are lengthy application processes especially with DFIs and government departments. This seems to be a concern for many BIs, as assessed further below. Interviews with some of the BIs reveal that the IDC's application process in particular can take too long and that it is unnecessarily stringent. While BIs do not dispute the importance of a proper due diligence that funders such as the IDC conduct, they have recommended that other mechanisms of shortening the application, verification and approval processes should be explored. These issues are canvassed further below as part of assessing the experiences of companies with the application and disbursement processes of different funders.

8.2. Access to markets

A primary concern raised in previous studies of barriers to entry is the inability of black owned and smaller enterprises to access customers and markets. This theme is reflected strongly in the responses to the survey. Notably, access to markets is one of the forms of support which the DTI BIS guideline document stipulates as part of the offering of the programme. However, it appears that performance against this objective has been relatively poor overall.

Key concerns raised by respondents differ somewhat across private sector and government clients (respondents were asked in questions 14 and 15 to comment on their experiences with securing both categories of clients). In terms of government clients, the primary issues related to complex procedures in applying to supply government departments and agencies, corruption and opacity of processes, delays in approvals and payments, poor responsiveness, biases in criteria against smaller enterprises, and in some cases the cancellation of tenders after they have been advertised.

On the other hand, businesses seeking private sector clients raised concerns about biases towards established businesses (and against smaller entrants), lack of trust of small black owned firms, long standing agreements and relationships with existing incumbent businesses, challenges in meeting application, supply and price requirements, and non-commitment of potential clients to longer term agreements with BIs.

In relation to the above concerns, only 7 out of 37 respondents indicated that the BIS had been able to assist them with market access challenges, and the outcomes are similar when respondents were asked about availability of assistance from any other government departments (responses to questions 64 and 66, respectively). This is a relatively poor outcome, reflected also in the interviews conducted with the DTI. Information obtained through various engagements points to two related issues in this regard. Firstly, it would be difficult for the DTI to facilitate market access to private sector clients as large established businesses typically have well established procurement processes and preferred suppliers through relationships built over time. This means that there is an implicit foreclosure of entrants and 'outsiders', not least because smaller enterprises are not trusted, proven or able to compete effectively on price and other parameters in some cases. Secondly, it is also difficult for the DTI to facilitate access to state-owned companies and departments due to inherent coordination failures in government, which have been acknowledged publically and in interviews with the DTI, as well as the failure of various government agencies that are potential clients of BIs to implement state policies on local and preferential procurement effectively.

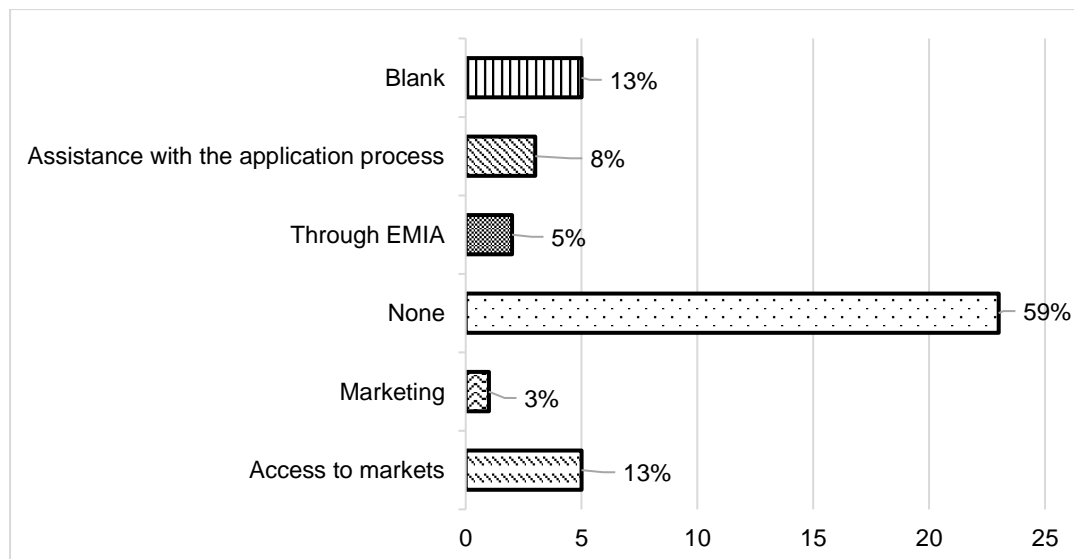
The State Owned Enterprises Procurement Forum, with whom the BIS administration is working to change these poor outcomes, has not been effective to date. In both instances, and at the heart of the problem for black owned firms in the market, is that the availability of funding on its own is a necessary but not a sufficient condition for success or even survival of businesses. Indeed, many of the firms that have responded to the survey are in the early stages of growth (within their first five years), which means that although they may have DTI funding (or approval for this), they may still encounter substantial challenges in obtaining clients to achieve scale economies or sustain their businesses – in some cases, they may also face significant challenges in paying back funding (loans) obtained from different co-funders.

The problem in this regard is that the available funding models provided by government agencies do not fully account for the time taken for businesses to build up their operations and secure clients (at very slow rates due to the various reasons for customer foreclosure stated above).

8.3. Access to and effectiveness of non-financial support

Given the concentrated nature of the South African economy together with high barriers to entry, non-financial support can play a crucial role in developing sustainable SMEs and black owned businesses. This is because this category of businesses require extensive support to nurture them throughout their initial stages of establishment and the transition to a bankable business proposal. Once the bankable business proposal has attracted the actual required capital, these businesses still need further post-investment care and support. Thus, the DTI has aimed to provide post-investment support including technical training and mentorship support as part of the BIS. In this context, respondents to the survey were asked what form of non-financial support they have received. Responses have highlighted that just under 60% of respondents have not received non-financial support (**Figure 23**), even outside of the scheme. Where support has been received, this has been in the form of support for accessing local and export markets including through the DTI’s Export Marketing & Investment Assistance Scheme (EMIA), marketing, and support with the application process of the BIS.

Figure 23: Forms of non-financial support received

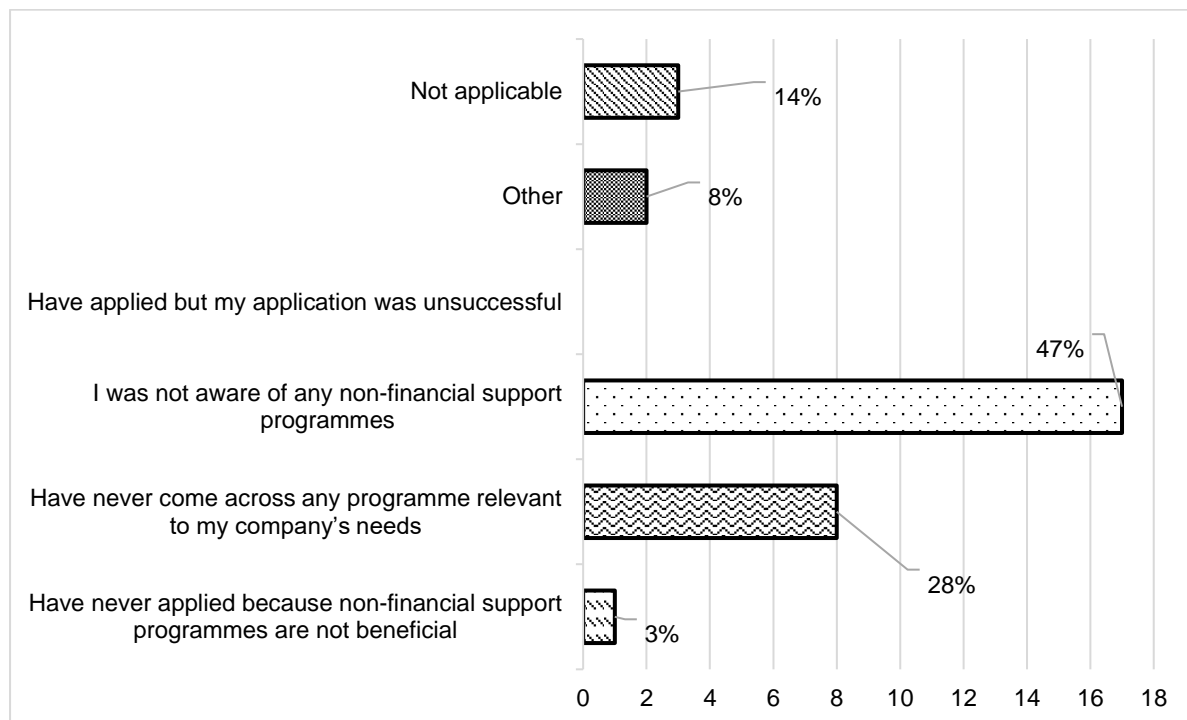


Source: Responses to question 63 of the survey

Although the BIS aims to provide post-investment support, the scheme also targets entities that have experience, operations and demonstrable track-record of operation. In light of this, Bosiu et al. (2019a) explain the importance of other support initiatives that work in

complementary ways in order for the BIS to play its role effectively. To probe this point further, the respondents were asked why their companies have never applied for non-financial support. The main reason why many of them have never applied for non-financial support is because they are not aware of any non-financial support programmes (**Figure 24**). Thus although previous studies have pointed to the existence of a network of support measures for SMEs, these support measures may not necessarily be explicitly known or accessible to those they target. 28% of the respondents expressed that despite knowing of non-financial support programmes, they did not feel that these programmes meet the needs of manufacturing businesses. Where non-financial support has been received, it has been in the form of business plans and financial management through incubation programmes as well as assistance with market access. The Innovation Hub and The Small Enterprise Development Agency (SEDA) have been the main institutions for this support where it has been received.

Figure 24: Reasons for not applying for non-financial support



Source: Responses to question 69 of the survey

Illustrating the role that non-financial support can play, firm level interviews have revealed that there is indeed potential to move through the growth process of their businesses with support of various forms of intervention, involving different targeted interventions for different phases of the growth of the business. Makhamisa is a good example of this. Makhamisa is a successful graduate of the Biopark programme under The Innovation Hub, where they were

incubated for 3 years and graduated in April 2018.¹³ Following from this, Makhamisa then became a recipient of R12 000 from the Small Enterprise Development Agency (SEDA) for the development of a business plan.¹⁴ This business plan was instrumental in the receipt of R80 000 from the Biopark programme for product development.¹⁵ The company has since gone on to apply for and receive approvals from the BIS.

In the same light, respondents also highlighted that the non-financial support they have received has resulted in new business leads, business upscaling and played an instrumental role in steering DFIs to recognise their business viability and the presence of a market.

9. BIS administration and implementation

The BIS offers cost-sharing financial support, where the DTI is responsible for the grant component and a co-funder of the BI's choice is responsible for the loan component. Applications to these entities are separate, meaning BIs get subjected to different kinds of screening depending on which entity they are dealing with. Moreover, different funders have their own methods and schedules of disbursing funds. For example the DTI uses a claims-based method of disbursement, meaning that beneficiaries have to first incur the expenditure before they can access DTI funds. Further, the conditions of each institution for granting approvals and disbursements are linked to the success of the applicant in their application with the other institution. That is, the DTI typically requires commitment from a co-funder first, whilst on the other hand the co-funder expects the DTI to approve first. These issues clearly have implications on the implementation and smooth administration of the BIS.

In this context, respondents were asked to comment in their own words on the main challenges that their company encountered with the BIS programme in relation to implementation and different application processes they went through in order to become beneficiaries of BIS. This meant asking BIs to share their experiences in relation to the DTI, as well as the co-funder.

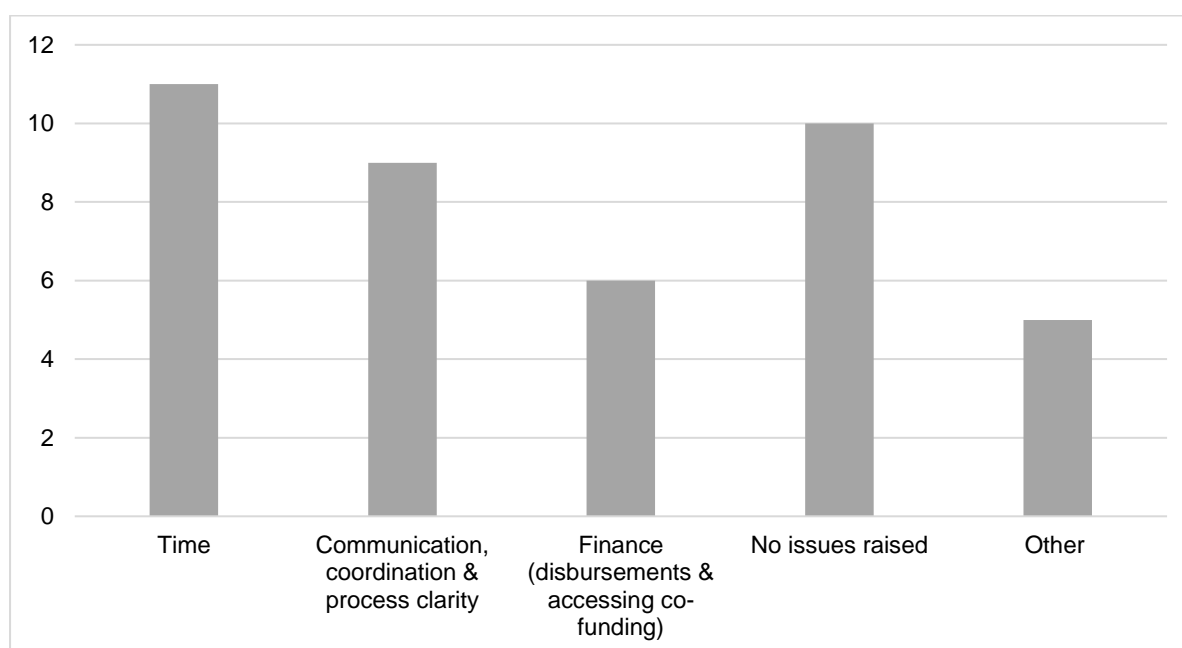
In terms of the implementation of the BIS programme, the foremost challenge raised by BIs relates to the time taken from the time of application to the approval stage, along with the time to disbursement once the approvals have been obtained (**Figure 25**). This observation is consistent with the concerns raised by BIs in face-to-face interviews that there is a significant risk to businesses of missing out on opportunities due to the lengthy processes at the approvals and, particularly, the disbursement stage.

¹³ Interview with Makhamisa Foods, 20 February 2019

¹⁴ Interview with Makhamisa Foods, 20 February 2019

¹⁵ Interview with Makhamisa Foods, 20 February 2019

Figure 25: Challenges with implementation and administration of the BIS programme



Source: Responses to question 67 of the survey

Note: There were 38 responses to this question

A significant proportion of respondents also expressed concerns regarding a lack of communication on the part of the DTI (including not having a clear, single contact person to liaise with regarding their application), inconsistency in information provided by different sections within the DTI and lack of coordination between these units, and a lack of clarity about the process for applications and disbursements.

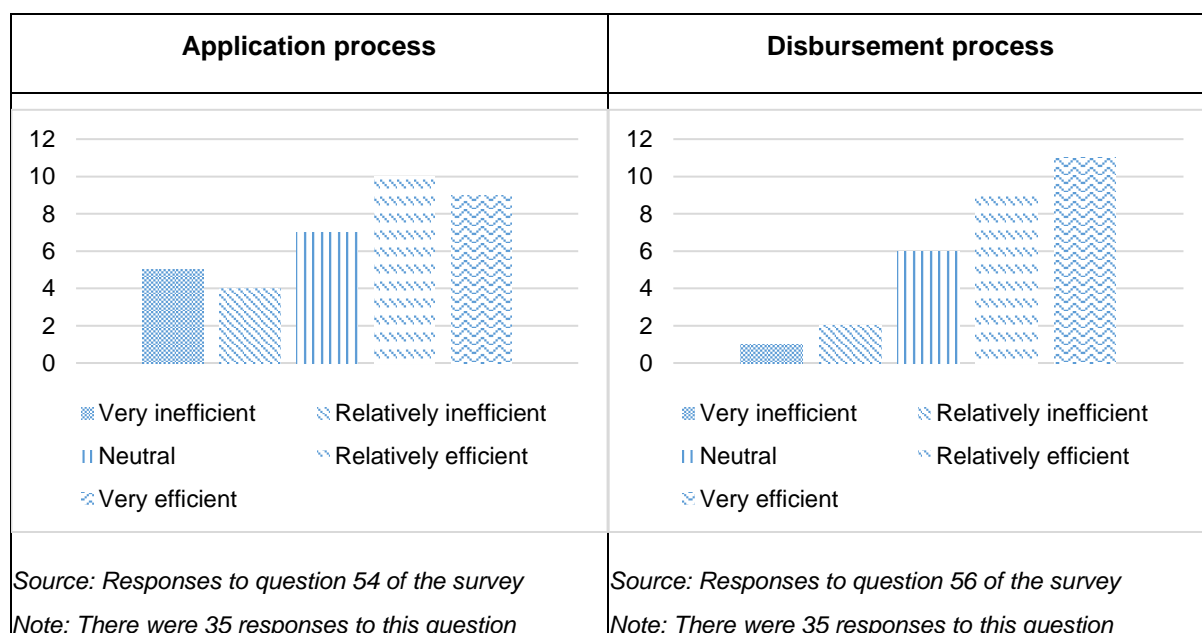
Moreover, the majority of respondents expressed significant concerns regarding a lack of coordination between the DTI and the IDC in particular (responses to question 58). Along with issues raised about high interest rates available from co-funders, and cumbersome due diligence processes, respondents claimed that they were often in a position of having to facilitate connections and communication between officials in the different institutions. The government agencies, for the most part, “work in silos” which leads to delays in approvals, lengthy processes and duplication of processes between the agencies which can be problematic for smaller companies with limited capacity and resources to comply.

In terms of the efficiency of the application processes of the DTI relative to those of the co-funders, the majority of BIs reflected positively on their experience with the application processes of co-funders (left panel in **Figure 26**), as well as disbursement processes of co-funders (right panel in **Figure 26**) when asked to rank their experiences. However, the differences between the process of co-funders and those of the DTI are not reflected in a similar way when considering the reported time taken (in months) for companies to receive

approvals and disbursements, which is an area for further inquiry. On average, it took 8 months for companies to receive approval of their applications with co-funders (responses to question 55), and 4 months to receive disbursements from date of approval (responses to question 57). By comparison, it took 8 months for companies to receive approvals under the BIS (responses to question 41), and 4 months to receive disbursements after claiming on the BIS (responses to question 45).

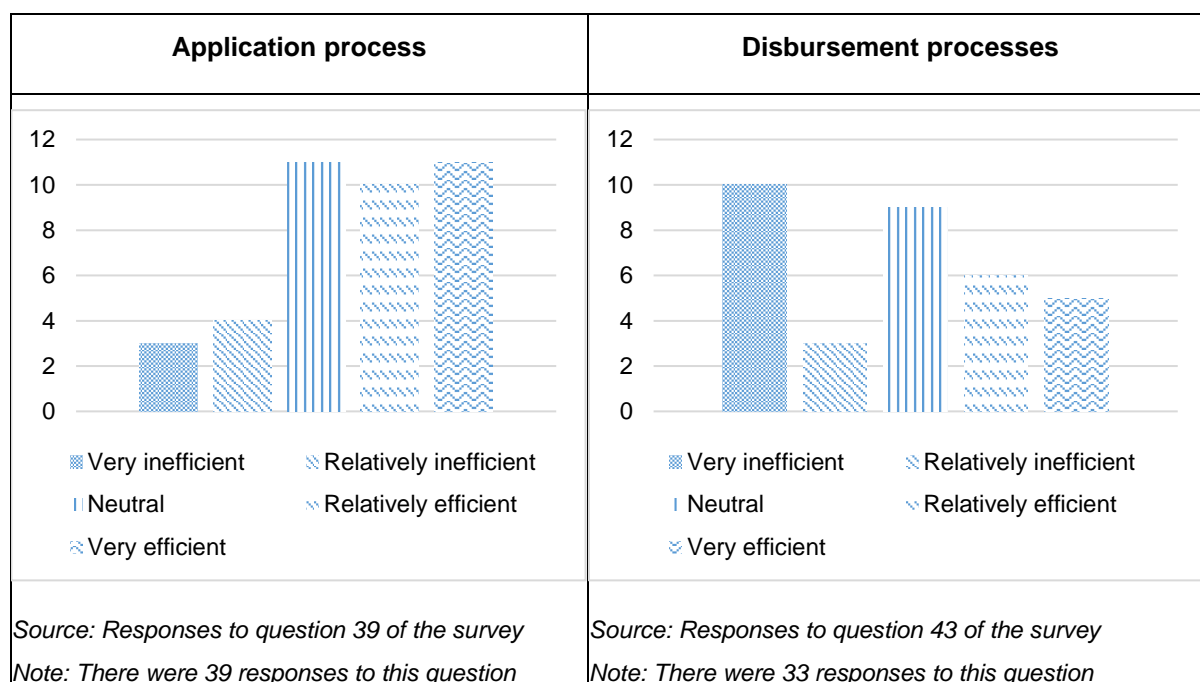
It is important to note, however, that by the time a company claims from BIS it is likely that much time has passed from the time they first applied, given that companies are required to find co-funders and make the upfront investments themselves prior to claiming from BIS. As such, while the period from claims submission to disbursement under BIS is in line with disbursement periods of co-funders, the full period from approval to disbursement under the BIS may in fact be longer, which is reflected in the earlier responses to the overall experiences under the BIS, and interviews conducted. Indeed, only three out of 36 companies responded that the DTI has disbursed funds before their co-funder (responses to question 52).

Figure 26: Efficiency of the processes of the co-funder



In comparison, the DTI BIS results are of some interest – while the programme has performed well in terms of an efficient applications process in general (left panel in **Figure 27**), the rankings are poorer for the claims and disbursements process (right panel in **Figure 27**), which is consistent with observations about the overall experience of BIs with the BIS. The poor rankings in terms of claims and disbursements, largely related to client concerns about lack of communication and the lengthy time taken, are vastly different from the experiences of companies with other co-funders where the majority of respondents indicated that disbursements were conducted relatively efficiently.

Figure 27: Efficiency of the DTI processes



10. Cost-benefit analysis, barriers to entry and BIS theory of change

In total, the BIS has managed to fund 135 black industrialists since inception, to the value of R12,402,450,781 in terms of approvals. Of this, R4,036,865,720 came from the DTI as the grant component. In terms of the survey, the 39 respondents made about R3 billion worth of investments, with the DTI grant component accounting for R1 084 150 182. These investments are largely capital and expansionary in nature, with machinery and equipment accounting for more than 80% in particular.

As the majority of investments made by the BIS beneficiaries are expansionary in nature, it is evident that the programme has contributed to encouraging growth in investment in new productive assets in the economy. These investment trends are in contrast to those of large lead firms in the top 50 of the Johannesburg Stock Exchange (JSE), who despite experiencing real increases in revenues and profitability over the period 2011 – 2016, have had low levels of investment (Bosiu et al., 2017). Investments undertaken by these larger firms largely comprise of expenditure on replacement capital and mergers and acquisitions, rather than expansionary expenditure (Bosiu et al., 2017). Although the businesses of BIs are relatively small compared with firms listed on the JSE, the survey has shown that these businesses have made significantly large projected investments, falling within a range between R15 million and R390 million in value for the individual firms analysed.¹⁶

¹⁶ DTI Black Industrialists survey question 47

Importantly, the scheme has had some positive impact on the ability of BIs to create and retain jobs, with a total of 1957 jobs created. Employment outcomes have been strong when considered by race and gender and the employment of youth, where there have been increases in employment in each categorisation and overall amongst the surveyed firms. In particular, the employment of females was generally driven by increased employment of African females. The increase in employment of African females accounts for 17% of the total increase in employment, whereas the increase in employment of persons with disabilities accounts for 1% of the total increase in employment by the surveyed companies. BIs have employed a total of 1156 youth, accounting for 31% of those currently employed by industrialists. There has been a significant increase in the employment of persons working within operations, with a total increase of 1158 jobs. However, growth has been much lower for categories requiring more technical skills such as engineering, and the number of scientists employed has dropped overall in the sample.

Beyond employment benefits, analysis in section 7 shows that access to funds through the scheme has led to significant impacts in terms of the DTI's economic benefit criteria such as quality improvement, empowerment, adoption of green technologies, improvement of efficiencies, and improvements in terms of localization.

Overall, while the scheme has managed to create new and retain existing employment, it is important to understand the costs associated with this. With the total approvals of R1 084 150 182 funding for the 39 firms in the survey, it has cost the DTI about R553 985 per new job created by these companies. While we are interested in the extent to which BIs are able to create jobs, it is also important to assess their ability to continue to retain jobs that they previously held. In light of this, the DTI has on average spent about R598 978 to retain each job that existed prior to BIS approval. On the other hand, when we consider both jobs retained and jobs created, the DTI has spent R287 802 per job towards BIs.

In order to assess the performance of the BIS in relative terms, information on the outcomes for other development finance programmes can be drawn on. The KZN Growth Fund approved a total of R319 000 000 with expected job increases of 2 318 for the 2016/2017 financial year.¹⁷ For the 2017/2018 financial year, the growth fund approved a total of R87 000 000 with expected job increases of 704.¹⁸ This yields an average job spend of R137 618 per new job

¹⁷ KZN Growth Fund Integrated Annual Report 2016/2017 http://www.kzngrowthfund.co.za/corporate-information/financial-information/kzng_gft_ebook/mobile/index.html#p=18

¹⁸ KZN Growth Fund Integrated Annual Report 2017/2018 [http://www.kzngrowthfund.co.za/corporate-information/financial-information/KZNGF_AR2017_2018\(Final\).pdf](http://www.kzngrowthfund.co.za/corporate-information/financial-information/KZNGF_AR2017_2018(Final).pdf)

for 2016/2017 and R123 579 per new job for 2017/2018. However, it is important to be cautious in interpreting these outcomes as the KZN Growth Fund estimate is calculated on expected job increases and not actual jobs. Similarly, the IDC reports on the jobs created and saved¹⁹. Jobs saved are the equivalent of jobs retained, and measure how recipients of funds are able to hold jobs after receive funding. For 2017, the IDC spent R1 037 081 per job on jobs created and saved; and R688 207 per job on jobs created and saved for the year 2018.²⁰

The varying sizes and capacities of funders and funding schemes has an effect on approval amounts as well as the average amount that can be spent on creating and retaining jobs. For instance, the KZN Growth Fund is a relatively smaller funder compared to the DTI's BIS and the IDC, focusing on providing financial support to businesses in KwaZulu-Natal. As a result, the funding amounts approved are generally lower when compared to IDC. However, when the funding can be expected to have a significant effect on job creation (e.g. 3 218 expected job increase in 2017/2018), the average expenditure per job will drop and funds can be freed up for spending on other aspects of the business requiring attention.

The DTI's BIS and the IDC, on the other hand, have relatively more funding capacity than the KZN Growth Fund and will by their nature have higher approval amounts and the ability to spend more on creating and retaining jobs, other things being equal. Although these entities have more flexibility in the average amount that can be spent per job, the point still remains that if job creation is expected to be significant then the average expenditure per job will drop. This then iterates the importance of directing funding towards sectors and businesses that are able to significantly create jobs over time.

10.1. SWOT analysis

While we were able to quantify some of the benefits and costs of the programme (for which data is limited), there are other factors worth-mentioning which cannot be easily quantified and which can affect the ongoing growth and administration of the programme. We consider below the strengths, weaknesses, opportunities and threats relating to BIS, developed as a reflection on the key issues that have arisen in the survey analysis (

¹⁹ The IDC reports on jobs created and saved as a combined figure

²⁰ Industrial Development Corporation Annual Report 2018 <https://www.idc.co.za/financial-results/2018-annual-report/>

Table 6).

Table 6: SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Co-funding model means access to wider pool of funds • Grant component means investments that would have otherwise been considered risky are de-risked and funded • Proper balance between funding start-ups and established enterprises means both quantitative and qualitative increase of BIs in the economy • Uncomplicated application process (DTI part) • Employment generation potential is significant in manufacturing sectors 	<ul style="list-style-type: none"> • Claims-based method of disbursement delaying the release of funds, leading to missed opportunities • No effective post-investment monitoring • Ineffective BIFF and SOEPF • The upper-bound cap of R50 million on the grant component may be too low for some firms • Lack of coordination between the DTI and co-funders • Stringent application processes of the DFIs • Misalignment of the DTI's and co-funders' application processes • No one-stop-shop to process both grant and co-funder applications
Opportunities	Threats
<ul style="list-style-type: none"> • With increased funds allocated to the grant component, there are opportunities to significantly fund more BIs • Effective BIFF and SOEPF can ensure access to more funds and routes to markets for BIs • Effective monitoring and conditionalities can ensure maximum returns in terms of expected economic impact of BIs 	<ul style="list-style-type: none"> • Funding businesses that could have easily secured funding elsewhere • Rejecting businesses that need funding the most, because of lack of collateral and/or off-take agreements • Government entities (esp. the DTI and DFIs) working in silos • No formal financial commitment from government, or reversal of commitments made to increase funding. Current funding discretionary and insufficient

10.2. Discussion: Barriers to entry and the BIS theory of change

The structure of the South African economy remains beneficial to a small portion of the population that control productive assets, which has also meant that levels of concentration remain high across several sectors. Growth of black businesses has not been significant since the attainment of political freedom nearly two and half decades ago. Apart from a racially skewed distribution of ownership of productive assets, the economy has failed to realise meaningful structural transformation as highlighted by Bell et al. (2018). This is problematic given that evidence points to the fact that inclusive growth requires participation and changes in the economic structure, and shifts from low to high productivity sectors along with upgrading within sectors (Bell et al., 2018). At the heart of these changes is growing a diversified manufacturing sector.

The Black Industrialists Policy seeks to transform the South African economy in two key ways: racially and structurally. That is, the BIS targets the inclusion of black businesspeople in the mainstream economy through participation in the manufacturing-related sectors in particular. The policy seeks to achieve this largely through provision of finance to support entry of new firms, and support of existing black industrial enterprises, along with provision of other critical and related non-financial services such as post-investment support and access to markets. These measures were developed in recognition of the well documented barriers to entry that characterise the South African economy.

The BIS has been operational for four years, and this report has sought to evaluate the design of the programme and its performance against its stated objectives. Most importantly the paper attempts to evaluate whether the programme is appropriately designed and implemented to ensure the desired benefits for beneficiaries and the economy as a whole as set out in the theory of change.

In terms of meeting its own objectives of increasing the quantitative and qualitative participation of black industrialists in the mainstream economy, the programme has performed relatively well given the limited financial resources available to it, amongst other constraints. This is evidenced by the successful financing of both start-up and existing businesses, albeit the pool is relatively small compared to the size of the economy and the pool of established businesses. A total of 135 enterprises have been supported since the commencement of the programme at a combined value of approvals (including co-funders) of approximately R12 billion in total.

The survey has shown that these businesses have significantly large projected investments ranging between R15 million and R390 million in value.²¹ Further, the survey shows that 58% of the beneficiaries were start-up businesses, and the remaining 42% were existing enterprises.²² In turn, access to funds through the scheme has shown positive impacts amongst most firms in terms of the DTIs economic benefit criteria such as improvements in production capacities, increased employment, and improvements in quality of output, and achieving cost reductions.

However, a key issue identified in the design of the programme relates to the fact that the programme also targets already established businesses and, in the case of start-ups, bankable projects that are already anchored by offtake agreements from potential buyers. The implication is that it is unlikely that the programme will sustain the *quantitative* increase of BIs for a long time even where there may be gains qualitatively. This is premised on the fact that many black businesses lack sufficient support and tools (including non-financial support) to establish businesses that can grow sustainably to become effective participants in the mainstream economy. Among the already existing black owned SMEs, the survey and previous studies have shown that many cannot access finance from the formal financial sector to reinvest in their businesses in order to grow.

Developing these skills and facilitating the graduation of many of these SMEs into formal and effective competitors, requires not only financial support but substantial investment in the accompanying non-financial support. This means providing sufficient pre-investment non-financial support to entrepreneurs to develop their business ideas from conceptualisation to bankable stage, and post-investment support to ensure that they remain sustainable and grow. Currently, the BIS only provides post-investment support as indicated in the theory of change. This is perhaps a function of the fact that the programme primarily targets established enterprises and bankable start-up projects, as these are expected to require minimal pre-investment non-financial support. This approach misses the point that many enterprises in the start-up phase may have strong projects that have the potential for high returns in future, but they may require initial support particularly in the first four years of operations to realise this potential, to generate profits, and to test and learn new approaches within their business to improve competitiveness. That being said, it is expected that the network of other support initiatives of government and other non-governmental agencies will adequately cater for the smaller enterprises, with a view to progressing them into firms large enough and viable enough

²¹ DTI Black Industrialists survey question 47

²² Note that this is just an extrapolation from the respondents of the survey. The actual breakdown between start-ups and existing businesses may be different

to apply for larger pools of funding with large DFIs and BIS. This approach, however, relies on there being effective coordination within this network of agencies with respect to how applicants are supported and graduated between different funding and support initiatives – the evidence from the survey conducted suggests that there are significant gaps in terms of the effectiveness of coordination between various agencies which need to be addressed as a priority.

The second key issue in the design of BIS relates to the core objective of the programme, which is the provision of access to finance. The programme fails to recognise and emphasize the need for the finance to be patient in nature, particularly through the DFIs, as highlighted in various studies of barriers to entry (see Bosiu et al. (2019b) for a detailed discussion on this, and Roberts, 2017). Patient capital essentially recognises that SMEs are likely to experience challenges of cashflow and incur losses in their first few years of operations. This means that debt finance should be long-term in nature and offer sufficient moratoria to reduce repayment instalment amounts and allow SMEs enough time before commencing with repayments. This will ease cashflow pressures, free up working capital, and reduce chances of business exits. Notably, as the DTI does not offer debt finance, provision of patient finance rests mainly with the co-funders. The survey results actually show that in most cases the moratorium provided by the co-funders is a mere 10 months on average (that is, the period of time given before commencement of debt repayments). The programme design should recognise this challenge and outline ways to encourage and partner with co-funders to make concessions in this regard. This would require, for instance, expanding the mandate of the Black Industrialists Funding Forum to ensuring that BIs receive patient co-funded capital.

The third challenge relates to the actual implementation of the programme. The ToC recognises – amongst the initial steps necessary to realise the goals of the programme – the need to open up market opportunities through leveraging the current State-Owned Enterprises Procurement Forum and establishing a special Black Industrialists State-Owned Enterprises Procurement Forum as discussed above. Lack of access to markets is one of the critical issues raised in various studies of barriers to entry that clearly requires special attention, also supported in the results of the survey. Unfortunately, SOEPF has not been effective, while BISOEPF on the other hand appears to have not been setup yet. This has meant that the majority of the current cohort of BIs still struggle with access to market and have not received any assistance from the BIS. Nevertheless, there are some few cases where the DTI in its own capacity has intervened to assist with market access. However, these are isolated incidences in which the DTI sought to respond to specific issues raised by those particular BIs, as opposed to a more proactive, holistic and structured approach.

The other challenge in relation to the implementation of the programme is the ineffectiveness of the BIFF. This forum was meant to ensure that the BIS administration processes are smooth and efficient, particularly through bringing together the DTI and co-funders to collectively process and evaluate applications. This would improve the coordination issues between the DTI and co-funders, and provide uniform screening procedures. Further, it would help to align the disbursement schedules of co-funders with those of the DTI. However, similar to SOEPF, this forum has not been effective. The limited effectiveness of these forums indicates the need for greater coordination at the administrative level given the significant impact that a failure to process application, disburse funds, and coordinate between government funders can have on BIs and their ability to take advantage of market opportunities.

11. Recommendations

The process of evaluating the BIS has revealed some critical insights into issues impacting SMEs in South Africa, and importantly, the potential impact the programme can make (provided it is sufficiently resourced) in fostering inclusive and sustainable growth of the economy. The evaluation yielded the following key findings and recommendations. It is worth noting that due to the programme's importance and strategic positioning, some of the recommendations would require collective effort and collaboration with other stakeholders, and responsibility for addressing some of the challenges identified may not rest solely with the DTI. We reflect here on the main cross-cutting recommendations, noting that some of the specific issues and suggestions have also been raised throughout the report in the relevant sections.

Access to investment capital: This remains a critical barrier to industrial development and inclusive growth in South Africa. Access to finance is made difficult mainly because of blanket requirements imposed on businesses irrespective of their size and years of experience. These include, for instance, the requirement to have a proven track record, and the need to have collateral and shareholder contribution. This naturally disadvantages 'young' or start-up businesses in favour of more established businesses. Added to these is the impact of lengthy and cumbersome application processes. More established companies are able to overcome this by use of consultants, and retained capital, which SMEs cannot necessarily access.

Recommendation

Funders, especially DFIs, should look for alternative ways to secure commitment from the black industrialists without necessarily requiring collateral and personal contribution in their traditional senses. DFIs should strengthen their due diligence processes to ensure that the already limited funds go to the enterprises that need them the most.

Overall, government should rethink how DFIs themselves are funded in order to increase their developmental mandate (Bosiu et al., 2019b). Importantly, where DFIs source their own funding directly affects which businesses eventually get funding from them and the terms on which such funding is provided. Moreover, this affects their ability to offer patient finance.

Access to working capital: For the companies that manage to raise start-up capital, including using personal funds, working capital in particular is a key constraint. This is caused by various factors, including delays in completing projects as a result of delays with accessing additional funds; difficulties in raising funds to purchase raw materials; and payment delays from customers including government, as set out above.

Recommendation

The DTI should coordinate the establishment of a special BIS working capital fund, which will have commitment and contributions from different co-funders, including DFIs and private funders, and working in coordination with the core BIS cost-sharing grant. This would lessen the pressure and the time-consuming processes of businesses having to search for working capital from multiple funders.

Access to markets: A primary concern raised in previous studies of barriers to entry, and confirmed by the survey, is the inability of black owned and smaller enterprises to access customers and markets. The performance of the BIS against this objective has been relatively poor overall, despite this being stipulated as part of the offering of the programme. Several reasons hinder BIs from accessing government clients, and these include complex procedures in applying to supply government departments and agencies, corruption and opacity of processes, biases in criteria against smaller enterprises, and in some cases the cancellation of tenders after they have been advertised. On the other hand, large private clients have biases towards established businesses (and against smaller entrants), do not trust small black owned firms, and have long standing agreements and relationships with existing incumbent businesses.

Recommendation

Strengthen and capacitate the State-owned Enterprises Procurement Forum (SOEPF) to make it more effective, including attributing it with the appropriate legislative powers to existing government procurement policies which favour small and black owned businesses. There is also a need to improve coordination between agencies of government to ensure that various state-owned enterprises and agencies, particularly those with potential to procure from SMEs and black owned firms, adhere to existing government regulations on localisation and procurement from these firms. More simple interventions include ensuring enforcement of

rules for paying suppliers on time and completely, which has also been identified as a key challenge.

Efficiency of the application process: BIs have raised concerns about the time taken from the time of application to the approval stage under the BIS, along with the time to disbursement once the approvals have been obtained. In particular, the BIS performs poorly on the claims and disbursements process. While the disbursement processes of the co-funders are still lengthy, they appear to be more efficient than those of the DTI which points to the opportunity to leverage and replicate some of the approaches used by co-funders within the BIS. A key strength on which the BIS administration function can build is the fact that the overall application processes of the DTI are much less stringent and more effective (from the perspective of BIs) than those of the co-funders.

Recommendation

In the medium- to long-term, there is scope to create a one-stop-shop where BIs and other businesses can access all the different funders, without having to approach them independently at different times. This will help in terms of reducing the amount of time taken in decision-making, and align the disbursement process of the DTI's grant portion with those of the co-funders. The BIFF is well placed to operationalize such an initiative, and therefore it should be strengthened and capacitated to make it more effective. Furthermore, there is also an urgent need to improve coordination between funders (while recognizing the need for appropriate competition law compliance). With the DTI in particular, there is a need to provide regular and clear communication to applicants, and create a system of single contact points for individual clients.

Access to non-financial support: Despite the importance of non-financial support, the majority of the businesses do not receive this support, mainly because they are not aware of existing non-financial support programmes, or because the programmes do not meet the needs of manufacturing businesses. Although the BIS is designed to offer post-investment non-financial support, the majority of the respondents did not receive this. Moreover, by design, the BIS does not offer pre-investment non-financial support. Together, these factors mean the BIS is likely to find it difficult to sustainably increase the qualitative and quantitative participation of BIs in the mainstream economy.

Recommendations

Expand the BIS programme objectives to include provision of pre-investment non-financial support. This will need significant re-capacitating of the BIS, both financially and in terms of expertise. Alternatively, it is important to increase awareness about the existing programmes of government in this regard, and to ensure effective coordination within the network of

business support programmes at national and provincial level that have been put in place to support SMEs. This requires collaboration with other entities that already offer these kinds of services, and setting of clear targets and objectives for these organisations beyond simply offering training programmes to entrepreneurs, for example. Moreover, there is a need to develop programmes that are more tailored to the manufacturing sector where firms may require more technical, specialised and targeted forms of support to allow for the period it takes for businesses to gain a position in markets and to derive operational efficiencies and scale economies.

Costs support: Apart from the core difficulties of access to finance, there are other challenges that are often understated in the discourse about SMEs in South Africa, although they may impact significantly on the sustainability of SMEs in general. Central amongst these is lack of access to cheap sources of energy. It was confirmed by BIs through the survey that electricity costs and reliability are stifling growth of small businesses.

Recommendation

Evaluate the establishment of a special energy pricing regime for BIs during their first few years of operations, or alternative forms of cost-support. Other forms of support could include, for example, negotiated access to input costs reductions (on commercial terms) for the many firms in different parts of the downstream chemicals and plastics industry as set out in earlier sections, given the pressures that have existed on this industry to sustain growth, despite its labour absorptive potential. These forms of intervention at a sectoral level will necessarily require engagements with a range of stakeholders including sector regulators, government agencies and departments, as well as private sector stakeholders operating in these industries. Interventions in this regard can also be linked to the various policy processes and sectoral interventions that form part of the national priority sector masterplan strategy of government.

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Appendix: Survey questionnaire

1. Please state the name of your company.
2. Please state the name and surname of the person responsible for the response to this survey on behalf of your company.
3. In what month and year did your company first commence its operations (e.g. January 2017)?
4. Please state the main products and/or services which your company provides.
5. Does your company manufacture its own products?
6. In terms of the main business activity of your company, which of the following sectors (as defined in the DTI's Industrial Policy Action Plan) does your company operate in? Please select the main sector applicable to your company.
7. What is the total percentage of shareholding of your company that is held by black individuals and/or investors?
8. Where is your company's head office located? Please state the name of the town and postal code e.g. Rosebank 2192.
9. Where is your company's main manufacturing or production facility located? Please state the name of the town and postal code e.g. Rosebank 2192.
10. What is your company's current production output per year? (Please state the unit of measurement e.g. 5 tons/500 litres/50 units etc.)
11. What was your company's production output in the year when your company initially applied for DTI the BIS support? (Please state the quantity and unit of measurement e.g. 5 tons)
12. Which companies are your company's main competitors? Please list no more than 5.
13. Who are the main customers of the main goods and/or services produced by your company? (Please select all the appropriate responses)
14. Please describe briefly the three main challenges, if any, experienced with securing private sector clients for your business (e.g. customers on long-term contracts, difficult to attract customers from current suppliers, difficult procurement procedures, compliance etc.)
15. Please describe briefly the three main challenges, if any, experienced with securing government or state-owned enterprise clients for your business (e.g. difficult procurement procedures, compliance, etc.)
16. Please list the three main government departments and/or state owned entities that your company currently supplies as clients.
17. Please list the three main government departments and/or state owned entities that are in the pipeline to be supplied by your company in future."

18. How did your company manage to secure government and/or state owned enterprise clients? (Please specify, for example, 'tender award').
19. How many employees does your company currently have?
20. How many employees did your company have in the year when you first applied for BIS funding?
21. Please indicate how many of your company's current employees are:
 - a) Youth (age 14-35)
 - b) Female persons with disabilities
 - c) Male persons with disabilities
 - d) African female
 - e) African male
 - f) Coloured female
 - g) Coloured male
 - h) Indian female
 - i) Indian male
 - j) White female
 - k) White male
 - l) Other female
 - m) Other male
22. What is your company's current B-BBEE contributor level? (As per the Revised B-BBEE Codes of Good Practice published in October 2013)
23. Following the approval of your company's BIS application, has your company been able to reduce its costs and/or prices for products/services offered?
24. What measures (and the value of investment in Rands of each initiative) has your company put in place to directly reduce its costs and/or prices for products/services offered?
25. Following the approval of your company's BIS application, has your company been able to increase the quality of products/services offered?
26. Please describe the two main measures (and the value of investment in Rands of each initiative) that your company has put in place to directly increase the quality of products/services offered?

27. Following the approval of your company's BIS application, has your company been able to put in place measures to directly improve the use of green technology or achieve resource efficiency improvements? Green technology and/or resource efficiency improvements include savings on energy and materials costs, use of cleaner production technologies, improvements in waste management, water usage improvements, or use of renewable energy.
28. What measures (and the value in Rands of each initiative) has your company put in place to directly improve the use of green technology or achieve resource efficiency improvements?
29. Following the approval of your company's BIS application, has your company been able to directly increase its sourcing from local companies or localisation of input/raw material sources?
30. What measures (and the value in Rands of each initiative) has your company put in place to directly increase its sourcing from local companies or localisation of input/raw material sources?
31. Following the approval of your company's BIS application, has your company increased the share of inputs that are sourced from other black owned companies and/or service providers?
32. What measures has your company put in place to increase the share of inputs that are sourced from other black owned companies and/or service providers?
33. How did your company raise start-up capital? (Please select the most applicable option from the list below)
34. Please indicate how difficult it was for your company to access start-up capital?
35. What difficulties did your company experience in accessing start-up capital? Please explain your answer.
36. Has your company ever experienced challenges with maintaining sufficient working capital?
37. If your company has experience challenges with maintaining sufficient working capital, please describe these challenges.
38. Please list three entities, if any, that have provided your company with working capital funding in the past five years.
39. How efficient was the DTI BIS application process? Where 1 is very inefficient and 5 is very efficient.
40. Please specify the reason/s for your rating of the efficiency of the DTI BIS application process in the previous question. Your response is important to enable the DTI to identify which areas of the BIS programme's application process require improvement and which aspects of the process are working well.

41. How long (in months) from the time you submitted your application did it take the DTI to approve your application for BIS funding?
42. If your application for financial support from DTI was unsuccessful, what were the reasons provided for your application being unsuccessful?"
43. How efficient was the DTI BIS claim and disbursement process? Where 1 is very inefficient and 5 is very efficient.
44. Please specify the reason/s for your rating of the efficiency of the DTI BIS claim and disbursement process in the previous question. Your response is important to enable the DTI to identify which areas of the BIS programme's claim and disbursement process require improvement and which aspects of the process are working well.
45. How long (in months) did the DTI BIS take to disburse funds after your company submitted its claim?
46. What was the main purpose of your company's application under BIS? (e.g. capital investment, feasibility, vehicles, property etc.)
47. How much funding in total (Rands) did your company apply for from the BIS?
48. How much funding in total (Rands) did your company receive from the BIS?
49. From which other co-funder (funder other than the DTI) did your company receive the most funding for the specific project for which your company applied for BIS support? (e.g. IDC, NEF, Standard Bank, ABSA, FNB, private equity funder etc.)
50. If your application for financial support from a co-funder/s was unsuccessful, what were the reasons provided for your application being unsuccessful?
51. How much funding in total (Rands) did your company receive from the main external co-funder in relation to the specific project for which your company applied for BIS support?
52. In terms of the specific project for which your company applied for BIS support, did the DTI BIS programme disburse funds before the main co-funder?
53. Given that the DTI uses a claims-based method of disbursement, where did your company obtain the funds to make the required investments before it could claim back from the DTI?
54. How efficient was the co-funder's funding application process? Where 1 is very inefficient and 5 is very efficient.
55. How long (in months) from the time of your application did it take the main co-funder to approve your company's application for funding?
56. How efficient was the co-funder's funding disbursement process? Where 1 is very inefficient and 5 is very efficient.
57. How long (in months) after the co-funder's approval did it take the main co-funder to disburse the funds to your company?

58. What challenges, if any, did your company experience in terms of coordination between different government departments or agencies (e.g. DTI and IDC) and other co-funders in obtaining funding and disbursements? Please explain your answer.
59. How is the funding received being repaid to the co-funder? (e.g. monthly instalments)
60. What was/is the duration (in months) of the repayment period for the funding received from the co-funder?
61. What was period (in months) from the time of disbursement of funds by the co-funder to the date of the first instalment or repayment?
62. Had your company's application for BIS funding been rejected, how would your company have raised alternative funding to enable it to continue with the specific project or investment for which it had applied for DTI support?
63. What form of non-financial support has your company received from the BIS?
64. Has the BIS assisted the company with access to markets and/or customers?
65. How has the BIS assisted your company with access to markets and/or customers?
66. Has any other government or private sector organisation assisted your company with access to markets and/or customers? If yes, please specify the name of the organisation and the nature of assistance received.
67. Overall, what main challenges did the company encounter with the BIS programme in general?
68. Do you have any suggestions for how the BIS can be improved for businesses such as yours? Please list and explain your recommendations briefly.
69. If your company never applied for any non-financial support from government or private sector organisations, please indicate the main reason for not applying for these programmes?
70. Which institution provided the non-financial support (e.g. SEDA, NEF, Black Umbrellas, etc.)?
71. Please state the type of non-financial support received (incubation, market access, export awareness, financial management, etc.)
72. On a scale of 1 to 5, how easy was it to obtain non-financial support from this institution? (Where 1 means very difficult and 5 means very easy)
73. If it was difficult to obtain non-financial support from this institution, please explain why it was difficult to access the non-financial support?
74. What was the intended duration (in months) of the non-financial support programme?
75. What benefits did your business derive from participating in the non-financial support programme?
76. In your view, how can the support programme be improved to better cater for the needs of your company and other businesses in general?

77. In order to assess growth and the size of your company, please indicate the company's total annual turnover in the 3 most recent financial years? (If the company has been in existence for less than 3 years kindly indicate profitability since establishment (e.g R5200000). Please note that this information will only be used at an aggregated level, and no individual firm information will be disclosed.
- a) 2015
 - b) 2016
 - c) 2017
78. What have been the main drivers of growth in turnover of your company, if any, in the past five years? (For example, growth in export customers, growth in local demand from existing customers, growth in local customer base, etc.)
79. If your company has experienced challenges in terms of growth in total annual turnover in the past five years, what was the main reason for this? (Please select no more than 3 answers from the list below)
80. What are the main factors which drive the costs of your company as a percentage of total costs? Please answer with reference to the 2018 financial year.
81. What kind of support (if any) is needed by your company to reduce some of the major costs?
82. What was your company's net profit (net of all relevant costs and expenses, including operating costs, depreciation, finance costs, taxation etc.) in the past 3 financial years (e.g 5000000)? If your company has been in existence for less than 3 years kindly indicate profitability since establishment. Please note that this information will only be used at an aggregated level, and no individual firm information will be disclosed.
- a) 2016?
 - b) 2017?
 - c) 2018?
83. What are the main factors which have impacted most negatively on the profitability of your company? Please answer with reference to the 2018 financial year.
84. In your view, what support measures should be introduced to help businesses such as yours to address the factors which have negatively impacted the profitability of the business?
85. Other than the investments made under the DTI BIS supported project, please indicate the total Rand value of investments made by your company from 2016 to 2018
86. Please describe any challenges that your company has had with government procurement practices and procedures.
87. What percentage of costs were attributable to the following cost factors in 2018?
- a) Input costs (please specify inputs)

- b) Transport costs
- c) Salaries and wages
- d) Consulting costs
- e) Marketing costs
- f) Other (please specify)

88. What proportion (percentage) of input materials does your company import?

89. From which countries are these input materials imported?

90. What is the primary reason for importing these input materials as opposed to sourcing them locally?

91. In general, what are the major challenges facing SMEs in South Africa?

92. In your opinion, how can the challenges faced by SMEs be addressed?

93. Lastly, please categorise the number of your company's current employees according to the following:

- a) Management
- b) Operations
- c) Administration
- d) Engineers
- e) Scientists
- f) Technicians
- g) Artisans
- h) Other