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BLACK PRIVATE ENTERPRISE DEVELOPMENT PROJECT: STRATEGY ASSESSMENT AND RECOMMENDATIONS

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/South Africa*
and
Bureau for Africa
Office of Market Development and Investment
(AFR/MDI)

Prepared by: *J.E. Austin Associates*

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Ernst & Young

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Executive Summary

The Black Private Enterprise Development Project (BPED) has been the major channel for supporting Mission private sector development objectives since 1987. This private sector strategy assessment exercise, begun in July 1990, evaluated the extent to which changes in the social, political and economic environment and the Mission's overall development strategy to respond to changes in that environment required a reorientation of BPED project activities, and developed detailed guidance for the Mission in this regard.

The Strategy Assessment Team conducted secondary data research and interviewed over 70 representatives of all segments of the private sector in the country to develop: (a) an improved knowledge of the changing demographic, economic, and regulatory environment; (b) the effect of that environment on the Black private sector and its evolving linkages with the White South African private sector; and (c) an understanding of the types of interventions and entrepreneurial support mechanisms available for achieving Black economic development and empowerment objectives through private sector action. The Team has relied on an intensive consultative process with the Mission, and the local entrepreneurial, corporate and research and consulting community.

2. Private Sector Assessment Findings

2.1 USAID/South Africa's (USAID/SA) portfolio will become increasingly developmental and results oriented. While the overall Mission strategy will remain the same -- to prepare disadvantaged South Africans to be equal members of the post-apartheid society -- the Mission will be undertaking major sector assessments over the next 18-24 months to determine how resources can be directed to achieve maximum developmental impact. Private enterprise development can make substantial and immediate contributions to the achievement of the Mission strategy and the strategic objectives of its various projects and programs.

2.2 The areas of assistance as initially conceived by BPED will continue to be of importance to Black enterprise development in the future:

- **Microenterprise development programs continue to be of utmost importance.** Given the barriers to entry which have traditionally existed in the South African economy, Black businesses tend to start and remain at this level of activity. But not every individual at this "entry" level is or wants to be an entrepreneur; he/she is normally in business by necessity rather than choice. The question becomes: what cost effective allocation mechanisms are available to enable assistance at this level to have an

impact by identifying those microenterprises with the potential for growth?

- **Institutional development will continue to be a critical aspect of enhancing the self-sustainability and cost-effectiveness of business development programs.** Sustainability of assistance, especially assistance directed to small and microenterprises, will in the long run depend on the ability of these support institutions to survive and operate as effective organizations. While the number and diversity of Black business associations has grown significantly over the last 5 years, they continue to be plagued with weak management structures and provide very limited direct tangible benefits to the businessperson. The issue becomes how strengthen these institutions so that they channel assistance effectively and directly to members.

- **The gradual dismantling of the apartheid system offers potential opportunities to make a real and direct impact on Black business, which are not being exploited effectively through current assistance programs.** The apartheid system created artificial market segments in South Africa, reducing competition and the efficiency of business operations. Over the last 2 years the recession, the rise of wage levels for the disadvantaged groups led by Black labor unions, and the piecemeal dismantling of the major pillars of the apartheid system, has begun to affect the competitive environment for businesses. The issue becomes how to structure assistance to help Black entrepreneurs access the "bundle" of inputs required to exploit the opportunities for growth offered by the changing competitive environment.

2.3 <u>Since February 1990, the environment for creating effective initiatives for Black private enterprise support has changed significantly</u>, **requiring that USAID alter its approach to Black private enterprise development.** The Assessment Team believes that the time is now right for this new approach and the results, in terms of meeting concrete developmental goals, make the risks manageable. The opportunity for a new approach to Black business exists because:

- **Political events now allow USAID to understand and manage better the potential political risks involved in taking a more proactive role in private sector development.** Political events in the RSA have dramatically altered USAID's ability to communicate directly and have credibility with key political and economic actors in the Black community. The Mission is now able to manage expectations and perceptions among the various parties involved more effectively.

- **Political events have led to a significant increase in the level of resources allocated to Black private enterprise development over the last 5 years.** The Mission has a much greater opportunity now to leverage limited assistance funds more effectively by using the increasingly sophisticated infrastructure for Black private enterprise support available in the country.

2.4 <u>There are sectors in the economy that present opportunities for fast Black enterprise growth</u>. In particular, research and conversations with entrepreneurs and business people in South Africa suggests:

- **Political, social, and economic trends clearly favor black manufacturing and construction.** Migration patterns over the next decade will encourage a Black low income housing boom. Increasing educational opportunities for Blacks, rising incomes, and the breakdown of barriers to credit will lead to more manufacturing activity by Blacks over the medium and even short term. A black majority or coalition government would produce immediate opportunities for tendering by black manufacturing and construction firms and may even legislate "black content" requirements in production.

- **As impressive as the performance of Black businesses in the wholesale and transport industries, the prospects for fast growth and penetration by Black business have dimmed because:**

  -- The monopolistic situation in the townships is gradually being reduced with the elimination of apartheid legislation, providing greater choice to Blacks. At the same time, the mass distributors like Metro Pick'n'Pay are implementing community-based wholesale franchising schemes in the townships. These changes will squeeze the traditional black retailer but will ultimately benefit the Black consumer, and they will take place quite irrespective of the actions of foreign donors.

  -- The black taxi success story has come full circle and the industry is now in crisis, with a saturated market and ever-increasing repossession rates. The longer-term trends-- dismantling of the Group Areas Act, integrated neighborhoods, the energy crisis, concern with environmental quality, and problems of traffic congestion seem to clearly run against this industry in favor of mass transport.

- **The regulatory and policy environment is not perceived as a major constraint to Black business operations.** The problem from the point of view of the business person is more one of access to enforcement mechanisms (such a functioning and fair legal system). This suggest that there are areas where the Mission could focus attention in the future with potential widespread benefits to not just the business but the wider Black community: e.g. the expansion of the small claims court system. But these activities could be the responsibility of other parts of the Mission portfolio, such as the human rights project, rather than BPED.

3. Recommendations

3.1 The strategic objectives of the BPED strategy remain unchanged; but the Mission must alter the way these objectives are met if impact on Black private sector growth is to be achieved. The implementation of the project strategy must be based on incentives which allow Black entrepreneurs themselves to respond to emerging opportunities for enterprise growth. Therefore, while activities under BPED will continue to fall under the same 3 broad areas of BPED program support, critical changes in the implementation and orientation of these activities will be required. In particular:

a) Microenterprise promotion activities should target those managers of small and micro businesses with potential for achieving sustained growth. These firms will be provided with the technical assistance required to affect critical cost elements and enable them to compete effectively. The assistance will be targeted initially at manufacturers and builders.

b) Business Association support should continue but with the specific objective of producing measurable benefits to the members. Business support institutions can assist their membership to achieve significant capital accumulation via the economies that come with collective bargaining and centralized service provision. The allocation of Mission resources in this area will depend solely on the extent to which opportunities arise to assist the membership derive tangible benefits from the activity.

c) Facilitating the entry of disadvantaged South Africans into the primary economy should seek to encourage the **sustained growth** of viable business ventures. Activities under this objective will focus on facilitating access to the bundle of inputs necessary to enable the Black entrepreneur to compete effectively in the primary market economy.

3.2 Market-driven Technical Assistance Facilities (TAFs) will be used to integrate the activities under each objective. Funding for activities under each objective will be driven by entrepreneurial responses to business opportunities. Thus the self interest of the various parties involved in creating Black enterprise growth opportunities will drive the allocation of resources within BPED. Funding will be provided through two Technical Assistance Facilities (TAFs) -- one of which will focus on improving the efficiency of microenterprises, either directly or through business support institutions (objectives 1 and 2), and the other on the growth of Black business ventures within the primary economy through linkages with larger corporate businesses. This is not to imply that technical assistance is the sole missing ingredient required for Black business growth. Rather the premise is that the mechanisms used to allocate the resources in the TAF can serve as a catalyst for enabling entrepreneurs to access a wider bundle of goods required to grow.

The key objectives of the allocative mechanisms used to drive the strategy are: a) insure that resources (in the form of technical assistance) are allocated directly to entrepreneurs in the most cost effective manner; and b) that those resources will be utilized to maximize the economic and social value added of every assistance dollar.

3.3 Activities Under Objective 1: Promoting Small and Micro Entrepreneurial Development. Most microenterprise assistance in the past has been distributed among a wide number of institutions and businesses, with the purpose of facilitating entry into business. Under the scheme proposed below, assistance (in the form of vouchers redeemable only for receiving technical assistance with a provider of their choice) would be targeted only to those owners and managers who have shown the commitment and aptitude to survive and grow in the business world. The allocative model proposed relies on existing Entrepreneurial Development (ED) programs as a screening mechanism to identify entrepreneurial potential among their graduates, and recommend candidates eligible to receive TAF vouchers. ED programs will continue participating in the TAF only as long as the graduates they recommend continue to achieve minimum growth targets. The allocative mechanism helps ensure the TA provided will be used effectively in several ways: a) because their continued participation in the TAF will depend on the results achieved by their graduates, ED programs have an incentive to identify their best graduates and an on-going interest in their performance; b) this mechanism also requires a serious commitment on the part of the potential beneficiary of the TA Facility, as he or she must invest time and money in ED training. Moreover, the system has a number of potential side benefits: a) the potential for receiving free TA at the end of the program will be a stimulant to investment in quality ED programs; b) the TAF will help generate improved information on the quality of institutions providing entrepreneurial development training, for the benefit of the donor organizations and potential entrepreneurs in the Black community.

This allocative model is designed with the specific objective of getting technical assistance services in the hands of those entrepreneurs who will value them the most. It also leaves the decision of who will actually provide the TA directly in the hands of the Black entrepreneur. But it assumes that TA and EDP providers of all races will be competing on a level playing field. While the ultimate beneficiary is the Black entrepreneur, non-Black firms may also benefit if they are selected as most qualified to provide the assistance to those microentrepreneurs who qualify to receive TA after the EDP is completed. The adverse effects might be minimized by requiring that a certain percentage of the TA providers be Black-owned. STEP educational programs could also be accessed to increase the ability to compete by Black TA providers or ED training institutions.

The entrepreneurship development mechanism would only be used to allocate technical assistance. Presumably, however, this same mechanism could be used to make decisions regarding creditworthiness or access to other educational and training opportunities. For example, the Get Ahead Foundation may wish to buy into this entrepreneurial testing process to help evaluate and target the people with the potential to graduate to their higher lending programs. STEP may wish to buy into such a system once the TEPS unit is set up to help identify candidates for longer term training and education programs as well as to help assess training institutions.

It is not expected that activities under this objective will be funded until additional groundwork has been undertaken to evaluate the content and quality of local ED programs in the country (probably focusing on the PWV area initially).

3.4 <u>Activities Under Objective 2: Performance Driven Business Association Support</u>. The Strategy Assessment Team suggests that BPED continue to target institutional development as one of the areas of assistance, but allocate funds to this activity only to the extent that it will provide services of measurable value to their members. The mechanism for supporting this activity would be through the same centrally managed TAF used to provide TA vouchers to microentrepreneurs (see point 3.3), since there are important potential synergies to be obtained by strengthening associations which could serve as conduits for the voucher system. A component of the TAF will be available for supporting improved service provision through business associations. Any Black business support institution could use the fund for contracting TA services from any provider who is qualified; under the contract which would be partially funded by the TAF, the TA provider commits himself to deliver a specific service, for a base price, with a larger fee contingent on his ability to deliver measurable benefits to the organization and its members. The TA fund would cover a percentage of the base fee and part of the bonus and the organization would agree to pay the remainder of the bonus from the total value of the benefits derived by the service provider's actions. This mechanism would give the TA service provider a stake in the organizational performance of the institution receiving his/her services. It would support the expansion of service driven organizations. The use of the TAF funds would be limited only to those institutional support activities which could produce very specific and measurable benefits: such as negotiating on behalf of the organization for X reduction in the price of supplies for members, or obtaining better repayment terms from suppliers. Or it could be establishing a tendering program for the members, payment based on the total value of the tenders he/she helped prepare for the members.

It is recommended that the funds available under the TAF be limited to local organizations,* where the benefit of the assistance to members is more immediate, and easily measurable. This might be a good mechanism by which to begin decentralizing portfolio activities. But because associational politics in South Africa are particularly complex and fluid, it is not expected that consultancies under this objective will be funded until further research has been undertaken to evaluate the viability of funding such performance-driven activities in particular locales and with particular organizations.

3.5 <u>Activities under Objective 3: Participation in the Primary Economy</u>. Three activities that have been designed to contribute to this objective are subcontracting, franchising, and venture capital. The three activities all operate under the same conceptual framework and will be funded out of a second TAF.

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*As opposed to national umbrella organizations: e.g. the Black builders association in Port Elizabeth vs. the national Association of Black Builders.

- **Linking Networks.** BPED can encourage stable and sustained linkages between Black business and large and medium-size corporations by providing the technical assistance required by the Black firm for producing quality and timely goods and services for the larger firms. Contact between the two parties will be facilitated, where necessary, by a third party-broker who will negotiate for a percent of the value of the subcontract. This "third party-broker" will have the motivation and skills to bring the principals together and the basic business and industry knowledge to prescribe technical assistance. The Black entrepreneur will then be able to use the TAF to purchase the TA prescribed by the broker. The broker will place his/her negotiated percentage in an escrow fund and will only be able to collect on his/her percentage of the value of the total negotiated contract upon satisfactory delivery of the subcontracted goods and services. This way the broker will have an on-going interest in the performance of the Black firms, and will help insure the Black firm is using the TA funds as required to achieve expected results.

  Experience has shown that such linking can be successful in the following situations: (a) where a large conglomerate wants to simplify its administrative apparatus by "unbundling" certain supply or service functions; and (b) where a medium or large manufacturer wishes to expand production capacity without investing in plant and equipment.

  The model as an avenue for expanding Black participation in the primary economy is attractive, because it helps expand and facilitate a process which is already underway. As such it could be one of the first parts of the TA Fund components which takes off and for one can expect an immediate demand to materialize with a minimum degree of groundwork, at least in some industries. But the model has its limitations:

  - <u>It will only work if it can be demonstrated to the manufacturer that he can allocate overhead costs to a considerably larger (e.g. at least 75-100 percent) volume under this scheme, and that this can be done with no additional investment in plant and equipment</u>. Thus it may not work well in those industries that are line-balanced or that use continuous rather than batch processing.

  - <u>It may not work well in those industries with stagnant demand because the growth incentive is not present and there will be a strong reaction from the labor unions</u>. COSATU and other labor unions have opposed subcontracting for years. The success of the footwear experiment in subcontracting, in expanding from the current 7 to the potential of several hundred subcontracts, will ultimately depend upon the penetration of export markets. A USAID-sponsored TA Facility could also play a role in accessing expertise in international marketing.

- There is political risk in an activity linked to white corporate South Africa that uses TA providers whom, in many cases, may also be white. However, the benefits justify these risks, considering the following:

  --Though others may benefit indirectly from TA provided to Black firms, the direct beneficiaries will always be the Black entrepreneurs.

  --Some percentage of black participation will be specified in the third party and TA provider activity, but it must be remembered that the principal objective is to assist the Black entrepreneur and not to develop Black consultants.

o **Franchising Model.** This is based primarily on the same model as that described above. In this case, the main franchiser, the McDonalds or Rug Doctor Pro for example, replaces the corporation wishing to subcontract, the "third party-broker" is replaced by the franchising company, and the entrepreneur by a number of franchisees. In the case of franchising, the amount of technical assistance the TA facility would need to provide to each entrepreneur would probably be less, as the franchising company and the franchiser typically provide the systems and expert assistance. However, USAID assistance in this model would lower the cost and the risks of franchising to the franchising company and thus lower the significant short-term barrier to the expansion of franchising in South Africa. In this model, as in the "linking" facility, the franchising company is only rewarded in terms of the success of the individual ventures. As the provider of the majority of technical assistance and systems, the franchiser would provide sufficient "after-care" to safeguard the investment and thus, the success of the firm.

In many ways franchising is a far more attractive mechanism because it carries less political risks than subcontracting activities. There has been an increasing amount of interest in franchising and several successful exiles have returned to make such investments in South Africa. On the other hand, the opportunities for franchising arise primarily and most immediately in the service field, and allows little penetration into the productive sectors of the economy.

o **Venture Capital Activities.** There are, currently, several domestic and foreign venture capital firms who have expressed interest in investing in black business. USAID can lower the barriers to this investment with a permutation of the model described above. The venture capitalist will play the role of the self-interested actor and identify companies where an equity investment may be feasible. In some of these instances, the recipient firm will need much more than simply an injection of capital but will need a full-time management team in place in order to be successful. The venture capitalist can provide this technical assistance but the cost may be prohibitive. Thus, USAID's TA Facility would assist in lowering this barrier by providing partial payment for a member of the management team's cost.

If venture capital is provided by white, or foreign owned firms, there may be criticism regarding the selling of black businesses to the white community. However, this criticism will be tempered by the fact that acceptance of venture capital is a voluntary act, not one coerced by USAID.

It is expected that the three activities outlined above for Objective 3 activities will, due to more intense interest on the part of TA providers and brokers, be implemented prior to the implementation of the activities recommended under Objectives 1 and 2.

3.6 Strategy Implementation. Effective implementation of the above activities will require:

a) **On-going Strategic Research.** Given the fluidity of the current environment, and our inability to fully address all these areas of uncertainty, the Mission should set aside within the portfolio of activities a research fund. The purpose of the fund would be to provide the Mission with the data and the technical expertise to develop a set of "shadow plans" providing a full set of strategic options under a variety of detailed scenarios. Some areas of research which should be targeted under this fund would be: land reform and the implications for agribusiness development initiatives, the expected role of trade unions within post apartheid South Africa, expectations regarding nationalization and other initiatives available for wealth redistribution, the expected scope and role of foreign investment under alternative socio-economic and political scenarios. The Mission can do this either by allocating a portion of BPED funds outside the TAF to research, using PD&S funds as part of a Mission-wide strategy reformulation process over the next 18-24 months, or allocate a portion of the TAFs contracts to this activity, so that it is incorporated as part of the TAFs monitoring and evaluation system (the preferred alternative).

b) **A Monitoring and Evaluation System.** The allocative models described above reduce data requirements because resource allocation is based primarily on market mechanisms rather than administrative decisions. In this way the project can respond more flexibly to changing circumstances in the external environment, and the administrative burden on project managers is alleviated. Nevertheless each project activity will have specific and measurable impact indicators. And the project implementation mechanism will be designed so that the collection of data to construct indicators will be a natural product of the implementation requirements. The baseline for evaluating project impact will be established through the database of clients built up as a part of the implementation process and through the contract mechanisms specified above.

c) **Create linkages between BPED and other parts of the Mission portfolio.** STEP can use BPED input to make decisions regarding the allocation of short and long-term private sector training. It can also buy into the monitoring and evaluation system established under BPED to assess the value of different types of TA and EDP training institutions. BPED can also create linkages with COLD to improve the self sufficiency of community organizations. COLD project managers could facilitate potential linkages by informing income generating cooperatives about the TA Facility. The TAF managers could also communicate regularly with COLD activity managers to learn about and incorporate viable cooperatives in the database of potential beneficiaries. In addition, some cooperatives and other community organizations may be able to access the services of an outside consultant funded by the BPED TAF to strengthen service provision.

4. USAID Management Issues: Choosing the Implementing Mechanism for the TA Facility

4.1 <u>The potential linkages between the beneficiaries and activities at different levels argue for two umbrella contracts</u>. One Institutional Contractor (IC) would manage the TAF funding TA vouchers for owners of microenterprises and performance-driven consulting services for business associations; the other IC would manage TAF funds for the linking, franchising and venture capital development activities. The use of ICs to manage the TAFs is seen as necessary given the lack of a bilateral program in South Africa at this time. IC management would provide flexibility in the phasing of the BPED activities under each objective and in the allocation of resources within and among them.

4.2 The Mission should consider incorporating a US-based contractor to manage the TAF under objective 3 because it would give the project added flexibility to access critical knowledge and resources not immediately available in South Africa: e.g expertise regarding the applicability and implementation of different subcontracting models, knowledge and contacts in export markets, contacts with foreign franchises and venture capitalists. In addition, a US-based contractor would provide USAID with a neutral actor to implement development activities. It is expected that the TAF contractors will:

- propose what type of and how to implement monitoring, evaluation and research systems that would allow it to make informed decisions regarding the allocation of resources among activities;
- propose operational details for implementing the various types of incentive and collusion control mechanisms required;
- evaluate the performance of the technical assistance providers and reimburse them for their services on a graduated scale;
- have access to South African counterpart firms;
- have proven contacts and credibility in the international business community;
- demonstrate capability to access industry specific expertise in the areas of franchising, venture capital, and subcontracting;
- demonstrate ability to access expertise in the area of entrepreneurial development programs.

4.3 It is recommended that the Mission require the contractors insure that a certain percentage of technical assistance (value) will be provided by Black-owned firms. Initially, thirty-five percent would be acceptable with this percentage increasing yearly until the final year of the contract when it reaches 50%.

4.4 The Mission should form a panel of local experts on Black business and small business development to evaluate the technical proposals of those bidding to manage the TAFs.

4.5 An incentive structure should be put in place for the Contractor. As is the case at all levels of the project, some incentive should be given to TAF managers to "move beneficiaries through the system." Thus, it is strongly recommended that the contractor's fee structures be based on performance.

4.6 The Mission should increase the BPED life of project allocation by $10 million. It is expected that for the activities described above to have full impact BPED funding will have to be increased by an additional $10 million.

1. INTRODUCTION

1.1 Purpose of the BPED Assessment

The Black Private Enterprise Development Project (BPED) has been the major channel for supporting Mission private sector development objectives since 1987. This private sector strategy assessment exercise, begun in July 1990, evaluated the extent to which changes in the social, political and economic environment and the Mission's overall development strategy to respond to changes in that environment required a reorientation of BPED project activities, and developed detailed guidance for the Mission in this regard.

AFR/MDI and PRE assistance through the Ernst & Young Private Enterprise Development and Support (PEDS) Project was provided to support the Strategy Assessment. The Strategy Assessment team consisted of John Ickis, Michael Grossman, Jim Cobbe, and Tessie San Martin. The Team appreciates the support provided by David Himelfarb (USAID/SA), Steven Wade (COMAD), Farooq Mangera (USAID/SA) and other Mission personnel.

1.2 Assessment Methodology

Development of a strategy for programming BPED funds required: (a) an improved knowledge of the changing demographic, economic, and regulatory environment; (b) the effect of that environment upon the Black private sector and upon its evolving linkages with the White South African private sector; and (c) an understanding of the types of interventions and entrepreneurial support mechanisms available for achieving black economic development and empowerment objectives through private sector action. At every step of the research and analysis, the Team relied on an intensive consultative process with the Mission, and the local entrepreneurial, corporate and research and consulting community.

Key activities undertaken as part of the assessment process were:

a) Review of the current Mission strategy, how current projects in its portfolio are related and how they affect the private sector.

b) Analysis of the Black private sector and the market and non market forces which have affected and continue to affect its growth patterns and prospects.

c) Review and assessment of the business support institutions and approaches currently operating in South Africa.

Over the last 3 months, the Team conducted interviews with representatives of over 40 institutions, including private for-and non-profit organizations, foreign donors and SAG-sponsored small and/or black business support institutions.[2] In addition, the Team also conducted extensive focus group discussions and in-depth interviews with over 50 businesspeople and representatives of major corporate organizations operating in areas critical to Black economic empowerment and growth, including manufacturing, construction, and transport.

The Team enlisted the support of a broad range of local researchers and analysts.[3] It worked closely with an informal research review group headed by Mr. Ian Clark at the Center for Developing Business at the School of Business Administration of the University of the Witwatersrand.

1.3 Organization of the Report

Section 2 describes the BPED project, its initial strategy and objectives, its evolution over the past three years in a changing political environment, and proposes a revised and updated strategy that seeks to respond to those changes and to overall Mission directions. Section 3 provides data on the South African economy and regulatory and policy environment affecting the choice of strategy and the identification of potential elements of the same. Section 4 provides detail on the elements of the proposed BPED strategy, and discusses the advantages, limitations, political risks, and unknowns of each. Section 5 describes the organization and administration of the project,

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[2]The 1989-90 Prodder Annual: Development in Souther Africa: An Assessment and Directory, lists a total of 227 NGOs in the country. The small business resource directory compiled by the Get Ahead Foundation lists 107 institutions directly involved with small business support (but several of these exist in name only, and are not operating). Hence the total interviewed by the BPED Team represents well over 10 percent of the NGO community involved in small/black business support. The sample however was not random, but skewed to organizations known to USAID and operating in the PWV area. The Draft report, South Africa: Private Sector Strategy Assessment, Phase I (August 1990) discusses in greater depth the characteristics of the organizations interviewed and presents a preliminary analysis of the interviews.

[3]Research contracts were signed with Consumer Behavior and the Economic Research Unit at the University of Natal. The scopes of work for these consultants were included as part of the August 1990 Phase 1. A summary of the research findings by the local subcontractors is included as Annex A of this report. Copies of the final consultant reports are available under separate cover.

including interrelationships with other Mission programs and with USAID/Washington.

2. BPED PROJECT RATIONALE

2.1 Relationship to the Mission Strategy

The overall Mission strategy is to prepare disadvantaged South Africans to be equal members of the post-apartheid society. The needs of the disadvantaged groups in the country are enormous and well documented. And programs such as education and community and labor development play an important role in meeting the overall strategic objectives over the longer term. The private enterprise development strategy proposed below, however, can make substantial and immediate contributions to the achievement of the Mission strategy and the strategic objectives of its various projects and programs. But this requires a different approach to Black private sector assistance, an approach that presents new risks and challenges to the Mission. The sections which follow presents the case that the time is now right for this new approach and the results, in terms of meeting concrete developmental goals, make the risks manageable.

2.2 Project Evolution, 1987-90

Original project objectives. In the original Project Paper, BPED funds were supposed to be divided more or less equally among three broad areas: **micro-enterprise development, development and strengthening of Black business support institutions, and facilitating the entry of the black private sector in the "primary" or "mainstream" economy.**[4] In practice most of the funds have been spent on activities which fall under microenterprise development (41 percent) or institutional development (over 40 percent). USAID/SA initiatives to promote greater advancement of blacks within "primary" sector businesses have entailed principally research and training grants (such as bursaries to train accountants, the USSALEP leadership exchange program, the planning grant to investigate the feasibility or desirability of a think tank as well as a venture capital activity). The BPED implementation strategy also has had a research and monitoring component in the form of a local contractor who helped evaluate grant proposals and grantee performance.

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[4]By businesses operating in the "primary" or "mainstream" economy, we are referring to more than those enterprises which can compete with the large conglomerates, and include those enterprises which are no longer operating at the margin, in very localized and restricted markets; businesses which have evolved beyond the microenterprise level.

Allocation mechanisms and BPED impact. Given USAID's lack of contacts with the Black entrepreneurial and political community, project implementation has been reactive rather than proactive, providing funds to a variety of initiatives falling under each of the 3 basic areas. In short, BPED has provided the Mission with a mechanism for responding to specific initiatives emanating from the Black private sector. This approach provided USAID/SA an avenue for building contacts and credibility. It also generated some success with a few specific development models, but has had limited success achieving direct and measurable impact on the growth of Black entrepreneurs. It has also allowed USAID to learn from its own successes and failures regarding the types of assistance that are most effective in this environment.

2.3 The Current BPED Portfolio in a Changing Environment

The need for maintaining the flexibility to respond to specific initiatives emanating from the Black community will continue to be a necessary aspect USAID strategy implementation. But for maximum impact and sustainability, the shape that this response takes must be oriented towards achieving clear developmental goals, and must be based on the use of market based allocation mechanisms which reduce the administrative burden to the Mission and increase the probability of getting valuable services to the ultimate beneficiaries, the Black entrepreneurs.

The areas of assistance as initially conceived by BPED will continue to be of importance to Black enterprise development in the future. And donor resources available for all three areas of Black business development have increased considerably over the last 10 years. In particular:

- Microenterprise development programs continue to be of utmost importance. Given the barriers to entry which have traditionally existed in the South African economy, Black businesses tend to start and remain at this level of activity. But the value added of interventions at this level tends to be low and impact (in terms of achieving increased business efficiency and growth) difficult to measure because it is difficult to target those entrepreneurs with the capability to make the most of each assistance dollar. Experience with GAF and other micro and informal business support programs in South Africa shows that the majority of "entrepreneurs" at this level would and do return to formal sector employment when given the opportunity. The majority of informal sector businesspeople in South Africa, as in most countries, are there by necessity rather than choice. There are of course social benefits gained by spreading assistance around to as many potential entrepreneurs as possible. And in the end this approach will help encourage real entrepreneurship and business growth. But the underlying rationale to most microenterprise assistance programs in the country has not been business growth per se, but rather unemployment relief and income support. Many private and public corporate bodies have been attracted to this field in South Africa for these reasons, and in a post-apartheid South Africa, one can easily imagine many more national and international resources being channeled at this level as well.

- <u>Institutional development will continue to be a critical aspect of enhancing the self-sustainability and cost-effectiveness of business development programs, especially at the microenterprise level</u>. Sustainability of assistance to small and microenterprise will in the long run depend on the ability of support institutions to survive and operate as effective organizations because: a) the sheer number of individuals who require assistance is too large to permit individualized intensive customized interventions; and b) the most cost effective interventions at this level of business must rely on mechanisms that aggregate the interests and the bargaining power of a large number of small businesses to achieve significant reductions in their operating costs and margins. The growth in the number, size and diversity of Black business associations in the RSA over the last 10 years, the success behind associations such as SABTA, suggests that the potential benefits of collective action can indeed be considerable. As a result, donor interest in and resources allocated to business association support have also increased significantly over the last five years. But the bulk of the assistance has failed to reach the membership. Most Black business associations continue to be plagued with weak management structures and provide for the most part very limited direct tangible benefits to the businessperson.

- <u>Thin management structures and low financial and managerial skills are one of the most critical bottlenecks for Black enterprise growth</u>. Thus access to technical assistance and training will continue to be important. But the ability of Black-owned firms to become and remain competitive with other firms depends not just on discrete technical and managerial skills shortages, but on how access to these skills is combined with access to a number of other critical inputs: market, capital, equipment. Different donor assistance programs provide beneficiaries with one or several element of the critical bundle of inputs. But these often tie the entrepreneur to one or another training or assistance program; few assistance programs are tailored to the entrepreneur, or provide for a sufficient level of aftercare.

Since February 1990, the environment for creating effective initiatives for Black private enterprise support has changed significantly, **requiring that USAID alter its approach to Black private enterprise development.** The opportunity for a new approach to Black business exists because:

- Political events have allowed USAID to understand and manage better the potential political risks involved in taking a more proactive role in private sector development. Political events in the RSA have dramatically altered USAID's ability to communicate directly and have credibility with key political and economic actors in the Black community. This increases the Mission's ability to receive feedback on its activities and manage expectations and perceptions among the various parties involved more effectively.

- Political events have led to a significant increase in the level of resources allocated to Black private enterprise development over the last 5 years (by organizations of all types: foreign and local, public, not-for-profit and private for profit). This situation has in turn led to a fast proliferation of Black business support institutions, providing services ranging from very broad entrepreneurship development and training to very sector specific technical assistance resources and credit. The Mission has a much greater opportunity now to leverage limited assistance funds more effectively by using the increasingly sophisticated infrastructure for Black private enterprise support available in the country.

- The gradual dismantling of the apartheid system offers potential opportunities to make a real and direct impact on Black business, which are not being exploited effectively through current assistance programs. The apartheid system has created artificial market segments in South Africa, reducing competition and the efficiency of business operations. It has also artificially reduced the purchasing power of the majority of the population, leading for reduced opportunities for growth for all businesses. In practical terms at the firm level, these factors have kept the returns to Black businesses artificially low, and limited their opportunity to build the skills, capital base and discipline to compete effectively; it has kept the returns for white-owned firms artificially high, decreasing their commitment to efficiency and cost control. Over the last 5 years the recession, the significant increases in wages obtained by Black labor unions leading to real shifts in income distribution towards the disadvantaged groups, along with the piecemeal dismantling of the major pillars of the apartheid system, have begun to affect the competitive environment for businesses. Increased purchasing power for

Blacks have increased the motivation of white firms to compete for a share of this market. Reduced competitive barriers are also forcing White businesses to examine their own cost and management structures more closely, leading in many cases to unbundling core and non core activities. But few Black owned firms have been able to exploit these opportunities in a systematic and successful way; and most White-owned firms find it risky and costly to work with Black firms on an equal partnership basis. Most unbundling directed at benefitting Black businesses is motivated by a "social responsibility" logic and is not profit driven.

2.4 Proposed Project Strategy and Objectives

The BPED project should focus on the goal of **promoting the growth of viable Black firms in the country.**

<u>The strategic objectives of the BPED strategy should remain unchanged; however, it is essential for the Mission to alter the way these objectives are met if impact on Black private sector growth is to be achieved</u>. The Assessment Team believes the BPED strategy will be most effective and ultimately self-sustaining only if:

a) it is targeted to those businesses which have a potential for growth;

b) it is operationalized in a way that links the growth and development of the Black private sector to the growth and development of the whole private sector in South Africa; and

c) the allocation of resources within BPED activities is driven largely by market based mechanisms. The allocation of resources within BPED should be driven by profit-oriented entrepreneurs looking to exploit emerging opportunities for Black enterprise growth.

This implies that, though activities under BPED will continue to fall under the same 3 broad areas of BPED program support, there will be critical changes in the **implementation and orientation** of these activities. In particular:

a) Entrepreneurial development among the owner-managers of small and micro businesses will be undertaken with the specific objective of identifying those with entrepreneurial potential and linking them with critical resources necessary to achieve sustained growth. The assistance will be targeted initially at manufacturers and builders.

b) Business associations will be assisted with the specific objective of producing measurable benefits to the members. The allocation of Mission resources in this area will depend solely on the extent to which opportunities arise to assist the membership derive tangible benefits via the economies that come with collective bargaining and centralized service provision.

c) Facilitating the entry of disadvantaged South Africans into the primary economy will be promoted with the specific objective of encouraging the **sustained growth** of **viable** business ventures. Activities under this objective will provide entrepreneurs with the means to access a bundle of inputs aimed at increasing their ability to compete effectively in the market. The types of firms targeted to receive the bundle of services provided under this objective will be determined through market based mechanisms, though interventions at this level will probably emphasize initially the manufacturing sector, given the opportunities for growth in this sector (see "Rationale for the Proposed Strategy," below).

3. RATIONALE FOR THE PROPOSED STRATEGY

The design of the proposed strategy is grounded in research performed by the Assessment Team and its local subcontractors from July to October 1990. Details of the research and research methodologies are found in Annex A and Annex C to this report. Below is a summary of those research findings most critical to the design of the proposed strategy.

3.1 Black Business in the South African Economy

- Blacks make up five sixths of the South African population but Black-owned firms account for only about three percent of the GDP, plus another 3-6% if businesses in the informal sector are included.[5] Black participation in the formal economy as owners is estimated to be no more than 3 percent

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[5]Estimates of Black-owned, informal business as a share of GDP range from 2 to 10 percent, with the more conservative estimates made by the Central Statistics Service and the higher estimates made by the Institute of Race Relations survey. See Annex A for details regarding the range of estimates made and the methodologies used for arriving at these estimates. Additional information is also available from the ERU reports included in Annex C.

of total private sector output; but Black firms account for 75-85 percent of the informal sector economy.

- The formal private share of the South African GDP remained virtually stagnant over the 1980-88 period and African employment in this sector actually declined.[6] However, growth did occur in some areas of the economy: retail trading, taxi driving, construction in the low income housing market, and in smaller firms and micro enterprises producing crafts and certain manufactured goods. It is precisely in these subsectors that Black business is concentrated.

3.2 Sectoral Prospects for Growth

Secondary research, in-depth interviews and focus group discussions with Black business people engaged in manufacturing, construction, transport, and wholesale trading,[7] suggest the following conclusions:

- Political, social, and economic trends clearly favor black manufacturing. Increasing educational opportunities for Blacks, rising incomes, and the breakdown of barriers to credit will lead to more manufacturing activity by Blacks over the medium and even short term. In manufacturing, research shows micro and small black enterprises are growing in many subsectors such as metalworking and plastics while the industrial sector as a whole is stagnant. The manufacture of products for industrial markets has enormous potential for expansion and in many cases for linkages with large enterprises in the primary economy. A black majority or coalition government would produce immediate opportunities for tendering by black manufacturing and construction firms and may even legislate "black content" requirements in production.

- Construction of low income black housing is experiencing some growth while the rest of the sector is stagnant or in decline. Migration patterns over the next decade will make

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[6]For details on the performance of the South African economy during the 1980s, see Annex A.

[7]Focus group discussions and some in-depth interviews were held with entrepreneurs in the manufacturing, construction and transport sectors, as well as with executives of the major corporations in South Africa in July and then again in November of 1990. The draft report, South Africa: private Sector Strategy Assessment, Phase 1 contains detailed memoranda of the interviews and discussions held in July. Annex B has summaries of the focus group discussions held in November.

a Black low income housing boom likely. Black participation in the building industry is growing, with its advantages of low fixed costs and an understanding of the market.

- Some Black retailers have integrated into wholesaling and have been able to generate higher incomes than white wholesalers of similar size.

- The black taxi industry has grown dramatically during the late 1980s and, in the informal sector, have produced nearly 200,000 jobs and incomes for Blacks that are over five times greater than that for other informal sector activities.

- As impressive as the performance of Black businesses in the wholesale and transport industries has been, however, they are not easily addressed by USAID private sector development activities, for the following reasons:

  Most black commercial activity has been in the retail sector, ranging from licensed outlets to informal spaza shops. Because of their virtual monopoly as neighborhood convenience stores, some retailers grew prosperous, though their small volumes meant higher prices than in the self-service outlets opening in suburban areas. While a logical next step is for the more enterprising to integrate backward into wholesaling, taking the margins for distributing to other retailers while accessing lower-cost sources, the structure of the industry is changing, and this is accompanied by social, political, and demographic changes that do not bode well for this group. As enforcement of the Group Areas Act has broken down, more Blacks are shopping in high-volume outlets in white or grey areas. At the same time, the mass distributors like Metro Pick'n'Pay are implementing community-based wholesale franchising schemes in the townships. These changes will squeeze the traditional black retailer but will ultimately benefit the Black consumer, and they will take place quite irrespective of the actions of foreign donors.

  With respect to the **transport** sector, the black taxi success story has come full circle and the industry is now in crisis, with a saturated market and ever-increasing repossession rates. The kombitaxi phenomenon was a response to declining bus transport service, but the relatively low entry barriers have led to oversupply of vehicles with increasing operating costs and fares that cannot be raised without community violence. At this point taxi owners must concentrate on cost control, bulk purchasing, and driver education, though there may be some opportunities for diversification (insurance brokerage, financial services, gasoline retail, freight hauling, and courier service). The longer-term trends-- dismantling of the Group Areas Act, integrated neighborhoods, the energy crisis, concern with environmental quality, and problems of traffic congestion seem to clearly run against this industry in favor of mass transport.

3.3 Regional Considerations

Economic activity in South Africa is concentrated in the PWV area that encompasses greater Johannesburg and there is a similar concentration of Black business assistance in this area, which also encompasses Soweto and other major townships. According to two recently compiled directories of business support institutions,[8] sixty percent of the organizations providing such assistance have offices in the PWV area, as compared to 23 percent in the Western Cape, 5 percent in Natal and only 4 percent in the Eastern Cape.

The regional contributions of the Eastern Cape area to national GDP remained constant in relative terms throughout the 1980s despite the conventional wisdom that the Eastern Cape is a "dying" region, in part because of disinvestment by the U.S. automakers. Black business people in that region were found to have the general characteristics of entrepreneurs,[9] though it is also considered to be the hotbed of South African radicalism.

3.4 The Policy/Regulatory Environment[10]

The 1980s saw a significant increase in rhetorical commitment to deregulation, including deregulation associated with Free Trading Areas and Industrial Parks, leasehold rights and other restrictions affecting township business access to capital, relaxation of controls on hawkers, deregulation of road passenger transport.

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[8]One was sponsored by the Get Ahead Foundation and another by the Center for Developing Business of the Business School at the University of the Witwatersrand. Both directories came out in May/June 1990,

[9]This finding was reported by the Kalgar Group in its report on venture capital in 1989. Black business people from the Eastern Cape city of Port Elizabeth were found to be "...younger, have matriculation level education, work long hours and exercise complete hands-on in their enterprises. They manifest total involvement in their growing businesses, have limited access to second tier management resources and cannot delegate functions; have strong entrepreneurial attitudes, high energy."

[10]**For a full description of the changes in the policy environment please refer to Hesketh's report in Annex C.**

But the benefits of such deregulation has had limited practical economic impact on most disadvantaged sectors of the economy. In particular:

- o There is imperfect information regarding the changes made to existing regulations and legislation affecting businesses. To the extent that entrepreneurs themselves remain unaware of their new rights they are less likely to be able to use their newly acquired freedoms effectively. They are also more likely to be subject to injustices and extortion.

- o There are few mechanisms available to small entrepreneurs for enforcing their newly acquired rights in all jurisdictions. Localities and municipalities retain significant power regarding the interpretation and enforcement of the new regulations and legislation. With increasing deregulation, access to common law and the ability to file civil suits to establish rights becomes paramount. At them moment access to courts is still expensive and complicated for the small entrepreneur (of any color). A small claims court system has been established but it is considered that the jurisdiction of these courts is too narrow; they operate only in a few centers and are restricted to claims by natural persons (not companies) under R1,500.

- o Substantial legal constraints to African businesses remain, despite the progress noted above. The remaining regulations including the Group Areas Act, the Wage Act, Labor Relations Act and the Basic Conditions of Employment Act, among others continue to constrain business operations, although all except the first named are also seen as constraints by White business.

3.5 Implications for BPED Strategy Design

- o BPED should target manufacturing and construction as sectors of opportunity. Furthermore, aside from a very basic level of assistance which is often sufficient to make an impact on the smallest informal sector firms, USAID strategy should seek to provide business people in those sectors with the means to access **the bundle** of inputs that they require to be successful, rather than focussing on one or two discrete inputs. The focus groups on the manufacturing revealed that technical assistance in production processes or in cost accounting is futile if a market has not been secured, particularly in the case of products for the industrial market such as paints and chemicals, metal components, or circuit boards. Likewise in construction groups in Johannesburg and Port Elizabeth made it clear that, while technical assistance and skills training are of critical importance in business development, they lose their value if not accompanied by access to bridge financing for the purchase of building materials.

- Some decentralization of assistance activities is desirable and feasible. Though the Mission may want to concentrate BPED activities initially in the PWV area in order to take advantage of the TA and training infrastructure as well as to be able to monitor results more closely, the analysis of regional trends and opportunities suggests that very targeted assistance to the Eastern Cape is desirable in the short term, for the following reasons: (1) there is evidence from the Kalgar Group study that the Black business sector would make the best of any assistance provided because of their entrepreneurial characteristics; (2) Port Elizabeth is one of the fastest-growing urban areas in the Southern Hemisphere and nearby Motherswell is experiencing a low-income housing boom; (3) there are qualified consultants in PE to support assistance programs for entrepreneurs; and (4) a regional focus enables USAID to differentiate its programs from those of other donors, while having a greater relative impact on a particular region.

- Though the research findings highlighted above suggest that substantial barriers remain for the Black entrepreneur, none of the in-depth interviews or focus group discussions with business people conducted by the Team highlighted the regulatory or policy environment as a major constraint to their operations. Research into the policy environment confirms this and suggests that in many cases changes in legislation legitimize the existing economic activity, and are a de facto recognition of what is happening in the economy; laws cannot and are not being applied and so are changed. In this context, the ability for a donor such as USAID to make a significant contribution is limited. Research also suggests that currently the problem from the point of view of the business person is more one of access to enforcement mechanisms (such a functioning and fair legal system). This suggest that there are areas where the Mission could focus attention in the future with potential widespread benefits to not just the business but the wider Black community, such as the expansion of the small claims court system. But given the potentially wider implications, and the relatively limited funds under BPED, activities in this regard should be undertaken under other Mission sponsored programs, such as the human rights project (see Section 5.4).

4. ELEMENTS OF THE BPED STRATEGY

This section provides a conceptual framework for implementing activities under each of the three areas of BPED support. All activities described below rely on market-driven Technical Assistance Facilities (TAFs). TAF fund allocations under each objective will be driven by entrepreneurial responses to business opportunities. Thus the self interest of the various parties involved in creating Black enterprise growth opportunities will drive the allocation of resources within BPED.

Two Technical Assistance Facilities (TAFs) are proposed -- one of which will focus on improving the efficiency of microenterprises, either directly or through business support institutions (objectives 1 and 2), and the other on the growth of Black business ventures within the primary economy through linkages with larger, established businesses. The emphasis on technical assistance facilities is not to imply that TA is the sole missing ingredient required for Black business growth. Rather the premise is that the mechanisms used to allocate the resources in the TAF can serve as a catalyst for enabling entrepreneurs to access a wider bundle of goods required to grow.

Exhibit 4.1 illustrates the linkages between the activities and the project goal and objectives. Estimates of how the activities described below could be phased over the life of the BPED Project and the level of resources required for each activity are shown in Exhibit 4.2. But again it is important to emphasize that these are our best estimates regarding the final allocation of TA resources within the project. The final "real" allocation should be determined by the market-based decisions and incentives described below under each objective. Section 5 provides details regarding the administration of the Technical Assistance Facilities.

The key objectives of the allocative mechanisms used to drive the strategy are: a) insure that resources (in the form of technical assistance) are allocated directly to entrepreneurs in the most cost effective manner; and b) that those resources will be utilized to maximize the economic and social value added of every assistance dollar.

4.1 Activities Under Objective 1: Promoting Small and Micro Entrepreneurial Development

The development of Black business begins with the identification of entrepreneurial potential among the owners of thousands of small and micro enterprises in those sectors of rapid growth such as manufacturing and construction. TAF resources would be allocated to achieve the highest value added per assistance dollar awarded to each entrepreneur.

4.1.1 TA for Entrepreneurs: The Model

The model proposed is one that relies on existing Entrepreneurial Development (ED) programs to identify entrepreneurial potential

Exhibit 4.1

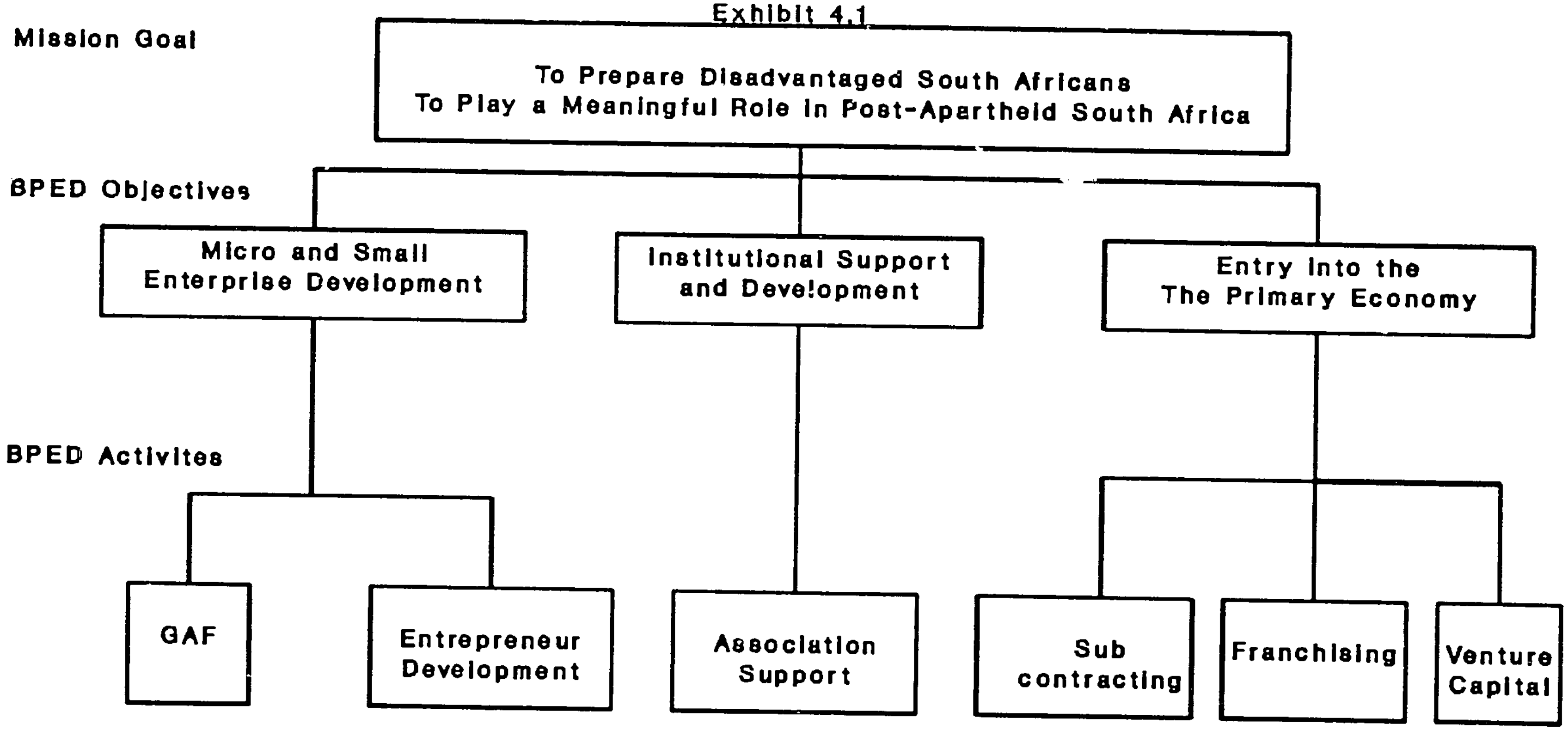

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Exhibit 4.2

BPED Life of Project Budget								
Activity	FY91	FY92	FY93	FY94	FY95	FY96	FY97	TOTAL
(US$ Millions)								
New TA Facility								
Entrepreneur Develop	0.3	0.4	0.4	0.5	0.5	0.75	0.75	3.6
Assoc Support	0	0	0.1	0.1	0.15	0.15	0.2	0.7
Primary Economy	0.7	0.95	1.94	2.3	1.8	2.02	2.18	11.89
o/w Subcontracting	0.6	0.75	1.5	1.5	0.9	0.9	0.9	7.05
o/w Franchising	0	0.1	0.24	0.6	0.6	0.72	0.88	3.14
o/w Venture Capital	0.1	0.1	0.2	0.2	0.3	0.4	0.4	1.7
Subtotal	1	1.35	2.44	2.9	2.45	2.92	3.13	16.19
Administration	0.15	0.35	0.35	0.35	0.35	0.35	0.35	2.25
TOTAL	1.15	1.7	2.79	3.25	2.8	3.27	3.48	18.44
New Obligations					1	1	1	3
Under Current Grants								
(i.e. GAF)								
TOTAL	1.15	1.7	2.79	3.25	3.8	4.27	4.48	21.44

among their graduates, who then become eligible to access the technical assistance that is required to "grow" their small or micro businesses.

Assumptions:

- <u>There is a population of ED graduates who are small or micro entrepreneurs with growth potential</u>. Information from organizations providing entrepreneurial training such as Job Creation, FEST, the Foundation for Entrepreneurial Development (FED), Workwise, MBA Township Trust, Self-Employment Institute, Business Challenge, the Center for Developing Business, and other during Phase I of the Assessment confirms this assumption.

- <u>There are methodologies for identifying successful entrepreneurs</u>. Though this is a subject of debate, most authorities on entrepreneurship agree that there **are universal indicators of future success that can be isolated and measured.** Experiences of Prof. David McClelland in India with N-Ach measurement and more recently with a methodology developed by Management Systems International and tested extensively in Africa and South America tend to confirm this.

- <u>Technical assistance is "the missing element</u>." Admittedly, this is not always true. Credit for working capital may be the missing element in some cases. But interviews and focus groups confirm that most often, it is the lack of a bankable business plan, a plan for managing human and capital resources or a workable production scheme that holds the microentrepreneur back.

Implementation Steps:

1. <u>Qualification of ED Programs</u>. There are several dozen institutions listed in the GAF <u>Business Resource Directory</u> (1990) that provide ED training to entrepreneurs. An important responsibility of the TA Facility Manager will be to make an initial assessment of those that provide acceptable professional quality and whose graduates may be qualified to access the Facility.

2. <u>Symposium on ED</u>. Trainers and program managers from qualifying institutions would be invited to a symposium on ED methodologies that would also be attended by international experts. The primary purpose of the symposium is professional exchange and the secondary purpose is to familiarize participants with the TA

scheme and to brainstorm ways of recruiting Black entrepreneurs to the ED programs, which is clearly in their interest, since they can use access to the TAF to attract clients.

3. <u>Recruitment and implementation of ED programs</u>. BPED will have no direct role but will encourage corporate sponsorships and might conceivably provide partial bursaries to exceptional candidates through the short-term training component of the STEP Project.

4. <u>TA voucher distribution</u>. Those entrepreneurs who successfully complete the ED programs will be able to receive vouchers with a monetary face value that can be used to access any TA provider that has been approved by the Facility Manager. There would be a uniform limit to the number of vouchers distributed to any entrepreneur. Information on these voucher applicants could also be entered in a central data bank which consultants, venture capitalists and others looking for business opportunities with potential would also be able to access.

5. <u>Monitoring and evaluation phase</u>. The continued participation of ED programs in the TA voucher scheme would depend on their ability to meet minimum "success rates" for their graduates. This provides the ED institutions with an incentive to improve their programs and identify the best candidates to access the TAF. The basic indicators of business success upon which baseline data are collected and ED programs rated should reflect the objectives of business growth and employment generation (e.g., sales volume and number of employees) and should be easily collectable (asset value and profits are not) for updating on a semi-annual basis for all entrepreneurs participating in the program. Data would also be collected on satisfaction with the ED programs, and feedback provided to the institution, creating another incentive for improvement. The baseline data would be used to establish success rates expected from each ED institution. The TA facility manager would evaluate periodically the success of the ED graduate who have used the vouchers, and allocate vouchers among ED programs accordingly.

Advantages:

o <u>Incentives for the ED training institution</u>. The mechanism described above provides incentives to (a) recruit Black entrepreneurs on the basis of potential access to the TA Facility; (b) maintain high quality programs so as not to be de-qualified; and (c) recommend those graduates with the greatest entrepreneurial ability so as to maintain a high success rate among graduates. Thus the mechanism will help foster quality ED programs in the country.

- Commitment of the entrepreneurs. The mechanism described above requires a serious commitment on the part of the potential beneficiary of the TA Facility, as he or she must invest time and money in ED training. The Team is confident that the potential for receiving free TA at the end of the program will be a stimulant to investment in ED programs.

- Strengthening of the ED network. The monitoring and evaluation system which will run as part of the mechanism described above will help enhance the quality of information on the institutions providing entrepreneurial development training, for the benefit of the donor organizations and potential entrepreneurs in the Black community. Collaboration and exchange among these institutions would be facilitated by their common link to the TA Facility.

4.1.2 Linkages with Other Programs and Activities

The entrepreneurship development mechanism would only be used to allocate technical assistance. Presumably, however, this same mechanism could be used to make decisions regarding creditworthiness or access to other educational and training opportunities. For example, the Get Ahead Foundation may wish to buy into this entrepreneurial testing process to help evaluate and target the people with the potential to graduate to their higher lending programs. STEP may wish to buy into such a system once the TEPS unit is set up to help identify candidates for longer term training and education programs as well as to help assess training institutions (see Section 5.3).

4.1.3 Technical Limitations: Phasing the Activity

Before the screening and voucher system can be implemented some additional groundwork must take place. Evaluation of research findings from the vast number of surveys and studies of the Black micro and small enterprise sector in the RSA completed since 1987 suggests that, despite the growing body of research on the subject, there is still very little known about the size (in terms of employees and turnover), firm structure, location, market orientation (for inputs and outputs) and profitability of these firms.[11] More needs to be known before one can design a voucher distribution system that will be responsive to the needs of the small entrepreneur. Thus the Team recommends that the Mission use the upcoming GEMINI-sponsored microenterprise research project currently being undertaken by Michigan State University (MSU) to determine the size and potential scope of the market for such a TAF, and establish a baseline and realistic targets and expectations for the same. The results of the GEMINI research should also help the Mission decide whether and how to expand other aspects of microenterprise assistance, such as GAF's credit provision system.

The Team also recommends that additional work be undertaken to evaluate the feasibility and desirability of different screening mechanisms. In this report we have focused on ED programs as a screening device. But USAID has vast experience with a wide variety of SMSE assistance programs and screening mechanisms. The Mission may in fact want to experiment with a variety of these on a pilot basis. The Mission should also consider accessing expert advise from MSI (and other firms which specialize in entrepreneurship development and SMSE support) to refine the implementation approach for this component as a prelude to preparing a detailed scope of work for an institutional contractor to manage the TAF.[12]

The above implies that it is unlikely that this component of the strategy would be implemented immediately. The next 6-8 months should be used to finalize the GEMINI research and evaluate the implications of the same for the design of this voucher system, and to undertake a preliminary evaluation of ED and other programs which can serve as screening mechanisms. This work will then serve to design a TAF to support the voucher system. As noted in footnote 11, there are a variety of centrally-funded IQC's which could be used to access expert advice for these studies, including GEMINI and the Employment and Enterprise IQC out of S&T. Moreover, given the novelty of the approach, the Team would recommend that the system be implemented on a pilot basis in the PWV area initially.

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[11]See for example, Consumer Behaviour's evaluation of all the survey research on Black small and microenterprises undertaken since 1987 in Annex C of this report.

[12]MSI can be accessed through a variety of IQCs for this type of short-term TA, including the Employment and Enterprise IQC (out of S&T) and the GEMINI IQC (also S&T funded).

4.1.4 Implications for Existing Programs

- **Continuation of the GAF program.**

  The Get Ahead Foundation operates a small business loan program, combined with a mentoring scheme, aimed at relieving unemployment and stimulating business development among disadvantaged South Africans. It has proven effective in terms of extensive geographic coverage and high repayment rates in most areas, but it has also proven to be an expensive model that must supplement operating income with donations.

  The potential for linking the GAF credit to the TA voucher system should be explored as a way of widening the services and support available to those entrepreneurs who are eligible to access the TA Facility, but for whom technical assistance alone may not be sufficient. Moreover, GAF is one of the few NGOs which the Mission supports with a credible presence outside the PWV area.

- **Other activities**

  The Mission should consider non-renewal of all other support grants for microenterprise institutions. This would not imply an end to all assistance to those institutions worthy of support; some of the institutions currently receiving BPED grants may be able to participate in the TAF as TA providers. For example, entrepreneurs could use the vouchers to purchase marketing services and expertise from the Business Achievers Foundation (BAF). However, BAF would now have to compete with other providers of marketing expertise for the TA funds.

4.1.5 Political Factors

This model is designed with the specific objective of getting technical assistance services in the hands of those entrepreneurs who will value them the most. But it assumes that TA and EDP providers of all races will be competing on a level playing field. While the ultimate beneficiary is the Black entrepreneur, non-Black firms may also benefit if they are selected as most qualified to provide the technical assistance. The adverse effects might be minimized by requiring that a certain percentage of the TA providers be Black-owned. STEP educational programs could also be accessed to increase the quality of Black TA providers or ED training institutions and improve their ability to compete on an equal basis for TAF funds.

4.2 Activities Under Objective 2: Performance Driven Business Association Support

Under specific circumstances, one of the most cost effective ways to improve the profit margins of small firms and thus encourage capital accumulation at this level, is through the use of collective action. Recognizing the importance of strengthening collective action at this level BPED has targeted institutional development as one of the areas of assistance since its inception. The private sector strategy assessment Team suggests that this thrust should continue, but that the mechanism for delivering this support be modified for the following reasons: a) institutional development grants provided under BPED generally leave the use of TA entirely to the institution itself, assuming that the organization has the personnel and the expertise to use the assistance effectively, which is not always the case given the thinness of managerial resources; b) TA in the past has been largely used for general administrative support, rather than for the development of systems which will have a more immediate impact for the members, e.g. development of an relevant menu of services or effective service delivery mechanisms; c) the current system does not give the TA provider a stake in the success or failure of his/her advice, or an incentive to provide the organization with aftercare in a systematic basis.

4.2.1 A Model for Business Association Support

- <u>Assistance to institutions will be based entirely on the extent to which it will be oriented towards providing services of measurable value to their members</u>. Again, the centrally managed TA facility (TAF) would be used to support this activity; a portion of the TAF funds would be available for business associations. Any Black business support institution could use the fund for contracting TA services from any provider who is qualified; under the contract the TA provider commits himself to deliver a specific service, for a base price, with a larger fee contingent on his ability to deliver measurable benefits to the organization and its members. The TA fund would cover the base fee and part of the bonus and the organization would agree to pay the remainder of the bonus from the total value of the benefits derived by the service provider's actions. This mechanism would give the TA service provider a stake in the organizational performance of the institution receiving his/her services.

  Under the scheme described above the use of TAF funds would be limited only to those institutional support activities which could produce very specific and measurable benefits: e.g. negotiating on behalf of the organization for X reduction in the price of supplies for members; obtaining better repayment terms from suppliers; establishing a tendering program for the members, payment based on the total value of the tenders he/she helped prepare for the members.

- The TA facility would be administered by the same institutional contractor managing the voucher disbursement system for individual microentrepreneurs. Many of the beneficiaries of the voucher system would also be potentially benefitting indirectly from funds used for institutional strengthening, and it is possible that the institutions participating in the voucher disbursement system might at the same time be able to use the TAF to strengthen their other service delivery systems. The role of the TA fund manager in this case would be to design and help negotiate the contract between the business association and the TA provider, and assist the association in monitoring the fulfillment of the terms of the same. The TA fund manager would also be responsible for publicizing the availability of this service to prospective institutions in the area. But the responsibility of seeking out potential clients would be that of the local TA providers who would have the incentive to work with business organizations to identify needs and thus develop proposals for meeting these needs which would then be funded through the central TA facility.

4.2.2 Implications for existing programs

At the moment BPED is providing assistance to FABCOS, NAFCOC, ABA, among others. But most of this assistance is provided at the national level, and largely for the support of central administrative and managerial structures. Interviews with both assistance providers and association members indicates that little of this assistance trickles down to regional or local branches. It is recommended that the funds available under this TA fund be limited to local organizations, where the benefit of the assistance to members is more immediate, and easily measurable. This might be a good mechanism by which to begin decentralizing portfolio activities. For example the activity could start on a pilot basis in Port Elizabeth because: a) the level of entrepreneurship in PE is generally very low, but the level of organizational commitment is high (there is a great deal of group solidarity); b) there is at the moment a real lack of business support institutions of any kind in the area, and as such the demand for these services is high, strengthening the probability of success in the area. The Assessment Team believes that this mechanism would be targeted most effectively to assist business associations in sectors of priority identified throughout this document: manufacturing, construction, and possibly transport. However, once again it must be stressed that the no sectors should be eliminated a priori for consideration in this scheme; the market demand for TA services will determine in which sectors savings will be identified. There are, undoubtedly services for associations that the Team could not adequately identify and the demand for unrealized savings will be the arbiter of in what sectors the consultant identifies opportunities.

4.2.3 Political Factors

Associational politics in South Africa are particularly complex and fluid, making it difficult for outsiders to assess the political risks involved in providing assistance in the manner specified above. For this reason, it will be important to invest in some preliminary research to evaluate the viability of implementing such an activity in particular locales and with particular organizations, including some of the organizations operating under COLD. For example, the Mission, as part of the evaluations of its BPED grantees scheduled for early 1991, could assess the extent to which current BPED grantees could use a TAF to strengthen their own service provision systems, and become self-sustaining in the future. Additional expert advice may also be sought through GEMINI regarding the identification of community based organizations which could benefit from such a scheme. The results from this preliminary research would help to establish reasonable expectations regarding potential demand for and problems with this approach as a way of strengthening institutions. This would serve as the basis for designing the RFP for the IC to manage this fund. The final RFP for this TAF could also ask that the prospective IC's demonstrate their knowledge of and contacts in the country by making recommendations regarding the manner and the locale in which the activity would be phased within this TAF.

Given the novelty of this approach and the potential risks involved, the activity would probably need to begin as a pilot project in a well defined locale.

4.3 Activities under Objective 3: Participation in the Primary Economy

The third objective of the proposed BPED strategy is to foster participation of Black enterprises in the primary economy of South Africa by leveraging the resources of the larger and established private sector businesses on behalf of Black business development. Three activities that have been designed to contribute to this objective are: a) "linking" Black firms through contracts with larger established businesses; b) developing franchising; and c) venture capital. The three activities all operate under the same conceptual framework (an overview of which is provided in Exhibits 4.3-4.5) and will be funded by the second TAF.

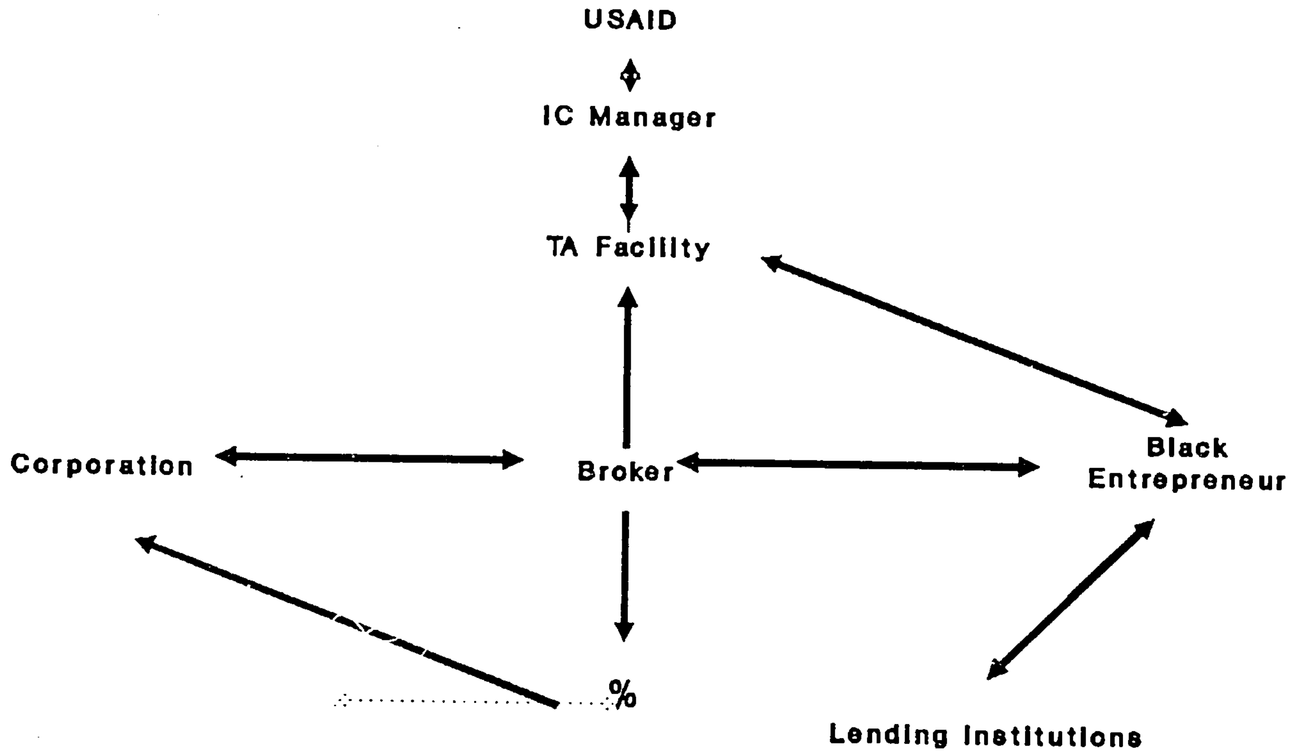
4.3.1 Linking Networks

BPED can encourage stable and sustained linkages between Black business and large and medium-size corporations by providing the technical assistance required by the Black firm for producing quality and timely goods and services for the larger firms. Contact between the two parties will be facilitated, where necessary, by a third party-broker who will negotiate for a percent of the value of the subcontract. This "third party-broker" will have the motivation and skills to bring the principals together and the basic business and industry knowledge to prescribe technical assistance. The Black entrepreneur will then be able to use the TAF to purchase the TA prescribed by the broker. The broker will place his/her negotiated percentage in an escrow fund and will only be able to collect upon satisfactory deliver of the subcontracted goods and services. This way the broker will have an on-going interest in the performance of the Black firms, and will help insure the Black firm is using the TA funds as required to achieve expected results.

The parties and mechanisms involved are the following:

- the corporation wishing to purchase a good or service rather than to make or provide it internally.
- the black firm with the capability or potential capability to provide the good or service.
- a "third party" with the motivation and skills to bring the principals together and the basic business and industry knowledge to prescribe technical assistance.
- a subcontract that specifies (a) performance required by the corporation; (b) payment by the corporation to the black firm; and (c) commission by the principals to the third

Exhibit 4.3
Subcontracting Model



party, payment of which is contingent upon the successful execution of the subcontract.

- A Technical Assistance Facility that can be accessed by a black firm, based upon specific recommendations by a qualified third party.

- The TA Facility Manager, an Institutional Contractor (IC) hired by USAID, who selects (according to established criteria) those individuals or firms that qualify to play the third party role and who approves TA plans presented by those third parties. This Manager also must play a proactive role in identifying those activities that might lend themselves profitably to subcontracting and in promoting the concept among corporations.

- TA providers, who will be recruited by the TA Facility Manager. These may be retired executives from specific industries, currently practicing businessmen or technicians able to provide assistance during off-hours, the existing technical assistance community in South Africa, or (in justified cases) overseas experts. The TA providers will be remunerated by the TA Facility Manager (or an assistant) based upon work performed in accordance with recommendations by the third party.

Experience has shown that such linkages can be successful in the following situations: (a) where a large conglomerate wants to simplify its administrative apparatus by "unbundling" certain supply or service functions hitherto provided in-house; and (b) where a medium or large manufacturer wishes to expand production capacity without investing in plant and equipment.

<u>Facilitating linkages that exploit "unbundling" trends</u>. An example of the first kind of linking can be seen in the Anglo American Small Business Unit. To make this work, Anglo has simplified the tendering process and provided supporting services for its small contractors, such as storage facilities, transportation, finance, and technical assistance (Assessment Phase I, p. 62). Discussions with representatives of large businesses in South Africa suggest that corporations wish to subcontract with black firms but often lack the capacity to provide the technical assistance or they may be concerned about their ability to manage the subcontractor relationship. The third party being suggested as part of this strategy can overcome these barriers by determining the specific TA required by the black firm and by accessing the USAID-sponsored TA Facility. Since the third party will have a financial stake in the success of subcontract relationship, he or she will continue to play a

facilitator and communicator role between the corporate purchasing department and the Black business.

Under this type of subcontract, the third party will require intercultural communications and organizational skills in order to bring the large corporation and the black firm together. If, for example, the third party is a management consultant, he or she may also provide administrative assistance to the black business and be reimbursed by the TA Fund, but much of the TA required will probably be technical in nature (e.g., how to meet product specifications). There is, of course, a potential conflict of interest in that the consultant will prescribe his or her own services. This possibility will be diminished because the primary motivation of the third party will be to receive the commission on the subcontract, which will only occur if it is successfully executed. Therefore he or she will only recommend his/her own services if they are indeed those needed to get the job done. In addition, the TA Facility Manager will monitor the subcontracting process and will exclude any TA provider who takes advantage of the third party role.

The Anglo experience suggests that once a corporation begins to subcontract supplies and services in a serious manner, the advantages become obvious and the corporation itself develops the capacity to provide TA. As the subcontracting process becomes self sustaining, USAID funding of a TA facility becomes unnecessary. In fact, a consortium of corporations may even wish to finance the continuation of the TA Facility rather than to provide assistance on an individual basis.

Facilitating contracting relationships for industrial processes. A type of linkage between Black firms and larger established businesses that may hold even greater opportunity for Black advancement in the primary economy is that in which the Black firm assumes responsibility for a part of the production process. This has actually occurred in seven firms in the footwear industry, each of which has awarded contracts for processing and stitching of "uppers" to small black businesses of twenty persons each. In this type of contractual relationship, the third party and the TA provider roles inevitably overlap because it is not possible to bring the parties together without having performed the management analysis of markets, capacities, and costs.

The experience of Strategic Process Consultants (SPC), the firm that has played the third party and TA provider roles in the footwear industry, suggests that the model can become sustainable over a period of several years, after which the consulting firm has enough income from commissions to make the venture profitable even after deducting TA costs. Using the footwear example, in which SPC receives a commission of 5% of the value added of the subcontract (2.5% from each of the principals), income grows to R30,000 per month with ten successful subcontracts. With this amount, the consultant can not only manage the existing relationships but also seek additional subcontracts and provide the TA necessary.

The impact of the linking support activities described above is apparent. Fostering these types of relationships between Black firms and the larger established businesses leverages the immense resources of corporate South Africa and provides a direct benefit to Black business. The subsidization of technical assistance by USAID is a temporary mechanism for which, in specific industries and instances, there is every indication that implementation will be assumed by South African corporations and consulting firms. As the Black firms successfully fulfill contracts, self-esteem will be heightened and positive role models of black business will emerge. This scheme also facilitates access to capital, as a contract for delivery of goods and services with a large firm is usually an acceptable form of security for the commercial banking sector. In the longer-term, it is hoped that this activity will lead to growth and vertical integration on the part of successful Black contractors.

4.3.2 Limitations of the Model in South Africa

The model as an avenue for expanding Black participation in the primary economy is attractive, because it helps expand and facilitate a process which is already underway. As such it could be one of the first parts of the TA Fund components which takes off and for one can expect an immediate demand to materialize with a minimum degree of groundwork, at least in some industries. Nevertheless, it has some very real limitations:

- <u>It may not work well in those industries that are line-balanced or that use continuous rather than batch processing</u>. The footwear industry is ideal because one of the processes, the "skyving" and stitching of uppers, requires nearly twice the space per volume of output than the other processes (clicking, lasting, etc.). Therefore it can be demonstrated to the manufacturer that he or she can allocate overhead costs to twice the volume under this scheme, and that this can be done with no additional investment in plant and equipment.

- <u>It may not work well in those industries with stagnant demand because the growth incentive is not present and there will be a strong reaction from the labor unions</u>. COSATU and other labor unions have opposed subcontracting for years. The success of the footwear experiment in subcontracting, in expanding from the current 7 to the potential of several hundred subcontracts, will ultimately depend upon the penetration of export markets. SPC analyses indicate that this is possible from the standpoint of quality and cost, but also required are the international contacts. Here is where a USAID-sponsored TA Facility could play a role, in accessing expertise in international marketing.

In addition to the potential in the footwear industry, there is opportunity in the apparel and furniture industries for this type of subcontracting. In each of these industries, certain activities (C-M-T in garment-making) are highly labor intensive and lend themselves to subcontracting, while others (design and marketing) have scale economies. Moreover, consumer demand for these products is growing rapidly among low-income segments. The sectors targeted will depend, however, on the assessment of the consultants regarding their potential profitability. As such the subcontracting activity will be responsive to changes in the economic environment affecting the returns to a specific subsector.

4.3.3 Political Risks of Subcontracting

<u>There is political risk in an activity linked to white corporate South Africa that uses TA providers whom, in many cases, may also be white</u>. However, the benefits justify these risks, considering the following:

--At no time will USAID resources flow to white South African corporations. Though they may benefit indirectly from TA provided to subcontractors, the direct beneficiaries will be black entrepreneurs.

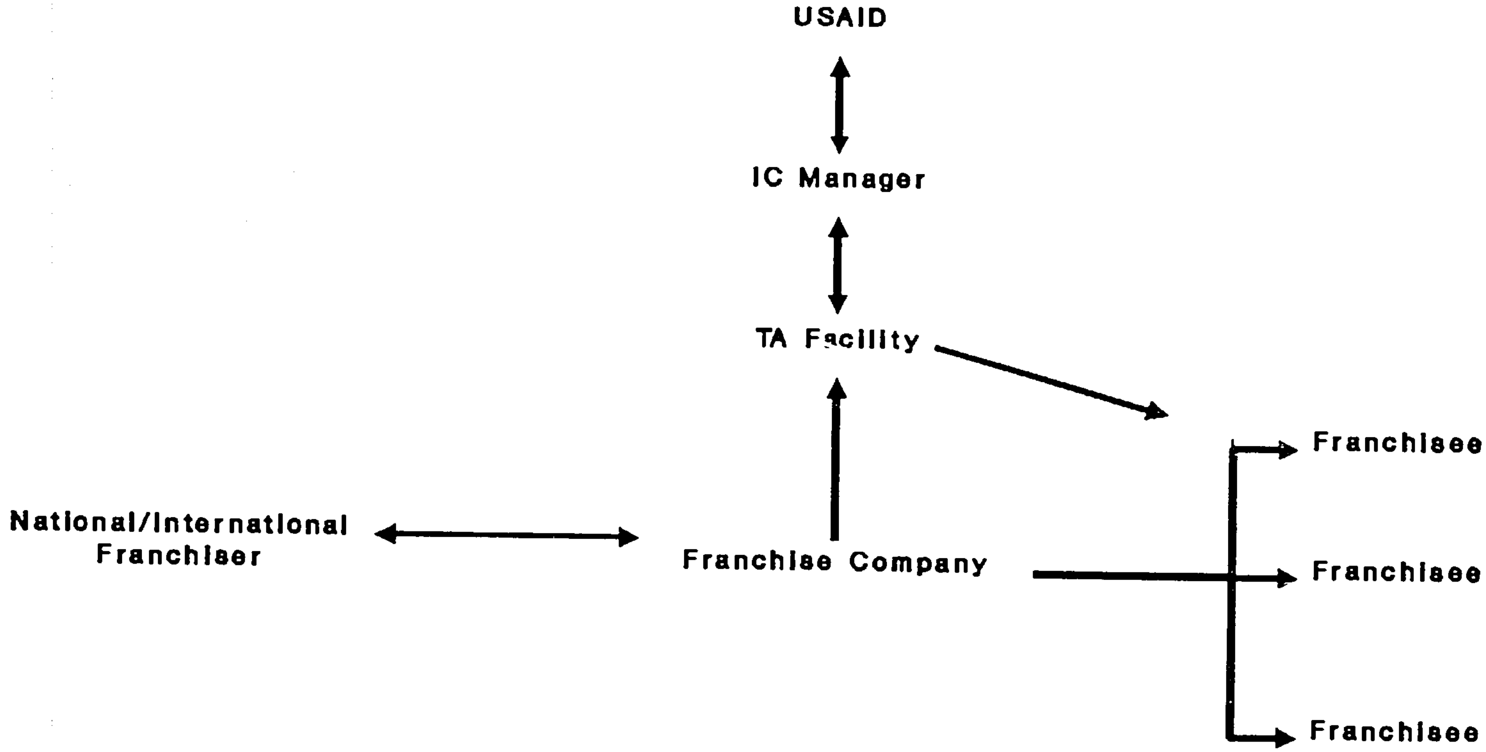
--Black entrepreneurs will be free to decide whether or not to enter into a relationship with a third party or a TA provider. If they do, it is because they have confidence in that person or organization, regardless of color.

--Some percentage of Black participation will be specified in the third party and TA provider activity, but it must be remembered that the principal objective is to assist the black entrepreneur and not to develop black consultants.

4.3.4 Franchising Model

This is based primarily on the same model as that described above and is reproduced schematically in Exhibit 4.4. In this case, the main franchiser, the McDonalds or Rug Doctor

Exhibit 4.4
Franchising Model



Pro for example, replaces the subcontracting corporation. In addition, the consultant is replaced by the franchising company and the entrepreneur by a number of franchisees.

In the case of franchising, the amount of technical assistance the TA facility would need to provide to each entrepreneur would, presumably, be less as the franchising company and the franchiser typically provide the systems and expert assistance. However, USAID assistance in this model would lower the cost and the risks of franchising to the franchising company and thus lower the significant short-term barrier to the expansion of franchising in South Africa.

In this model, as in the one described in the preceding activity, the franchising company is only rewarded in terms of the success of the individual ventures. As the provider of the majority of technical assistance and systems, the franchiser would provide sufficient "after-care" to safeguard the investment and thus, the success of the firm.

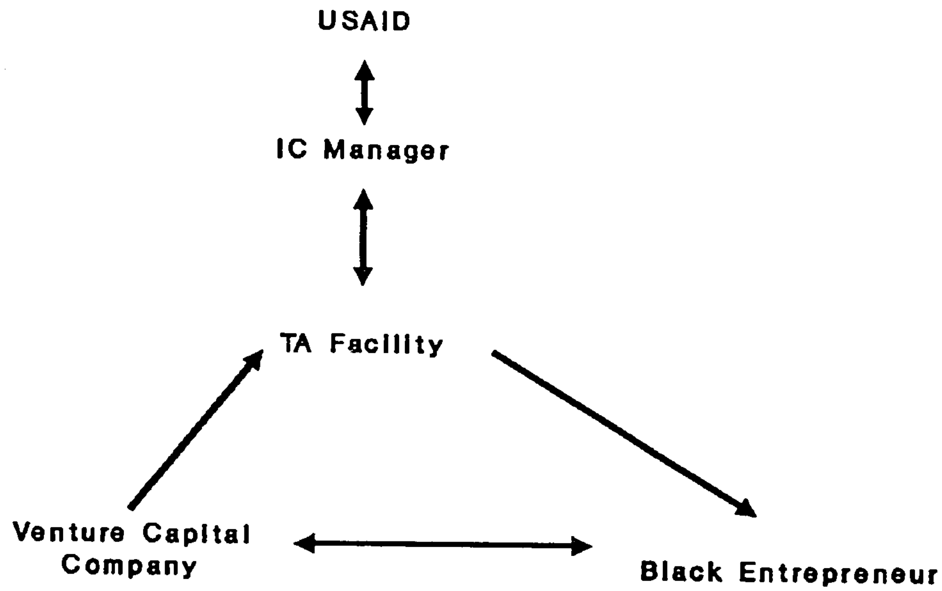
4.3.5 Political Risks and Technical Limitations of Franchising

In many ways franchising is a far more attractive mechanism because it carries less political baggage and fewer of the risks surrounding subcontracting. There has been an increasing amount of interest in this mechanism, and even several successful exiles have returned to make such investments in South Africa. On the other hand, the opportunities for franchising arise primarily and most immediately in the service field, and allows little penetration into the productive sectors of the economy. Nevertheless one of the aspects the IC would be exploring is precisely the extent to which the franchising model is expandable to more productive processes through licensing agreements and the like.

4.3.6 Venture Capital Activities

In the United States, venture capital is effectively employed to finance start-up enterprises. It is doubtful that this will be the case in either the short- or medium-term in South Africa. It is proposed that under BPED equity capital mechanisms be used to facilitate the transfer of skills and resources from the developed to the developing sectors of the economy. There are, currently, several domestic and foreign venture capital firms who have expressed interest in investing in black business. The question becomes, then, how can USAID lower the barriers to this investment?

Exhibit 4.5
Venture Capital Model



Using a permutation of the model described above (and presented in Exhibit 4.5), equity investment can be facilitated by the provision of technical assistance to the black business. The venture capitalist will play the role of the self-interested actor and identify companies where an equity investment may be feasible. In some of these instances, the recipient firm will need much more than simply an injection of capital but will need a full-time management team in place in order to be successful. The venture capitalist can provide this technical assistance but the cost may be prohibitive. Thus, USAID's TA Facility would assist in lowering this barrier by providing partial payment for a member of the management team's cost. The question of "picking the winners" would be left to the venture capitalist whose investment in on the line. USAID would simply be facilitating the investment by lowering the cost of the investment.

4.3.7 Political Risks of Venture Capital Promotion

As in franchising, the political risks associated with venture capital promotion are lower than those of subcontracting. However, if venture capital is provided by white, or foreign-owned firms, there may be criticism regarding the selling of Black businesses to the white community. But this criticism will be tempered by the fact that acceptance of venture capital is a voluntary act, not one coerced by USAID.

Another potential criticism concerns third country venture capital companies. There may be criticism in Congress if USAID is facilitating profitable investment Japanese in South Africa. Once again, however, it is important to keep the goal of the activity in mind: The development of Black business is the goal and as in all activities proposed by the Team above, it is felt that profit motivation will be a key consideration to realize that development.

5. STRATEGY IMPLEMENTATION AND ADMINISTRATION

5.1 Sensitivity Analysis: "Robustness" of proposed approach under alternative scenarios

The menu of activities outlined above makes a number of critical assumptions regarding the pace of political and economic changes in South Africa. In the preceding sections we have outlined the political and technical limitations of each of the models proposed above under the current pace of political change. But any one of a dozen possible scenarios may evolve over the life of the project. While it would be well beyond the scope of work (and present capabilities) of this Team to specify what all the possible alternative scenarios may be, it is important to note the following:

- **The portfolio is responsive to moderate changes in the political, economic and social environment affecting private enterprise.** The core activities proposed in the portfolio are fairly robust, in that they target sectors which enjoy healthy growth prospects at least through the medium term, and that the mechanisms suggested for allocating resources are flexible enough to respond to at least a moderate degree of changes in the environment, precisely because they rely to a large extent on the market rather than on administrative decisions from above.

- **There are many options for project involvement which would not receive adequate attention under more radical scenarios.** A brief exercise in "crystal ball gazing" suggests that there are some areas which are currently not covered at all, such as agriculture and rural development which could merit consideration in the future. A large land reform initiative by a post-apartheid government would indeed open opportunities in agribusiness for Blacks. Whether BPED is the appropriate mechanism to address these areas, however, is open to question. The scope of these possible activities and the complexities involved in such undertaking would require a major research and planning exercise (see below).

5.2 Strategic Research

The Mission should consider incorporating strategic research planning activities geared at expanding its ability to respond effectively to changes in the environment. Given the fluidity of the current environment, and our inability to fully address all these areas of uncertainty, the Mission should set aside within the portfolio of activities a research fund. The purpose of the fund would be to provide the Mission with the data and the technical expertise to develop a set of "shadow plans" providing a full set of strategic options under a variety of detailed scenarios. The Futures Research Unit at Stellenbosch specializes in such scenario building, and might be an excellent resource to access on a continuous basis for this activity. Some areas of research which should be targeted under this fund would be: land reform and the implications for agribusiness development initiatives, the expected role of trade unions within post apartheid South Africa, expectations regarding nationalization and other initiatives available for wealth redistribution, the expected scope and role of foreign investment under alternative socio-economic and political scenarios. There are several alternatives for funding this research:

(a) Allocate a portion of BPED funds. A specific amount (we suggested US$0.4mn) can be set aside for research, much as has been done in the past under BPED. However, obligating funds this way is administratively cumbersome for the Mission; there is a risk that by the time the paperwork is completed and the research design approved, the opportunity to act on the research findings has passed. Moreover this mechanism does not insure that the information generated from the research is action oriented, nor that it is incorporated formally into the Mission's overall strategy development and assessment.

(b) Include private sector development strategy considerations into the Mission central funds. PD&S funds for example can be obligated for this sort of exercise. This mechanism would insure that the private sector "shadow strategy" issues are incorporated within Mission-wide considerations regarding its response to changes in the environment. In the past BPED, because of its political orientation, and own special funding source, was only marginally incorporated into wider Mission strategic considerations. This view has now changed. The agenda for research would have private sector opportunities and constraints considerations as part of a wider scenario building process.

(c) Include private sector strategic planning as part of the responsibilities of the ICs. The advantage of this mechanism is that it would make funding specific research questions easier and this give increased flexibility as to the timing and the scope of these activities. On the other hand, while some strategic planning issues would clearly fall under the responsibility of each of the ICs as currently envisioned (e.g. What will be the response of the ANC on the deregulation issues; what are possible growth areas for exports), others, such as agribusiness development would clearly fall outside its scope. To ask the IC to fulfill all these functions might be to be courting trouble, by diluting energies which could well be used more effectively in their activities. On the other hand, the IC RFPs should ask prospective bidders to outline a research and monitoring and evaluation system, and how they would implement such a system as part of their responsibilities.

5.3 The Monitoring and Evaluation System

BPED programming will include the establishment of a monitoring and evaluation system that will allow USAID to evaluate the success of the activities, make timely corrections in the allocation of resources among and within activities and provide the various parties involved in project implementation, including intermediaries and entrepreneurs with timely and quality feedback regarding their own performance.

Exhibit 5.1 provides a list of indicators which would be collected for each of the implementing institution involved in the project. Each project activity will be designed so that the collection of data to construct these indicators is a natural product of the implementation requirements, rather than an artificial imposition to fulfill USAID reporting requirements. But in general data requirements are reduced to the extent that resource allocation is based upon market mechanisms rather than administrative decisions. In this way the project can respond more flexibly to changing circumstances in the external environment, and the administrative burden on project managers is alleviated.

Assessment of impact at the individual entrepreneur level would be supplemented by periodic surveys. The baseline for comparing the survey results would have been established through the database of clients built up as a part of the implementation process and through the contract mechanisms specified above. For example, records collected through redemption of the vouchers would provide the Mission with a database of entrepreneurs who had received TA, from which the Mission and the TA Facility management could conduct periodic surveys to assess the impact and viability of the ED program. On the basis of these periodic assessments ED training programs and TA providers could be dropped from the pool of qualified institutions.

EXHIBIT 5.1

SOME CRITICAL INDICATORS OF PROJECT IMPACT

1. Objective 1

Indicator	**Source**[1]
Average size of loan for new clients by sector and region	GAF
Average size of loan for repeat clients by sector and region	GAF
Loan value/Total turnover by client, sector	GAF
Rand value of firm turnover by client, sector, region prior to start of TA	TA Provider + IC Component Mgr
Gross value added, in Rand, by client, sector, region prior to start of TA	TA provider + IC Component Mgr
Rand value of firm turnover by client, sector, region after TA	TA provider + IC Component Mgr
Gross value added, in Rand, by client, sector, region after TA	TA provider + IC Component Mgr
Value of TA services/job created	IC Component mgr
No. ED program graduates in VCC, franchising and subcontracting	IC Database

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[1]Refers to the organization or institution within each BPED project activity which will be generating the data.

EXHIBIT 5.1

SOME CRITICAL INDICATORS OF PROJECT IMPACT
(page 2)

2. Objective 2

Indicator	**Source**
Value TA service per Rand increase in business assoc. budget	IC Component mgr
Value TA service per Rand increase in business assoc. budget	IC Component mgr

EXHIBIT 5.1

SOME CRITICAL INDICATORS OF PROJECT IMPACT
(page 3)

3. Objective 3

Indicator	**Source**
Total no. firms accessing funds for franchising, subcn, venture capital by sector	IC Component mgr
Total turnover by client, sector prior to TA	Broker + IC
Total turnover by client, sector after TA	Broker + IC
Gross value added by client, sector prior to TA	Broker + IC
Gross value added by client, sector after TA	Broker + IC
TA value/Rand value of firm turnover one year after	IC survey
TA value/Rand value of firm turnover one year after	IC survey
Value of TA services/job created one year after	IC survey

5.4 Implications of BPED Project Design for Other Mission Activities

The major implications for BPED linkages with other parts of the Mission portfolio are as follows:

o **BPED linkages with STEP.** These can be of two types:

a) STEP can use BPED input to make decisions regarding the allocation of short and long-term private sector training. While the TA fund would be providing very specific type of TA services, some of the entrepreneurs identified would need more than just TA. The activities described above will be generating information on the demand for short (primarily) and long-term training needs of entrepreneurs at different levels of development. STEP can help insure the effectiveness of its training dollars by working closely with the BPED TA Facility Manager to identify candidates. BPED in turn could buy into STEP for resources to help build up the skill level and quality of Black training and technical assistance providers. Finally, based on BPED's experience with entrepreneurship development programs, STEP may decide to help cover at least part of the costs of this training for worthy candidates.

b) TEPS can buy into the monitoring and evaluation system established under BPED to assess the value of different types of TA and EDP training institutions. The STEP program has specific private sector training goals, and the TEPS unit has specific responsibilities regarding the establishment of linkages with local training providers. As described above, the allocation of BPED TA resources requires the establishment of a system to monitor, evaluate and disseminate information on EDP and TA providers. This system can be used by STEP to establish a network of local institutions to provide the private sector training, and make decisions regarding the allocation of training resources among them in a cost effective manner. This suggests that depending on the level of resources available, STEP could very well buy into this mechanism and help sponsor its operation for identifying and allocating private sector training resources.

o **BPED Linkages with COLD.** Over the last few years community based organizations have become increasingly interested in creating income generating schemes for their members as ways of alleviating poverty and unemployment. Some cooperatives have become successful enterprises themselves. Presumably those that show real potential could indeed be eligible to access the BPED TA Facility. But their ability to do so would depend on the extent to which they can demonstrate their viability and potential ability to produce to the specifications required to make the contract beneficial for all parties. In addition, to the extent that some of the cooperative members demonstrate entrepreneurial potential, they could be presumably eligible for the basic TA (under the "TA for entrepreneurs" model) as well. COLD project managers could facilitate potential linkages by informing income generating cooperatives about the TA Facility. The Facility manager could also communicate regularly with COLD activity managers to learn about and incorporate viable cooperatives in the database of potential beneficiaries. In addition, some cooperatives and other community organizations may be able to access the services of an outside consultant funded by the TA Facility under BPED to strengthen their association and provide more value to their members as described in the association support mechanism above.

- **Other Linkages.** As noted in section 3, though substantial barriers remain for the Black entrepreneur, discussions with business people conducted by the Team suggested access to enforcement mechanisms (such a functioning and fair legal system) has often meant that disadvantaged groups fail to realize the full and immediate benefits available from the ongoing deregulation process. This suggests that the Mission may wish to include in its legal and human rights activities a component which examines options for increasing the access of disadvantaged entrepreneurs to the legal system (for example, through an analysis of issues surrounding the operation and expansion of a small claims court system).

5.5 Leveraging AID/Washington Resources

There are a variety of resources potentially available to the Mission, but the advisability of using these and the details involved in accessing them must be examined in greater detail once the final strategy is approved. The Mission should consider inviting Dr. Warren Weinstein from The Africa Bureau's Office of Market Development and Investment (AFR/MDI) and the Regional Advisor to RHUDO based in Nairobi to South Africa once this strategy has been approved internally to determine the precise level and feasibility of accessing resources available from MDI, S&T and other central bureaux.

Below is a preliminary list of some of the resources potentially available to the Mission with direct relevance to the strategic elements described in Section 4 of this report:

<u>Africa Bureau Office of Market Development and Investment</u>
(AFR/MDI)

- Africa Growth Fund and Africa Project Development Facility: For leveraging capital and technical support for developmentally oriented venture capital and franchising operations.

- African Management Services Company: Specialized TA for all activities outlined under objective 3

- Foreign Investment Advisory Service: For analyzing investment risks associated under a majority regime

HRDA

- For developing private sector training needs assessments

GEMINI

- For research in the entrepreneurial development needs and operating cost structures of microenterprises and developing screening mechanisms for identifying entrepreneurial potential among microenterprises

RHUDO

- For research and expertise regarding technical assistance sources for small builders. RHUDO has established a number of programs to assist small builders in Swaziland, including improved tendering and costing systems. The Mission may want to discuss the results of this program and explore the possibility for adapting similar activities to the program in South Africa.

5.6 USAID Management Issues: Choosing the Implementing Mechanism for the TA Facilities

As stated above, the potential linkages between the beneficiaries and activities at different levels argue for two umbrella contracts, one for microenterprise support activities (ED-based vouchers and local institutional development) and the other one to support specific initiatives to facilitate linkages between established businesses and Black firms. Incorporating activities under these two major umbrella contracts would provide flexibility in the phasing of the BPED activities under each objective and in the allocation of resources within and among them.

5.6.1 Designing an RFP and Choosing the IC for Objective 3 Activities

Given the additional research issues which remain to be addressed before the design for the microenterprise components can be finalized, the private sector strategy assessment Team recommends that the Mission first concentrate its efforts on designing the RFP for objective 3 activities (contracting, franchising, and venture capital). The Mission should consider incorporating a US-based contractor for managing the activities contemplated under this umbrella contract even if this would significantly increase project implementation costs. Incorporating a US-based contractor would give the project access to resources and expertise not immediately available in South Africa. For example, there is at this time relatively little experience with and knowledge about the applicability and implementation of different subcontracting models, knowledge which a US based firm might more easily access. There is also limited knowledge about export markets and a limited ability to contact and attract foreign franchises and venture capitalists, all activities which may become increasingly important to access relatively quickly in the event of a suspension of US and European sanctions. In addition, a US-based contractor would provide USAID with a neutral actor to implement development activities without prejudice, something that would be very difficult to do in the current environment in South Africa.

The key responsibilities of the institutional contractor to manage the linkages (objective 3) activities would be:

a. Design and development of the technical assistance facility. The contractor would be required to determine the existing needs of the Black business community and design a technical assistance facility equipped to meet the expected demand (in volume and price) for technical assistance for all 3 types of linkages activities described above: subcontracting/franchising/equity capital entrepreneurs. The contractor should pay particular attention to the design and specifications of control mechanisms to insure the efficient operation of the program, and reduce the likelihood of collusion between the parties involved. For example, the ratio of contract value to TA value is a critical variable in the design of the activities under objective 3. If the ratio is too low the possibility of collusion between different parties and the incentives to make the system work are reduced significantly. Thus the Contractor should be prepared to specify how it would determine the "optimal ratio," the possibility that this ratio may vary by industrial sector, and the types of monitoring and evaluation mechanisms necessary to establish and evaluate viable ventures in this regard.

b. Manage the technical assistance facility. It is expected that:

- The contractor would propose what type of and how to implement monitoring, evaluation and research systems that would allow it to make informed decisions regarding the allocation of resources among the three levels of beneficiaries described above: the entrepreneurs engaged in subcontracting and franchising, and the recipients of equity capital. The types of issues to incorporate in a research, and MIS system have been described in section 5.5.

- The contractor will propose operational details for implementing the various types of incentive mechanisms described in section 4, as well as the collusion control mechanisms alluded to above.

- The contractor will evaluate the performance of the technical assistance providers and reimburse them for their services on a graduated scale. It is recommended that the approach suggested for this graduated reimbursement should be a major consideration in the contractor evaluation and selection process.

c. Skills composition and experience of the contractor:

- The management of the technical assistance facility will require an in-depth understanding of the problems faced by Black business and the mechanisms available for correcting these problems. For this reason, the contractor will most likely be required to have a South African counterpart firm that will be more intimately familiar with the issue surrounding black business development.

- The technical assistance facility manager will have to have a strong business background and orientation, as well as proven contacts and credibility in the international business community. One of the major responsibilities of the contractor will be to invest a significant amount of time networking with the corporate community in order to lobby for subcontracting with black business, and with bank executives to explain the value of this technical assistance as a "guarantee" of the bankability of the recipients. It is essential that this person be able to talk the language of the corporate business community and have the credibility necessary to gain easy access and the trust of this local community.

- The Contractor must be able to demonstrate how and where the TA Facility would access industry specific expertise in the areas of franchising, venture capital, and subcontracting. The Contractor should be able to demonstrate expertise in various industry specific models with particular relevance to South Africa: e.g. subcontracting models in the consumer semi-durables area (garment, footwear), construction as well as other areas which may become relevant in the future. In this regard the Contractor must demonstrate knowledge of the environment by evaluating what these areas may be and how it could access specialized skills in these as required.

- Althcugh the mechanisms described in section 4 are neutral and rely solely on the market, it is recommended that the Mission require the contractor to include a provision for a certain percentage of technical assistance (value) be provided by Black-owned firms. Initially, thirty-five percent would be acceptable with this percentage increasing yearly until the final year of the contract when it reaches 50%. This requirement should present no major problems nor adversely affect the quality of the services provided. Many of the larger and more prestigious consulting and technical assistance providers in the RSA have already seen it to their advantage to merge their practices with those of the best and best regarded Black consultants in the country. This situation is regarded as advantageous to both parties and thus the contracting process would only be capitalizing on a process which is already well underway. In addition, the contract should contain a set aside for a Gray Amendment firm. This will not only help enhance the political attractiveness of this initiative abroad and locally, but would also benefit the project from the insights and experience and contacts of minority entrepreneurs outside the RSA.

In addition the following recommendations are made regarding the selection process and incentive mechanisms for the IC contract:

- <u>The Mission should include local experts on Black business and small business development in the evaluation panel</u>. There is a wealth of resources and expertise in this area which should be employed for maximum advantage. These people have in-depth knowledge about what would be required to make such an incentive and market driven activity work in this environment which will be invaluable in evaluating the technical proposals.

o <u>The initial contract for managing the objective 3 TAF activities should be for a maximum of 2 years, with an option to renew with the same contractor after this initial "pilot" phase</u>. Given the novelty of the implementation mechanisms described above, the Mission should view this initial contract as a trial or "pilot" phase period, during which both the Mission can "test the waters" and become acquainted with the market (both of ICs willing and able to manage this type of activity, as well as of local brokers and TA providers able and willing to participate in the TAF). This initial two year period could also be used to build a baseline with which to establish reasonable targets in terms of potential beneficiaries and minimum required levels of assistance. This information could be used to establish reasonable targets for a subsequent longer term contract. Such incremental contracting would also give the IC chosen an incentive to perform well, since its continued participation would depend on the results of the first contract. It would give the Mission greater control over the implementation process.

5.6.2 Proceeding on Objectives 1 and 2 Activities

The private sector strategy assessment Team recommends that the RFP for managing the TAF which would serve to fund objective 1 and objective 2 (ED-based and performance based institutional development support vouchers) activities be delayed until results form the GEMINI study are complete, probably by mid 1991. The GEMINI study, as noted above, will enable the Mission to establish a better baseline and targets for this component. The Mission should also use the next 6 months to explore USAID experience with ED programs, such as that implemented by MSI, and the potential for such programs as screening mechanisms for a voucher system such as the one envisioned in this report. An expert from MSI or another expert firm for example, could be brought to South Africa in mid 1991 to evaluate local ED programs, and laying the groundwork work with local groups for developing efficient voucher distribution systems.

In addition, exploratory work should be done to assess the potential market for performance based institutional development vouchers. This would include a brief inventory of all business and community based organizations potentially eligible in the PWV and other localities with potential (such as PE), and an evaluation of the potential political ramifications of extending assistance to the same. The list of business support institutions interviewed by the private sector strategy assessment Team in July, along with the Team's preliminary assessment of the strengths and weaknesses of these institutions, along with the COLD Evaluation Team assessment of community based institutions can serve as a foundation for this follow-up research.

5.7 **Project Costs**

The budget presented in Exhibit 4.3 is for demonstration purposes only. It is the Team's best estimate regarding the level of resources required for each activity and what seems to be reasonable timing for allocating the same. The precise level resources spent among BPED activities will be determined largely by the local market conditions and the allocation of resources among activities will de largely determined through the market mechanisms built into each of the project activities.

It is assumed herein that the Mission has allocated an additional $10 million for BPED bringing life-of-project funding to $30 million of which $21.5 million remains unobligated.

1. The Technical Assistance Facility

The figures presented in that attached budget represent an assumption concerning the level of resources the Mission and the Institutional Contractors will commit to the various activities.

- In the <u>entrepreneur development</u> program, it is assumed the Mission will reach 300 beneficiaries in the first year of operation (FY 93) based on a cost of $1000 per beneficiary; the number of beneficiaries rises to 750 per year by FY 97 (costs incurred prior tc FY 93 reflect on-going Mission support to GAF and other grantees). The amount of technical assistance indicated per firm has been derived from consultants and EDP managers who have indicated that R2000-R3000 is adequate for firms at this level.

- <u>The association support</u> activity will not commence until FY 93. At this point it is assumed the Mission will reimburse consultants for 1000 person days of consulting at $100 per day. As can be seen in the attached budget, the demand for these services is expected to grow moderately over the life of project reaching 2000 person days by the final year of project implementation.

- <u>The primary economy</u> activities will absorb the bulk of BPED resources. Initially, it is assumed the TA facility will provide assistance to 40 entrepreneurs in **subcontracting** at the cost of $15,000 per entrepreneur. This figure will rise to 100 entrepreneurs in FY 93 and FY 94 but will be reduced to 50 for the final three years of the project as some entrepreneurs are more suited to the other activities in this program. In addition Clark, Cohn, Penney and others have indicated that others would be interested in funding technical assistance at the subcontracting level as the program develops, thus limiting the Mission's involvement in this activity. The technical assistance valuation was derived by conversations with consultants and technical assistance providers as to the value of TA necessary per firm for this venture to be successful.

- There will be no money allocated for **franchising** in FY 91 as the Mission finishes the Coordinated Marketing/Deloitte Pim Goldby study on wholesale trade franchising. Further research will be undertaken in FY 92 to explore the viability of franchising in other sectors of the economy. It is assumed that in FY 93, the TA Facility will allocate assistance to six franchisees (two franchise companies with three franchisees apiece) valued at $4000 per franchisee. As franchising becomes more widespread, the market demand on Mission commitments will rise to fifteen franchisees each in FY 94 and FY 95, nineteen franchisees in FY 96 and twenty two in FY 97. In this activity, the majority of technical assistance will be provided by the franchise company, the Mission providing some resources to lower the cost barrier to franchising.

- In the **venture capital promotion** activities, it is assumed in FY 91 the Mission will devote $100,000 to research for venture capital applicability in South Africa. It is likely this will include an identification of key interested venture capitalists in-country and in the United States. In FY 92 the TA facility will allocate assistance to five companies valued at $20,000 each. In FY 93 and FY 94, the TA Facility will provide ten companies with assistance each year, rising to twenty per year in FY 96 and FY 97. In venture capital promotion, the venture capitalist will provide the majority of the technical assistance. The Mission support will only lower the cost barriers to investment in African enterprises.

- <u>Administration of Technical Assistance Facility</u>:

  It is assumed the Institutional Contractor will receive approximately 15% of the value of the TA provided for administration of BPED activities.

2. <u>New Obligations Under Current Grants</u>

It is assumed the Mission will continue the Get Ahead Foundation grant at the current rate of expenditure of $1,000,000 per year.

ANNEX A

SUMMARY OF FINDINGS:
THE BLACK PRIVATE SECTOR IN THE SOUTH AFRICAN ECONOMY

<u>SOUTH AFRICA PRIVATE SECTOR STUDY</u>

SUMMARY OF RESEARCH FINDINGS

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November 1990

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The research findings presented below come from a series of research activities associated with an assessment of USAID/South Africa's Black Private Sector Development Project (BPED) portfolio which began in July 1990. This paper highlights the key results of that research.[1] It is a small contribution to the growing number of research and action-oriented activities associated with assistance to the Black private sector. It is hoped that it will contribute to on-going discussion regarding support strategies to the Black private sector in South Africa.

1. MACROECONOMIC OVERVIEW

Assistance to the Black private sector cannot be considered in a vacuum. It must be based on an understanding of the general economic dynamics affecting the entire private sector in South Africa. Some of the critical issues in this regard:

1.1 **There has been a secular decline in the long run underlying growth rate of the South African economy, quite apart from its short-run problems.** One estimate found that the real growth rate was 5.9% p.a. in the 1960s, 3.3% p.a. in the 1970s, but only 1.7% in the 1980s through to 1988.[2] Per capita GDP has been declining steadily throughout the 80s (Exhibit 1).

1.2 **Overall gross domestic investment has been stagnant over the last decade.** Investment to GDP ratio had by 1989 declined to the 18 to 19 percent range (Exhibit 2), which though higher than the average for sub-Saharan Africa (15 percent), remained below the averages for East Asia (31 percent), South Asia (22 percent), and Latin America and the Caribbean (22 percent), regions with economies much more comparable to South Africa's in terms of overall development level than the rest of sub-Saharan Africa.

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[1] The research included a review of recent regulatory and legal changes and their effect on various types of business activity, particularly African businesses, and a review of all survey research seeking to gather entrepreneurs' perceptions of the opportunities and constraints facing their organizations. Much of the information contained below has been taken from research undertaken for J.E. Austin Associates, Inc. by Capricorn Africa Economic Associates of Durban and Consumer Behavior of Johannesburg in August-September 1990. The implications and conclusions drawn from the data are those of the authors of this report however.

[2] Van der Berg, cited SAIRR 1989:32[illegible].

1.3 **The efficiency of investment seems to have decreased.** The growth rate of the economy appears to have declined proportionally much more than the investment rate.

- **The decline in the efficiency of investment in the country appears to be most closely linked to: a) skill constraints; b) constraints in access to foreign capital, technology, and markets; and c) the heavy burden on the economy of a large and intrusive government.**

1.4 <u>Employment and Wages</u>.[3]

- **Formal sector employment has not kept up with the growth in the labor force.** Exhibit 3 shows employment

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[3]A number of issues need to be clarified with respect to data on employment:

1. As with most South African data, different sources give different estimates of South African population and demographic structure. However, the SAIRR estimate for 1988 is probably as reliable as any. It suggests a total population at the end of June 1988 of 35,978,000, made up of 26,974,000 Africans (75%), 928,000 Asians (2.6%), 3,127,000 Coloreds (8.7%), and 4,949,000 Whites (13.8%). These groups have different growth rates, birth and mortality rates, and thus of course, very different age structures, with the African age structure far more skewed toward the young than the White or Asian. Thus, for example, although Africans account for 75% of the total population, they account for almost 83% of children aged 6 about to enter school, whereas Whites, accounting for 13.8% of the total population, only account for 6.7% of six year olds. Many comparisons that one would like to make with respect to the racial composition of the labor force, wage trends, and income distribution are made more complex by these differences in the age structures of the population, and the absence of detailed information on these variables.

2. Unemployment data for Africans are not collected by the same methodology as for Whites, Asians, and Coloreds, and are subject to much criticism and skepticism by most observers [White, Asian, and Colored unemployment data come from registration data; official African unemployment estimates come from a survey by the government's Central Statistical Services, and are widely believed to represent a substantial undercount of the true unemployment situation for Africans, particularly because they omit so-called independent homelands].

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levels, relative to those in 1979, with African employment either stagnant or declining in all sectors of the economy between 1980 and 1985.[4] Through 1989, total non-agricultural formal employment grew much slower than population, roughly 9 percent against 23 percent; manufacturing has scarcely increased its formal employment at all. Only the government has increased its labor force faster than population growth.

- **There has been some progress in terms of relative skill levels attained by some disadvantaged groups.** Exhibit 4 shows that there are a few occupations, such as teachers and nurses, where over half the jobs are now held by Blacks. But these figures combine Africans, Asians, and Coloreds into one group. Since on average Asians and Coloreds tend have higher educational qualifications than Africans, they tend to be better represented in those occupations requiring more education.

- **But barriers to entry for the most disadvantaged groups in the country continue to be enormous.** Data for new apprenticeship contracts, still overwhelmingly the way by which skilled manual workers in South Africa acquire their skills, show that in 1987, 8,185 new contracts were registered, of which 6,633 (81%) were with Whites, 665 (8.1%) were with Coloreds, 319 (3.9%) were with Asians, and 557 (6.8%) with Africans. The previous year 9,660 new contracts were registered, with Africans receiving only 6% -- less than one twelfth of their share in terms of total population, and an even smaller fraction in comparison to their proportion of 17 to 20 year-olds.

- **Formal Sector wage levels of the most disadvantaged groups have increased significantly over the last decade.** Exhibit 5, which compares median pay of Africans and Whites over the period 1978/79 to 1987/88, shows the median pay of Whites actually fell in real terms, by approximately 12% in ten years, while the real median pay of Africans rose by 10% over the same period. The largest gains were made by semi-skilled laborers.

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[4]These tables actually understate the employment problem in the country. It is well known that large-scale [White] agriculture has been steadily shedding labor for the past twenty years. But farm labor is exempt from most labor regulation in South Africa and thus difficult to obtain reliable information on wage-employment.

- **Changes in the distribution of formal sector wage income and formal sector employment imply changes in the structure of aggregate consumption.** Exhibit 6 suggests that it is still too early to measure the effect of these changes in income distribution, in gross terms.[5] But some small shifts can be detected, in terms of boosts in the demand for those goods considered essential or basic commodities: food, housing, clothing. Throughout the 80s in South Africa there has been a growing awareness by private business of the importance and growth of the African market.

1.5 International Trade

- **The RSA has been a dominant power in regional trade, but is ability to remain competitive outside the region is less clear.** South Africa does have a very well-developed and efficient physical, institutional, and commercial infrastructure, an excellent resource base, and low-cost power (based on very cheap coal). Although the RSA is not always a low-cost producer, it is quite often either a low-cost source (because of transport costs and speed of supply) or a source of a more appropriate product for African countries than those available from overseas producers. However, more generally the outlook for South African manufactured exports is less clear. Even at the current exchange rate, labor, with the possible exception of some top-level skilled categories of labor, is relatively expensive compared to most Asian economies. The international competitiveness of South African manufactures outside the regional market will depend very much on future policies on the exchange rate, wages and income distribution, and taxation, which at this point are extremely hard to predict.

2. THE ROLE OF GOVERNMENT IN THE ECONOMY

Government in South Africa is widely believed to affect the growth of business in two basic ways:

- In terms of the competition it represents for limited finance and human resources

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[5] Interpretation of the data in the table is made difficult by the lack of information on relative price changes, which were very substantial over this period because of both dramatic shifts in the exchange rate and changes in taxation policy and government policy on subsidies and pricing by SOEs.

- In terms of regulations affecting resource allocation and markets: e.g. Racial-based restrictions on residence and business activity location, with implied obstacles to labor mobility and negative effects on labor morale and effectiveness.

2.1 The Government as an Actor: Implications for Business Competition and Resource Allocations.

- **Government and Parastatal Share of GDP increased throughout the 1980s,** despite SAG focus on privatization. In 1988, parastatals accounted for 16.4 percent and general government 13.8 percent of GDP. During the 1980s the general government share increased by over 10 percent per year between 1980-87 (Exhibit 7).

  SAG participation only declined noticeably in the transport sector. SATS share of GDP declined on average 3 percent per year while private sector transport declined one half of one percent in real terms per year.

  --General government consumption expenditure increases have been directed primarily at education and security. General government consumption increased from 14.6% in 1979 to 18.3% in 1989 (using constant 1985 rand):

  --Parastatal growth was experienced primarily in the manufacturing sector where the SOE share of output increased from 12% in 1980 to over 17% in 1987 growing at an average 8% p.a. in this period. The increasing importance of parastatal manufacturing reflects the large investments made by parastatals in manufacturing, such as ARMSCOR and ISCOR, begun in the 1960s in response to international trade sanctions.

- **Government and Parastatal growth were not generators of employment.** While the public sector contribution to GDP increased throughout the 1980s, general government employment declined 1.2 percent p.a. and parastatal employment declined by 1 percent p.a. Africans were hit the hardest by the overall decline in public sector employment; African employment in the general government fell 3.6 percent per year during the 1980s, while parastatal employment for this same group fell 2.6 percent (Exhibit 8).

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2.2 Government Monetary and Fiscal Policy and Its Effects on the Private Sector

2.2.1 Recent fiscal reform has focused on a **reduction in income tax rates, a shift of the relative tax burden from direct to indirect taxation, together with a broadening of the tax burden, and the curtailment of the budget deficit through increasingly strict discipline on the expenditure side.** All types of subsidies and tax incentives came under scrutiny, with major subsidy and sectional support assistance, e.g., for regional decentralization and agricultural support, being dismantled.

2.2.2 Monetary policy has recently focused on achieving **market-related interest rate levels.** The bank rate and other key rates in the band of interest rates (the BA rate, bond rates, hire purchase rates and prime overdraft rates) were allowed to fluctuate more widely, reaching significant positive real rates high inflation rates of 14-16% notwithstanding.

2.3 The Government as a Regulator of Economic Activity.

2.3.1 **The 1980s saw a significant increase in rhetorical commitment to deregulation**, including deregulation associated with:

- Free Trading Areas and Industrial Parks: By the end of February 1989, 93 free settlement areas in central business districts had been opened to all races: 43 in the Cape, 26 in the Transvaal, 19 in Natal and 5 in the Orange Free State. Businesses operating in the parks and employing up to 20 people were to be exempt from minimum wage and safety regulations, as well as many other controls.

- Leasehold Rights: Recently an estimated 230,000 to 300,000 properties in African townships were allowed to acquire leasehold title, and the security of tenure which accompanies it, free of charge. Some of the affected properties are business premises. A large number of controls on township businesses were abolished through the repeal of proclamation R1036 of 1968, which governed business and provided criminal sanctions for offenders. Township businesses no longer require government permission to raise capital from, or form partnerships with, a white person; white business people are also allowed to operate in the townships provided that they form partnerships with their African counterparts (whites may hold up to 49 percent of such joint ventures). These changes would facilitate

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access to collateral and thus capital.

- Relaxation of Controls on Hawkers: Various town and city authorities are currently reviewing regulatory measures that restrict the operations of hawkers and informal sector operators.

- Deregulation of Road Passenger Transport: Large scale entrance into the industry has occurred since 1988 as a result of deregulation.[6] It is estimated that there are currently 80,000 taxis in operation of which 45% are unlicensed (Barolsky 1990) compared with about 45,000 in 1987. Taxis have made heavy inroads into the passenger market and both buses and the railways (SATS) have suffered. Private bus companies have shown a 39% decrease in the number of passengers transported since 1983 and SATS has shown a 13% drop in rail passengers on its urban third class routes, while its rural services have shown a 76% decrease since 1982.

2.3.2 **Deregulation has limited economic effect in most disadvantaged sectors of the economy.** Some of the more important issues which have yet to be resolved regarding deregulation:

- **Deregulation of property right restrictions by itself will not necessarily lead to a redistribution of property rights or improve access to finance for small businesses.** The bureaucratic process of establishing who has the right to the existing permits remains lengthy. Occupants in many areas have not yet been able to convert their rights to freehold because, in most areas, township registers which would allow freehold to be acquired have not yet been drawn up. In addition, the changes envisioned favor the wealthy

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[6] Its broad recommendations were:

- to devolve most passenger transport responsibilities to the lowest level of government, i.e., the Regional Services Councils;
- allow for economic deregulation, i.e., RSCs may refuse licenses only on safety grounds and no quotas may be applied;
- phase out subsidies on passenger transport in the long term;
- allow 15 passenger vehicles to operate as taxis.

trader as it enables the land and title to be acquired free of charge by those that already possessed occupancy rights, but extends no such benefits or special considerations to those who have not been able to find any premises.

- **Issues surrounding the implementation of the Industrial Parks policies have yet to be clarified.** The SBDC would be granted the authority to monitor safety standards and wages paid; it may also determine if and when a business in the park has grown sufficiently to enter the formal sector and to be no longer exempted from controls. However, some of the major trade union organizations remain opposed to the concept of total exemption from wage and workplace regulations for businesses in these parks.

- **SAG has not communicated the policy and regulatory changes effectively to affected businesses and there remains widespread misunderstanding regarding the implications of these changes to small businesses.** Apart from the implementation issues regarding freehold and industrial park development policies described above, other aspects of deregulation for specific business operations remain unclear. For example, the relaxation of licensing requirements has eased the position of most home based business (except for shebeens which must still comply with liquor laws to operate legally), but misunderstanding about the licensing proclamation continues, with many assuming that licenses are no longer necessary, leading to some prosecutions.

- **Deregulation and policy reform has not always penetrated to the local level.** Nattrass[7] quotes other sources who demonstrated the extent to which deregulation of hawking is limited in Port Elizabeth, retarded by a hostile council in Pretoria, resisted in Johannesburg by formal sector enterprises threatened, and restricted in Durban to particular geographic zones. While street traders have also benefitted from relaxed licensing requirements, many still suffer from municipal regulations governing the Central Business Districts (CBDs), which differ from town to town.

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[7]See report by Consumer Behavior, October 1990, which summarizes the findings of Nattrass and others. The Nattrass survey included 251 unregistered firms in the Inanda/Clermont areas of Durban (surveyed in 1986) and the KwaMashu township in Krige (surveyed in 1988).

- **Substantial legal constraints to African businesses remain**, despite the progress noted above. The remaining regulations including the Group Areas Act, the Wage Act, Labor Relations Act and the Basic Conditions of Employment Act, among others continue to constrain business operations, although all except the first named are also seen as constraints by white business.

2.5 Implications for Assistance

- There is imperfect information regarding the changes made to existing regulations and legislation affecting businesses. To the extent that entrepreneurs themselves remain unaware of their new rights they are less likely to be able to use their newly acquired freedoms most effectively. They are also more likely to be subject to injustices and extortion.

- There are few mechanisms available to small entrepreneurs for assuring their rights are enforced justly in all jurisdictions. As noted above, despite the changes made at the national levels, localities and municipalities retain significant power regarding the interpretation and enforcement of the new regulations and legislation. With increasing deregulation, access to common law and the ability to file civil suits to establish rights becomes paramount. At them moment access to courts is still expensive and complicated for the small entrepreneur. A small claims court system has been established but it is considered that the jurisdiction of these courts is too narrow; they operate only in a few centers and are restricted to claims by natural persons (not companies) under R1,500.

3. OVERVIEW OF THE ROLE AND PERFORMANCE OF THE PRIVATE SECTOR

3.1 Formal Sector Production: Performance and Sources of Growth

3.1.1 Private sector share of output has remained virtually stagnant over the 1980-1988 period. In 1980, the private sector contributed approximately 76 percent to South Africa's GDP, but by 1987 that share had declined to 68 percent (Exhibit 9). In 1980 the private sector contributed almost 85 percent to all enterprise activities (including all private and parastatal institutions), but by 1987 this share had declined to just over 81 percent.

3.1.2 Sources of Private Enterprise Output Growth. Key sources of private sector growth were the transport (average annual growth over the 1980-88 period of over

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5.5 percent), and the finance sector (average annual growth of over 7 percent). Within the finance sector most of the growth has come from increases in the real output of the finance/insurance and real estate services. The value of private sector manufacturing activity, on the other hand, experienced an overall annual growth of just 0.33 percent, and by 1988 was barely above the value of private sector manufacturing activity seven years earlier.

3.2 Formal sector employment

3.2.1 **The private sector is proportionately more important as a source of employment to the politically disadvantaged groups than to whites.** In 1985 74 percent of all Africans, 73 percent of all Coloreds and 76 percent of all Asians employed in the formal sector were working in private enterprise, while only 64 percent of whites were[8] (Exhibit 8).

- **But over the 1980s formal private sector employment has remained virtually stagnant, unable to absorb the fast growth in the economically active population.** Total formal employment in 1985 (8.469 million) accounted for just over 65.7 percent of the economically active population (EAP at 9.975 million people in 1985). By 1988 the share of formal sector employment had increased to just 66.5 percent of the total EAP that year (10.657 million).

- **Employment for African Blacks in the formal private sector has been declining.** But between 1980 and 1985, formal private sector employment declined on average 0.7 percent per year; African employment in the formal private sector declined 1.88 percent per year. On the other hand Asian and Colored employment in this sector increased 3.7 percent and 0.8 percent per year, respectively, over this same time period.

3.3 The Role of Small and microenterprises

3.3.1 In some subsectors most growth has come from the smaller firms.

- **The private construction sector experienced significant growth in the 1982-85 period, much of it coming from small and microenterprises.** The share of output from

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[8]It should be noted that in Exhibit 14, total employed includes those classified as unemployed or unspecified.

firms employing less than 20 people increased from 15 to 18 percent over this time period (Exhibit 10). The faster growth among the smaller firms also reflects the change in the structure of demand for construction services, and particularly a growth in the demand for simple housing and dwellings, and home-improvement, by Blacks relative to the slower growth of demand for more sophisticated structures for business and government, and dwellings for higher-income Whites. There are enormous backlogs of pent-up housing demand by urban Africans, Coloreds, and Asians, whereas the real-estate market in White urban areas has been depressed for most of the past decade because of relatively high real interest rates, emigration/immigration patterns, and political and economic uncertainty.

--**In construction net output per employee is actually higher for smaller firms** than for the larger notwithstanding the more capital intensive nature of larger firms (Exhibit 11).

- o **Net increases in formal sector employment (particularly for Africans) have occurred primarily among the smaller firms.** This trend may reflect the fact that smaller firms may be less able to substitute capital for labor.

--For instance in the home building subsector, large firm employment declined by 16.5% p.a. while overall employment decreased by 9.2% per year. But microenterprise employment in this same subsector grew at 8.6% per year (Exhibit 12). Likewise, in the general contracting subsector large firm employment declined by 2.6% p.a. while employment <u>increased</u> by 0.2% per year, and most significantly microenterprise employment also increased by 8.6% per year.

3.4. <u>The role of the informal sector in the private sector economy</u>

3.4.1 **The informal sector is extremely important to the African population**, probably <u>raising average personal incomes for this group by about half</u>, but relatively unimportant to the Colored and Asian communities in aggregate terms (Exhibit 13).

- o Almost two-thirds of African employees in the informal sector are concentrated in just two sectors, trade and hawking and crafts; these same two sectors account for 56% of the African own-account workers (Exhibit 14). Only in transport do less than half of the own account workers earn less than R450 a month, and only in crafts do less than two-thirds earn less than that amount.

3.4.2 **Some informal sector activities provide much higher average monthly incomes to own-account workers than others:** e.g., transport (which must involve capital) on average produces R2,827 a month to Africans, some four times the level of average African wages in the formal sector (Exhibits 14 and 15). At the other extreme, the 158 000 African own-account workers engaged in scavenging averaged only R107 a month, less than a sixth of average formal sector African wages.

3.4.3 **Transport and crafts (and perhaps trade and hawking, given the size of the subsector and the relatively large number of employees there) seem to offer the best opportunity for growth and advancement to the informal entrepreneur.** Other things equal, one would expect that those entrepreneurs best able to grow and "graduate" out of the small informal sector phase are those who earn enough to be able to reinvest in their business and those who have shown a capability to employ and manage others.[9] On these grounds, transport and crafts, which have the highest average monthly earnings and ratio of employees to self-employed of all

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[9]These assumptions would follow from the conclusions of the Nattrass study as well. Nattrass constructed a profile of the most successful 20% of the informal sector comparing it to the rest of the informal sector, thus assisting in identifying those areas of difference that may account for success in the informal sector:

	Most Successful	All
Avg. Profit/Month (Rand)	478	155
Profit Rate on Capital (%)	3.6	2.3
Starting Capital (rand)	2143	1220
Capital/Worker	845	495
Employment (number)	2.3	1.8
Number of Competitors	3.6	2.1
Training Time (weeks)	6.8	3.8
Average Education (standard)	4	2.4

Source: Nattrass 1986

It is clear from this table that the most successful informal entrepreneurs earn higher profits, have more employees, more competitors and have a higher rate of return on capital than the average informal entrepreneur. It is interesting to note that the more successful informal entrepreneur had almost twice the amount of starting capital and training as did the informal sector as a whole.

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subsectors studied (Exhibits 14 and 15) would seem to offer the best prospect for advancement. Results from other studies tend to confirm some of these observations.

3.5 Private Sector Access and Use of Credit

3.5.1 **Net credit to the private sector increased significantly in the late 1980s, as a result of a decrease in the role of government and credit rate deregulation** (Exhibit 16). Exhibit 17 shows that again for the latter part of the 80s net credit increases to the private sector accounted for the largest growth in money supply.

3.5.2 **But there are indications that small, and specially African-owned businesses, have not been able to benefit from finance sector regulations.** Though there are no data available on lending by size of firm or race, interview and anecdotal data suggest that access continues to be restricted to the larger established firms.

3.6 Implications for Assistance Strategy

3.6.1 **The small scale entrepreneurial sector offers significant potential for fast employment growth and high returns to entrepreneurs.**

- There is a predisposition among African commentators to eschew the small scale enterprise sector as the "scraps left" the disadvantaged community by corporate South Africa. However, under present conditions, the data analyzed in the preceding sections indicate that microenterprises offer significant economic advantages and may be better situated to take advantage of the structural changes in demand taking place than the larger and less flexible firms.

- **The large scale formal sector has not been a generator of employment.** Given the current degree of employment and underemployment in the country, particularly among the disadvantaged groups, any private sector assistance strategy must take into account the employment generation potential of the activity. As noted above, larger firms have become increasingly capital intensive. Again the smaller firms, which have been able to use the rich labor resource of the country effectively, have been the greatest generators of employment in the private sector. A focus on relieving constraints faced by the smaller firms might thus have larger multiplier effects in terms of employment and output.

4. THE AFRICAN PRIVATE SECTOR

4.1 The Role of the African Proprietor in the Formal Economy[10]

- The formal African private sector appears to be negligible in size, relative to the rest of the private sector in the country. The structure of the African businesses has been described by several analysts as being reliant upon very small "convenient" shops or residual "top-up" trading activities with very little commercial or industrial activities. The data uncovered on proprietorships, though badly out of date, provides at least partial confirmation of the above hypothesis.

- In 1983, African owned formal sector enterprises accounted for 0.08% of total wholesale trade income.[11] African ownership was concentrated in foodstuffs, agricultural and pastoral products and miscellaneous commodities, the three representing almost 90% of all African proprietorships in wholesale trade.

- In the retail trade sector in 1983, African owned enterprises accounted for 2.9% of all retail trade

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[10] In only two sectors of the economy are data on proprietorships by race available: wholesale trade and retail trade.

[11] In attempting to quantify the role of the African formal sector in the South African economy, several data deficiencies become evident. There are data on proprietorships by race and proprietorships by size of firm. There are also data on output and gross income (revenues) by size of firm. The data do not include, however, output by race of the owner or size of firm by the race of owner. In order to estimate the share of the private sector in the economy, the authors have had to assume that all registered (thus included in the CSS Censuses) African owned firms are microenterprises (recent surveys such as the Nattrass study quoted earlier substantiate this assumption); most firms in the Nattrass study were very small, with 72% employing less than R1500 in capital and 63% with no employees other than the proprietor; another study by Krige found that only 3% of the operators employed others on a wage basis). Using the average income for microenterprises in any sector, one then multiplies this by the number of African proprietorships and then divides the aggregate of enterprise income by the total income for the sector.

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income.[12] African participation in retail trade was concentrated in dairy products, grocers, fuel and coal merchants and general dealers.

4.2 Aggregate Estimates of Black Private Participation in the Economy

- **Using estimates of the share of profits accruing to Blacks**, data would suggest that in the aggregate, including formal and informal sector activities, Africans account for 17 percent of total private sector output, and that most of its activity is concentrated in agriculture and manufacturing (Exhibit 18).

- **Using estimates of the subsectoral breakdown of Black employment (formal and informal) and of the share of labor remuneration in total output (which varies between 45 and 60 per cent of total product, with most sectors in the mid-50% share)** suggests that total African Black private sector shares are concentrated in the construction sector (where Black share of total construction output is estimated to be 41 percent). Within manufacturing those sectors where African economic activity predominates are primarily related to crafts (potters at 43 percent of that subsector's output), food processing (particularly beverages at 34 percent) and various activities related to the construction sector: glass (27 percent), wood (38 percent), and metals (Exhibit 19).

4.4 Implications for Assistance Strategy

4.4.1 There are several sectors which seem to offer greater potential than others for Black entrepreneurial advancement:

- African entrepreneurs in wholesale trade generated higher income per firm than did wholesalers of similar size owned by other race groups. In addition this sector offers the greatest linkages between sectors of the economy as it is uniquely situated to serve both the downstream largely African owned retail establishments and the upstream construction and manufacturing sectors as a supplier.

- Construction and manufacturing activities connected directly with construction, such as glass, metal, brick

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[12] Using the same assumptions an methodology described in footnote 11.

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making, also has a large concentration of Black entrepreneurs, offers significant multiplier effects in terms of employment, and offers the prospects for fast growth given the tremendous backlog of pent-up housing demand by urban Africans.

o The transport sector has experienced significant growth and generates significant employment for disadvantaged groups. However, caution must be applied in the enthusiasm to emulate the success of this segment as most small businesses do not operate in the same advantageous environment as the taxi industry which has benefitted from opportunities created by the apartheid structured cities. On the other hand, the potential for significant in-roads in freight transport, have yet to be exploited. The experience gained by Black entrepreneurs and physical infrastructure available to passenger transport could easily be adapted to freight, to exploit opportunities created by an increase in construction and other activities which could take place outside the hitherto controlled white urban and industrial areas.

4.4.2 **There are significant obstacles blocking the growth of the Black-owned firms who develop beyond the small informal status**

o Though as noted above, the informal sector is the "bulk of the iceberg" of African economic activity, the relative lack of Black private sector ownership beyond a certain size firm argues for the fact that the problem is not so much entry into the private sector, but growth of firms already established. Informal sector firms have a fairly high level of assistance (though it may still be inadequate in terms of overall demand), but those firms which grow beyond a certain size have few places to turn. There is evidence that the structures in place to offer technical assistance and credit to Black-owned firms beyond a certain size are not oriented to this type of entrepreneur.

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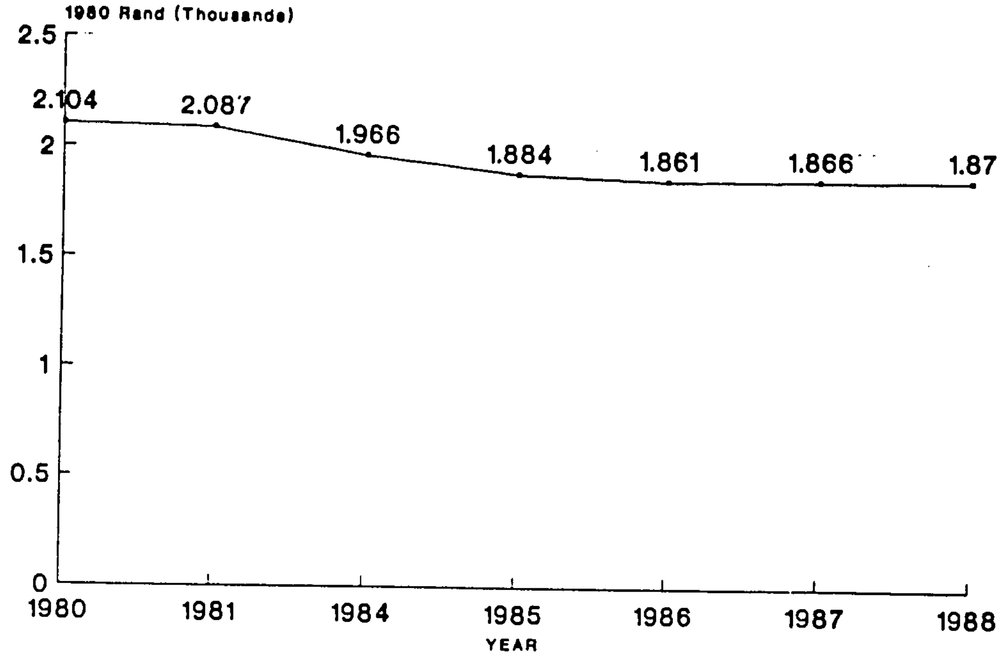
EXHIBITS

Exhibit 1
GDP Per Capita



Source: RSA Statistical Economic Review

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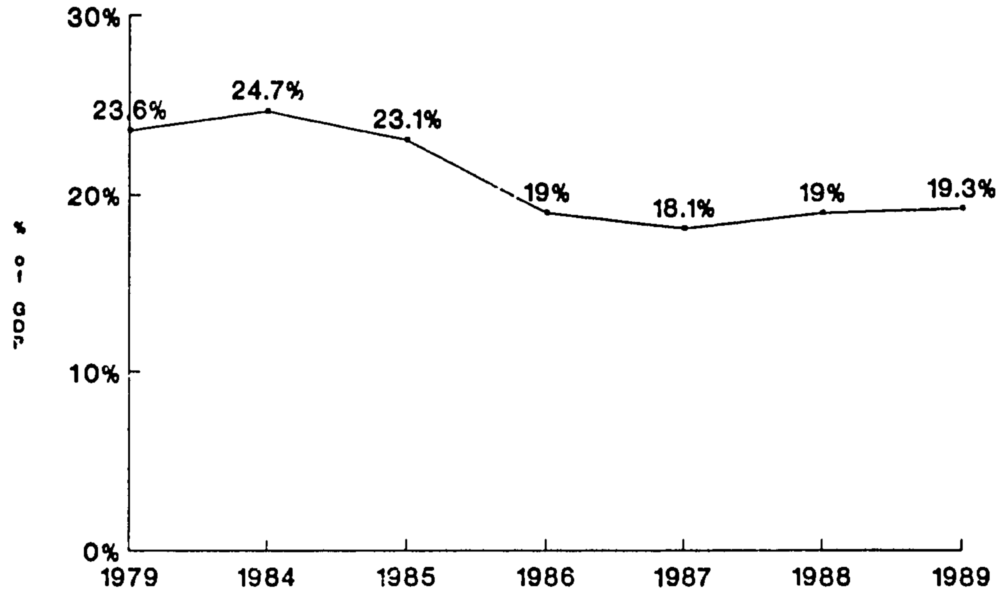
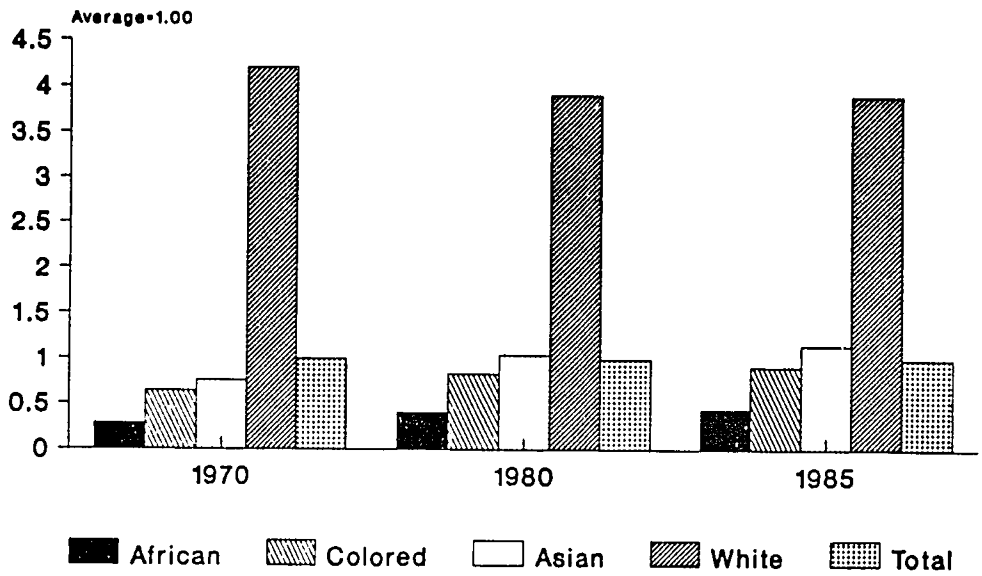
Exhibit 2
Gross Domestic Investment
Percentage of GDP 1979-89



Source: RSA Statistical Economic Review

Exhibit 3
Per Capita Income by Race
Relative to Overall Average



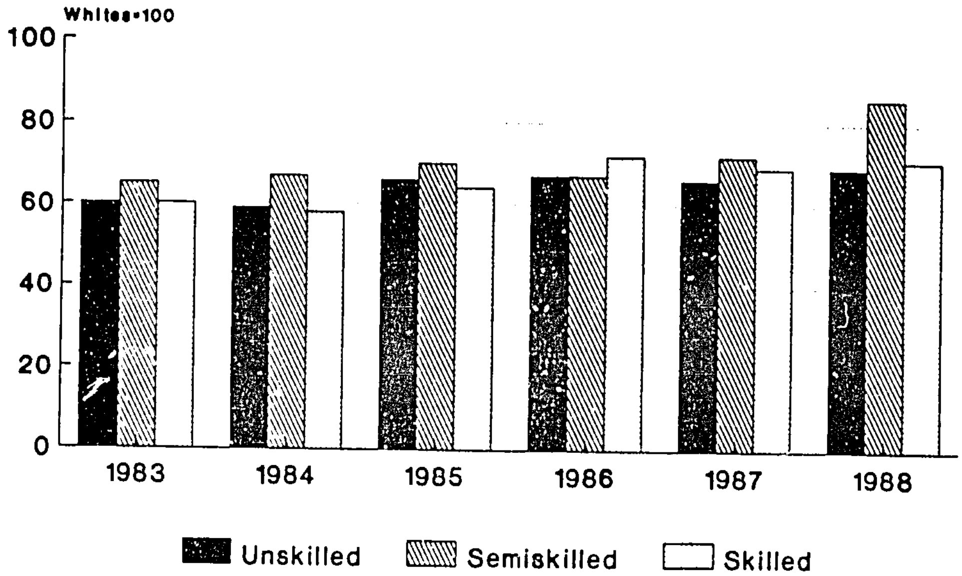
Source: Lewis, Economics of Apartheid
1990, p.39.

Exhibit 4

Percentage of Each Occupational Group Classified as "Black"*			
Occupational Group	1965	1975	1985
Engineers	0	0.5	0.1
Scientists	0.6	3.7	5.5
Technicians/Technologists	5.4	11.7	17.8
Medical Doctors	2	5.7	8.1
Nurses	44.9	58.5	60
Other Paramedics	6	6	20
Lawyers	0.9	5	6
Teachers/Educators	56.2	61.2	63
Architects/Surveyors	0	1.2	2.9
Ministers/Priests	24.1	38.2	16.7
Accountants/Auditors	0.3	4.5	7.4
Other Professional	5.5	8.8	11.1
Managing Directors	3.6	6.9	3.9
Other Managers	1.7	9.3	6
Administrators	1.3	2.5	5.1
Clerical Workers	16.8	27.7	37.8
Sales Workers	13.4	21	30.6
Skilled Mine Workers	0	0	0.1
Transport Workers (mid-level)	24.5	43.4	51.3
Supervisors	23	31	52.8
Service Workers	55.6	60.1	63
Artisans and Apprentices	11.5	23	28.5
*refers to Africans, Coloreds and Asians			

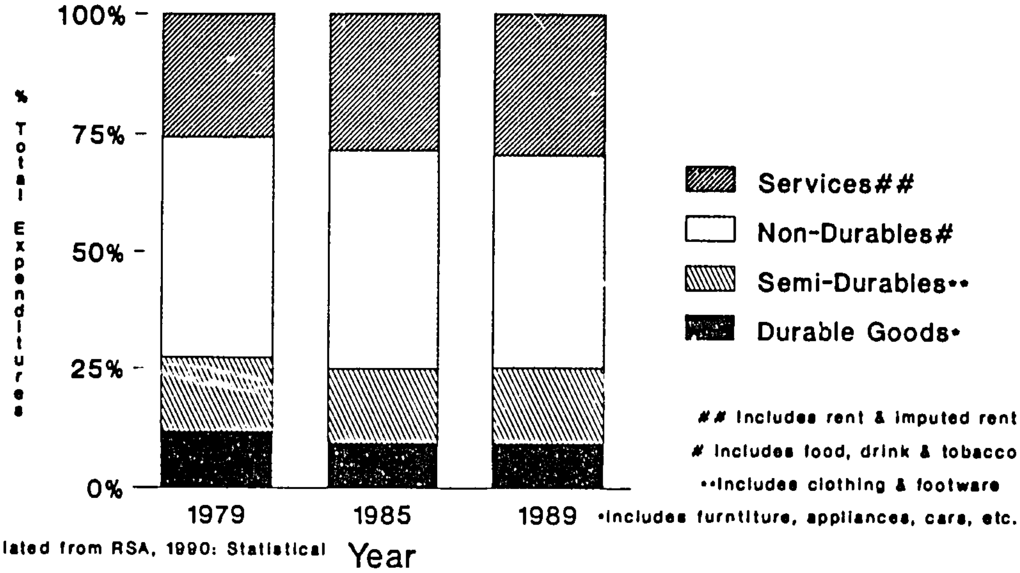
Source: Centre for Policy Studies, 1989:213

Exhibit 5
Median Pay of Africans by Skill Level Relative to Whites of Same Skill Level



Source: South Africa at the End of 1980s
Wits Centre for Policy Studies, 1989

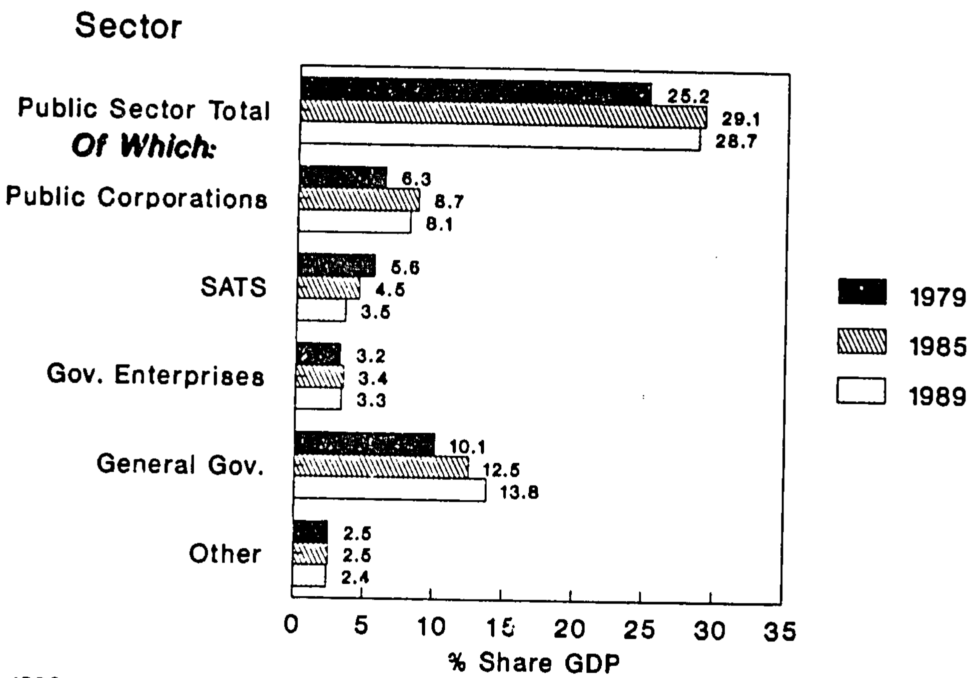
Exhibit 6
Distribution of Private Consumption Expenditures



Calculated from RSA, 1990: Statistical Economic Review in Connection with the Budget Speech, Pretoria 1990

EXHIBIT 7

Composition of SAG GDP



RSA 1990

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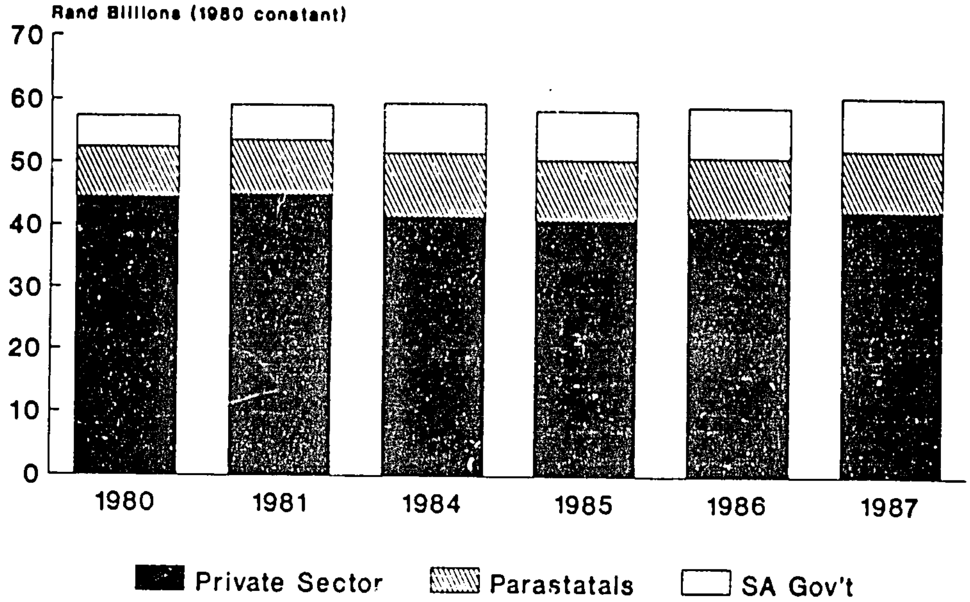
Exhibit 8

Formal Employment by Race and Type of Employment				
		1980		1985
Whites		1906517		1971495
Private Enterpise		64.73%		63.98%
Parastatal Enterprises		12.46%		12.23%
General Government		21.55%		21.08%
Unemployed/Unspecified		1.26%		2.71%
Coloreds		929517		1121736
Private Enterpise		75.97%		73.39%
Parastatal Enterprises		3.39%		3.09%
General Government		12.97%		11.78%
Unemployed/Unspecified		7.67%		11.75%
Asians		255669		293608
Private Enterpise		83.79%		76.00%
Parastatal Enterprises		1.80%		1.59%
General Government		9.93%		10.13%
Unemployed/Unspecified		4.48%		12.28%
Africans		5477981		5184049
Private Enterpise		76.90%		74.17%
Parastatal Enterprises		3.95%		3.65%
General Government		7.99%		6.91%
Unemployed/Unspecified		11.16%		15.28%

South Africa Statistics, 1988

Exhibit 9
Composition of GDP
Public and Private Shares



Source: South Africa Statistics

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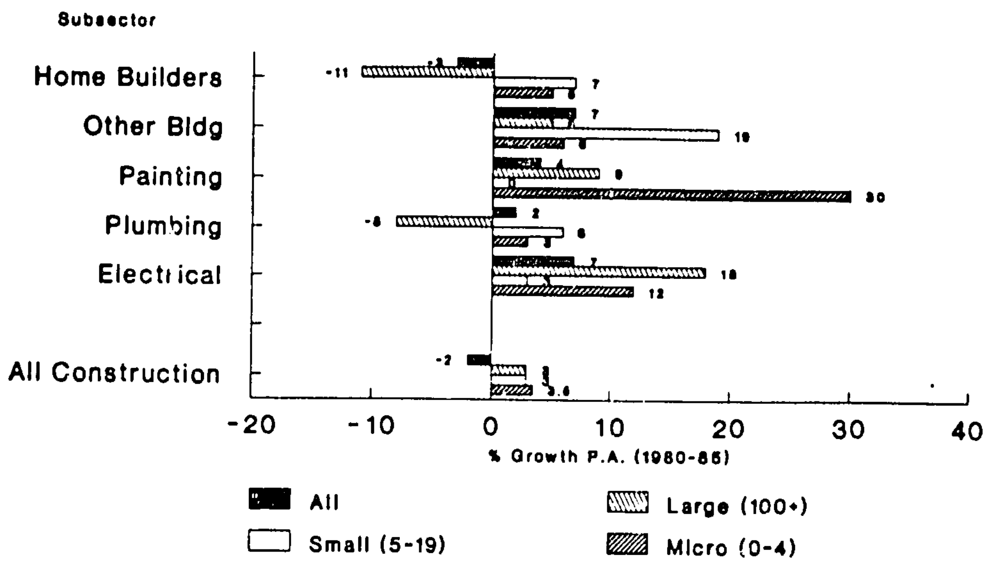
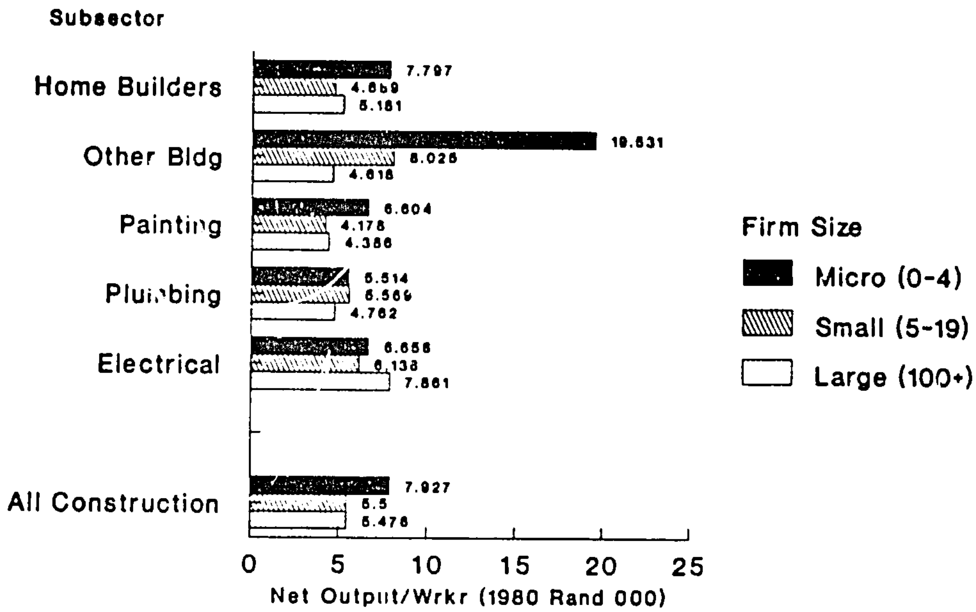
Exhibit 10
Performance by Firms in Construction
(by firm size for select sectors)



Source: ERU 1990

Exhibit 11
Net Output Per Employee in Construction
(for select sectors)



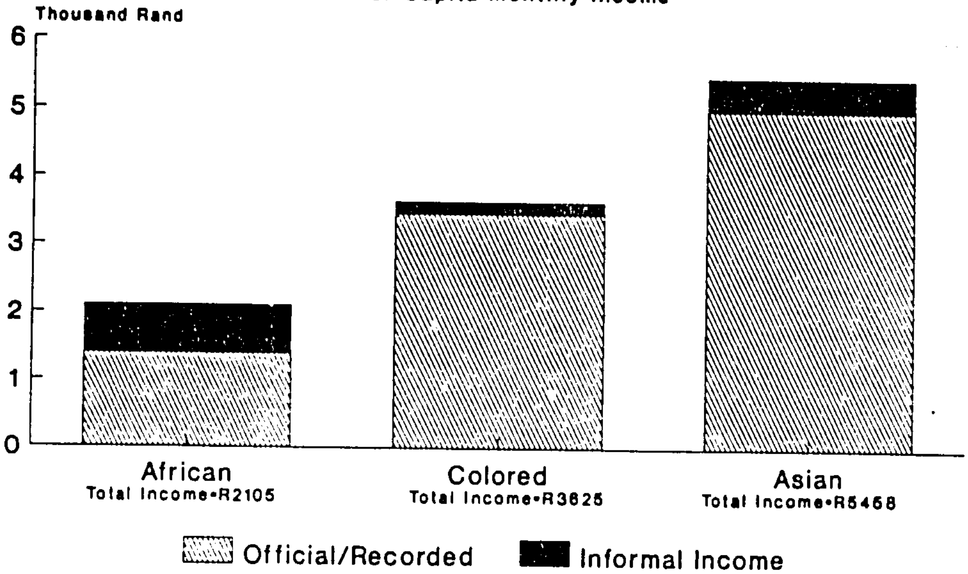
Source: ERU 1990

Exhibit 12

Employment in the Construction Sector	1982	1985	Growth PA
CONSTRUCTION	446866	410100	-2.7%
African Employment	318828	290758	-2.9%
Micro and Small Enterprise Empl	66870	72731	2.9%
Large Firm Employment	283200	242802	-4.8%
HOME BUILDERS	98821	75666	-7.8%
African Employment	64552	46749	-9.2%
Micro and Small Enterprise Empl	25022	27372	3.1%
Large Firm Employment	44712	22526	-16.5%
OTHER BLDG BY GEN CONT.	89744	87674	-0.8%
African Employment	64249	64610	0.2%
Micro and Small Enterprise Empl	1418	2022	14.2%
Large Firm Employment	76887	70945	-2.6%
PAINTING & DECORATING	12761	12913	0.4%
African Employment	7593	7542	-0.2%
Micro and Small Enterprise Empl	3143	5696	27.1%
Large Firm Employment	5655	5859	1.2%
PLUMBING	14373	12830	-3.6%
African Employment	10089	8361	-5.7%
Micro and Small Enterprise Empl	5641	6024	2.3%
Large Firm Employment	4346	2688	-12.7%
ELECTRICAL CONTRACTING	22148	24850	4.1%
African Employment	12760	15111	6.1%
Micro and Small Enterprise Empl	9229	10072	3.0%
Large Firm Employment	6542	8777	11.4%
SHOPFITTING	3685	4424	6.[illegible]%
African Employment	1782	1913	2.5%
Micro and Small Enterprise Empl	843	794	-1.9%
Large Firm Employment	1431	1824	9.2%
OTHER SPECIAL CONTRACTING	49180	43346	-4.0%
African Employment	32245	27117	-5.3%
Micro and Small Enterprise Empl	15924	14810	-2.3%
Large Firm Employment	15206	15749	1.2%
CIVIL ENGINEERING	146078	127022	-4.3%
African Employment	117914	102842	-4.3%
Micro and Small Enterprise Empl	4217	4375	1.2%
Large Firm Employment	123194	104467	-5.1%
OTHER CONSTRUCTION	10076	21375	37.4%
African Employment	7644	16513	38.7%
Micro and Small Enterprise Empl	1433	3990	59.5%
Large Firm Employment	5227	9967	30.2%

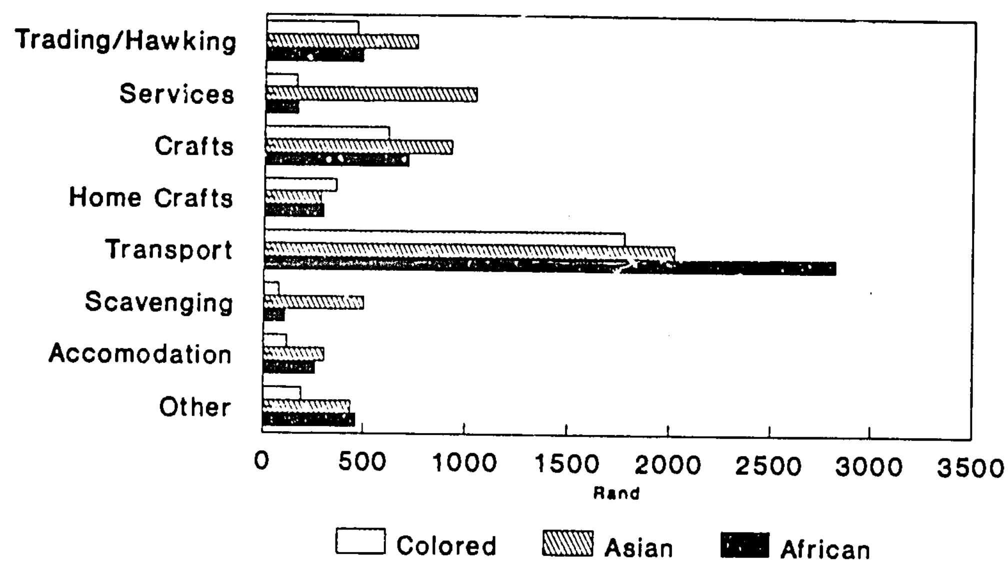
Source: Calculated from Census of Construction Data

Exhibit 13
Informal Income as
Percentage of Total Income
Per Capita Monthly Income



Source: S.v.d. Berg 'The Informal
Sector' Indicator South Africa 7(3),1990

Exhibit 14
Informal Sector: Average Monthly Wages for Own Account Workers



Source: S.v.d.Berg "The Informal Sector"
Indicator South Africa, Winter 1989

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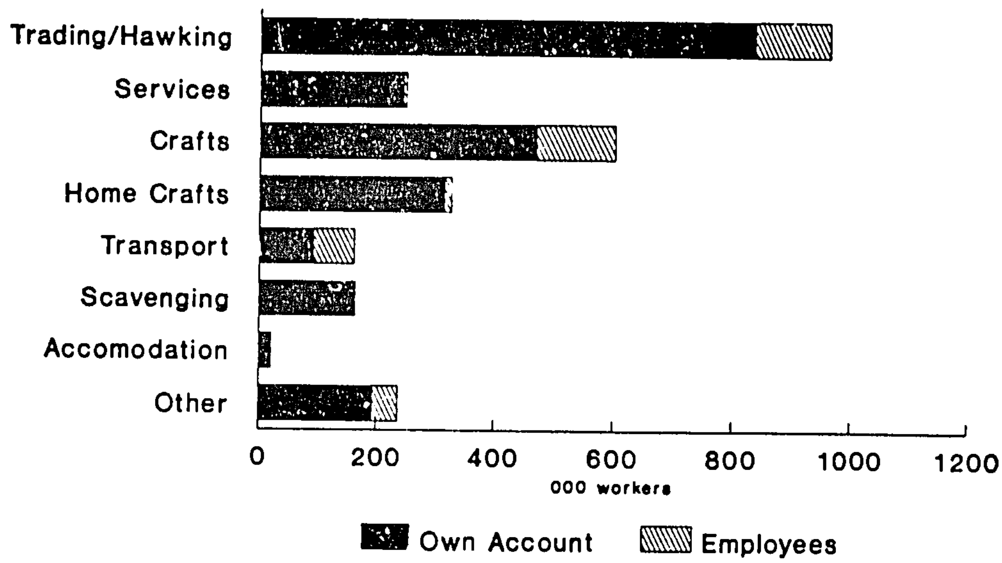
Exhibit 15
Informal Sector Employment
Employees & Own Account Workers



Source: S.v.d.Berg 'The Informal Sector'
Indicator South Africa, Winter 1990

Exhibit 16

Domestic Bank Credit in South Africa			
Net Credit Extended from Banking Sector			
Year	Private Sector	Government	Total
1985	93.30%	6.70%	R53.620 billion
1987	96.40%	3.70%	R64.519 billion
1989	100.90%	-0.90%	R113.533 billion

Source: ERU 1990

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Exhibit 17

Causes of Changes in Money Supply (M2) (R million)					
Year	Change in money and near money reserves	Net Gold and foreign exchange	Net Claims on the government sector	Net Claims on the private sector	Net Change in other assets and liabilities
1967	307	2	-16	324	-3
1975	1275	-365	719	807	114
1980	3506	531	-407	3161	221
1985	7926	-3306	1521	9594	117
1987	13420	3145	511	12090	-2326
1989	26447	-1237	-2740	24244	6180

Source: ERU 1990

Exhibit 18

Estimates of Private Sector Share of Output (by sector and race): 1985 Percentages*				
	African	Colored	Indian	Black
Agriculture	8.8	0.3	0.2	9.4
Mining	0	0	0	0
Manufacturing	2.7	0.1	0.3	3
Transport	0.5	neg**	0.1	0.6
Trade	2.6	0.3	1.7	4.6
Finance, Etc.	0	0	0	0
Other Service	2.6	0.1	0.5	3.3
Share in Total	17.2	0.9	2.9	20.9
Notes				
* All rounded to 1 decimal				
** Negligible				

Exhibit 19

	Racial Shares in Sectoral GDP: 1989			
		Contributon to Sectoral GDP (%) of:		
Sector/Sub-Sector	% in Overall GDP	African	Colored	Indian
Agriculture	6.71	28	4	0.8
Mining	13.24	34	1	0.2
Manufacturing	23.18			
Food	2.4	33	11	4
Beverages	0.89	34	9	2
Tobacco	0.21	24	0.3	0.6
Textiles	0.79	28	16	5
Clothing	0.4	17	26	15
Leather	0.08	23	20	6
Footwear	0.2	10	25	20
Wood	0.34	38	9	1
Furniture	0.33	26	21	8
Paper	1.03	22	10	9
Printing/Publishing	0.65	12	15	8
Industrial Chemicals	1.25	22	2	3
Other Chemicals	4.38	24	9	3
Rubber	0.33	31	8	3
Other Plastics	0.4	27	13	2
Pottery	0.05	43	13	0.1
Glass	0.21	27	11	0.6
Non-Metallic Minerals	0.9	36	7	0.6
Iron & Steel	1.76	29	3	0.5
Non-ferrous Metals	0.9	33	2	3
Fabricated Metals	1.49	32	7	2.2
Machinery & Equip	1.39	21	7	6
Electrical Machinery	1.26	10	13	3
Motor Vehicles & Parts	0.72	28	13	3
Other Industries	0.4	22	17	4
Elect/Gas/Water	4.52	28	4	0.6
Construction	3.33	41	14	2.2
Trade	11.41	36	13	9
Transport/Commerce	8.52	30	13	9
Finance	11.4	9	8	5
Community Services	1.72	25	13	3
Other Goods & Services	2.6	32	12	2
General Gov't	13.11	28	12	2
TOTAL	100			

Source: ERU

ANNEX B

SUMMARY OF FOCUS GROUP FINDINGS

Focus Group Meeting on the
Black Manufacturing Sector

Berea, Johannesburg

November 7, 1990
9:30am - 1:00pm

The focus group meeting on the Black manufacturing sector was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by the coordinators from J.E. Austin Associates who presented the objectives of the meeting as follows:

1. To share experience on the opportunities and challenges of business growth

2. To generate ideas and recommendations on how to assist business growth and development

3. To analyze the feasibility of our ideas and discuss what is necessary to implement them

Participants then introduced each other, followed by a summary presentation by Dr. Tessie San Martin on findings of the J.E. Austin team on the manufacturing sector in the South African economy. The group then broke into subgroups discuss the following question:

> Based on your experience, what what you recomend be done to assist companies like yours to prosper and grow?
>
> - What types of organizations might assist?
> - What resources would be needed?
> - How might the assistance be provided?

Conclusions and Recommendations

The groups reported back on the following limiting factors and recommendations:

1. Marketing. This is the key problem in many small manufacturing firms, because (a) the owner-manager has no second-tier management upon which to rely so (s)he cannot leave the plant to go out and look for customers; (b) the small manufacturer has little negotiating power, must settle for low prices and has great collection difficulties; (c) it is not possible to generate the volume needed for the bigger companies; (d) selling is done on a

personal level and one needs contacts; and (e) small companies cannot afford their own sales representative. Solutions might include: (a) a cooperative marketing effort whereby many small manufacturers pool their resources to contract the marketing representation required (on a commission basis to hold fixed costs down) and to gain the volume that allows them to negotiate more effectively with buyers; (b) formation of a joint venture in which venture partner brings marketing expertise to the firm; (c) securing technical assistance from an experienced firm (one large international consulting firm with offices in RSA was mentioned as an example) in getting your product to the right people; and (d) creating a mechanism for getting subcontracts with larger firms.

2. Functional skills. Success in small manufacturing requires expertise and skills in functional areas of management such as production and finance, and as a consequence they suffer problems of quality and lack of cost controls. It was agreed that training and technical assistance were solutions to this problem, but there was little awareness of training programs outside the SBDC and training was often expensive or inaccessible (training must be "paid up front" in a lump sum and is "not where you live"). It was suggested that the small manufacturing sector organize itself to provide TA and training on a collaborative basis. However, it was acknowledged that training by itself is not enough to deliver a quality product (and it is impossible for a small manufacturer to spend 2-3 weeks in a training course). Joint ventures may also be formed to bring in the needed skills. One participant expressed her desire to find a joint venture partner to complement her production skills and there was at least one interested candidate in the group. With respect to training, it was also recommended that: (a) a system be established to inform about training opportunities; (b) easy payment terms be established so that one may make payments while working; and (c) training be "decentralized".

3. Human resources management. Black manufacturers in particular often suffer problems of employee discipline and motivation. Several participants agreed that "it is more difficult for the black owner-manager to enforce discipline." Attention needs to be given to four things: (a) employee selection; (b) supervisory training; (c) quality control procedures on the production line by which employees exercise control over one another (the just-in-time system); and (d) motivational reward schemes that place a premium on quality and productivity. In order to achieve these one needs some background and training in human resource management. One participant offered to share his skills and experience in this area with others.

4. Access to resources. There is no "network" by which small manufacturers can get easy access to the technical and financial resources that they need to grow. In some cases, these could be provided through joint venture arrangements and such arrangements can be made very easily among small manufacturers where there is mutual interest. Another alternative is venture capital, but

participants were skeptical about local venture capital possibilities and while they would welcome capital from Black Americans, there was some concern about the foreign remissions and a desire to maintain resources within the country. It was recommended that a network be formed among the manufacturers participating in the focus group to encourage cooperation and joint venturing.

5. Tenders. Small businesses often use their scarce resources to prepare bids on tenders that "are already awarded before they are bid." The tendering process is, in effect, just window dressing when in fact the large buyer has already made the purchase decision. The small manufacturer receives no feedback on why he or she was not awarded the contract. This was attributed to attitudes on the part of some large white businesses that allow black firms to bid for appearances' sake but they do not have any confidence in the ability of black business to perform. These attitudes can only be overcome through the skills development and technical assistance discussed above, combined with fair subcontracting mechanisms that give the black firm a track record in supplying larger customers.

6. "Role model" companies. In this context the need to have black manufacturing firms that one can look to as role models was considered by the group to be very important. However, these role models should not be mere creations or appendages of white firms.

7. Capital. Aside from the high security requirements, the problem of securing finance has several aspects: (a) commercial banks do not want to deal with the small manufacturer but rather immediately turn us over to the SBDC, saying "that is why we make contributions;" (b) however, the SBDC is often unable to help the manufacturer because the SBDC consultant lacks specific industry knowledge; (c) the small manufacturer receives no guidance in the preparation of business plans so it is easy for the bank to refuse a loan. As the representative from Standard Bank made clear, lending for Standard or any other commercial bank is a business proposition, at market interest rates, in which the bank looks for (i) viability; (ii) management; and (iii) willingness of the entrepreneur to invest his or her own money in the venture. Credit from local financial institutions still appeared to many to be the best option, and the major constraint was seen to be lack of communication and confidence on the part of the banks in the technical skills possessed by Black business. To surmount this technical barrier, actions proposed by the group included (a) making available information on the sources of technical assistance; (b) creating a mechanism or network to facilitate communication with commercial banks on the question of securing credit which is a specialized function; and (c) incorporating a counselor concept (like that of the Urban Foundation) in which the counselors possess specific industry knowledge.

8. Business associations. It was pointed out that there is

no business association for small Black manufacturers, and that such an association could play a valuable role in networking, in locating marketing teams for companies in the same sector, for locating joint venture partners, and for establishing overseas contacts.

Exhibit 1

Participant List

Mr. Farouk Varachia
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Focus Group Meeting on the Black Wholesaling Sector

Berea, Johannesburg

November 7, 1990
2:30 - 5:00pm

The focus group meeting on the Black wholesaling sector was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by the consultants from J.E. Austin Associates who presented the objectives of the meeting as follows:

1. To share experience on the opportunities and challenges of business growth

2. To generate ideas and recommendations on how to assist business growth and development

3. To analyze the feasibility of our ideas and discuss what is necessary to implement them

Participants then introduced each other, followed by a summary presentation by Dr. Tessie San Martin on findings of the J.E. Austin team on the commercial sector in the South African economy. The group then broke into subgroups discuss the following question:

> Based on your experience, what what you recommend be done to assist companies like yours to prosper and grow?
>
> - What types of organizations might assist?
> - What resources would be needed?
> - How might the assistance be provided?

<u>Conclusions and Recommendations</u>

The groups reported back on the following limiting factors and recommendations:

1. <u>Technical knowledge</u>. Most Black retailers got into business "the crude way" with no schooling. Historically they were only able to deal in basic foodstuffs. However, the structure of commerce is changing; it is becoming more competitive. What is needed is not general management training but very specific, custom tailored technical assistance. A mentoring scheme was recommended.

2. <u>High cost structure; competition</u>. Black retailers are at a disadvantage because of high markups from wholesalers, and they cannot compete. Two possibilities were discussed: (a) pooled buying by ten or more retailers who would negotiate large discounts; and (b) vertical integration into wholesaling. A representative from Metro explained a scheme by which they will franchise wholesale outlets to Black communities. Retailers could use these outlets and buy at the same prices that are charged to Metro's own retail chains. Furthermore, Metro would provide technical assistance, management systems, promotional leaflets, and credit (42 days). In return it would charge a 1% royalty but would return a half of the royalty to a community fund. What's in it for Metro? According to the representative, this will enable Metro to buy in larger quantities from manufacturers such as Tiger Oats and it helps them to knock their competition out of Black areas.

3. <u>Finance</u>. Most retailers need a capital injection, but do not have the security or collateral required to get loans. Many lenders are concerned about violence, which is really the retailer's biggest problem. An alternative lending institution is needed to assist. It is not possible to expand out of profits alone.

Exhibit 2

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Focus Group Meeting on the Black Construction Sector

Berea, Johannesburg

November 8, 1990
9:30am - 1:00pm

The focus group meeting on the Black construction sector was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by the consultants from J.E. Austin Associates who presented the objectives of the meeting as follows:

1. To share experience on the opportunities and challenges of business growth

2. To generate ideas and recommendations on how to assist business growth and development

3. To analyze the feasibility of our ideas and discuss what is necessary to implement them

Participants then introduced each other, followed by a summary presentation by Dr. Tessie San Martin on findings of the J.E. Austin team on the construction sector in the South African economy. The group then broke into subgroups discuss the following question:

Based on your experience, what what you recommend be done to assist companies like yours to prosper and grow?

- What types of organizations might assist?

- What resources would be needed?

- How might the assistance be provided?

Conclusions and Recommendations

The groups reported back on the following limiting factors and recommendations:

1. Management skills. Builders often do not possess the skills needed to program the work and to manage the business. Moreover, there is no second-tier management to whom to delegate, which is one of the main constraints to growth. A solution is to disseminate knowledge on existing courses not only in the Building Industry Federation (BIFSA) but also practical training programs

such as that in the First, at HODECO or the one that will be offered by the African Builders' Association. The idea of a black training center was recommended by one subgroup. Finally, technical assistance might be provided in the development of business plans and programs.

2. Finance. Most African builders have no track record, no collateral, and it is therefore very difficult to obtain the start-up capital and bridge financing needed to break into the market. The Urban Foundation provides a 60% guarantee to larger Black builders through its Contractor Development Agency (CDA) Program, but this is often not enough. Too often, banks lend builders enough to fail but not enough to succeed. It was suggested that perhaps the banking industry does not understand the building industry. A modest amount of flexible, international funding is needed to "bridge the gap" and to lend credibility to the Black building industry.

3. Competition. Large homebuilders have a number of competitive advantages-- their experience and ability to tender, their volume with which they can cover fixed administrative costs, and the continuity of their work which makes it possible for them to retain good people. Their cost advantages enable them to give discounts that would be impossible for the small builder. One way to overcome this might be to "team up" with large white builders on certain projects in which the small builder can provide a specific input, but this requires a mechanism that creates the relationship and may also require some attitudinal changes.

4. Industry regulation. It was the perception of the groups that BIFSA is more receptive to white than to black membership and that it may have "certain standards" for blacks and others for whites. This creates a barrier to entry which can only be removed by changed attitudes. Perhaps the African Builders' Association can play a role here, either by becoming an alternative to BIFSA or by assisting in the attitudinal change process.

5. Tendering. There are many hidden traps in the tendering process that make it difficult for blacks to compete. They often are not informed in time and are unable to prepare a tender by the required deadline date. These might be overcome through greater participation by black builders in the municipal decision-making process, or by black participation in tendering boards.

6. Black participation. There was a generalized concern among participants that money from donors always seems to end up in white hands, and that schemes are imposed without black participation. It was recommended that blacks be allowed to "speak for ourselves" regarding the use of resources intended to assist black business development.

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Focus Group Meeting on the
Black Construction Sector

Port Elizabeth, Eastern Cape

November 9, 1990
11:45am - 2:15pm

The focus group meeting on the black construction sector in Port Elizabeth was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by the consultants from J.E. Austin Associates who presented the objectives of the meeting as follows:

1. To share experience on the opportunities and challenges of business growth

2. To generate ideas and recommendations on how to assist business growth and development

3. To analyze the feasibility of our ideas and discuss what is necessary to implement them

Participants then introduced each other, followed by a summary presentation by Dr. Tessie San Martin on findings of the J.E. Austin team on the construction sector in the South African economy. The group then broke into subgroups discuss the following question:

> Think about some of the factors that have contributed to the growth of your business. What kinds of assistance have been most helpful? What do you need to further develop your business?
>
> - Who needs to be involved?
> - What kinds of resources are be needed?
> - How will it work?

Conclusions and Recommendations

The participants clarified that the black building firms in the PE area have not been growing, have faced only impediments, and have not yet begun to further develop. In the discussion groups, they addressed the following issues and factors limiting growth, and provided some recommendations:

1. Low margins. The market addressed by black builders is the low-income housing market (15-20k rand) which is growing and has some access to mortgage financing through the S.A. Perm Bank and S.A. Housing Trust, but it is very low margin. The small builder can compete because he has low overhead and in the current economy he can get the building materials just as cheaply as the large builder. He is just able to cover the labor component, with no profit.

2. Credit access. The small builder has little or no access to bridge financing and this is currently the greatest limitation to growth. The market is there, and the black builder has some competitive advantages because he knows the clients, but he cannot communicate with the banks. Even the SBDC which specifically serves small business sat on one participant's loan application for six months, after which he learned over the phone that the application had been denied. The solution proposed is a non-profit trust fund that will provide guarantees to the banks, but as yet the trust fund has insufficient capital to perform this function.

3. Tendering qualifications. These are unrealistic for the black builder, beginning with such requirements as the native language be English. As a result, the big tenders as in Motherwell are all won by white firms. There are fifty firms operating there and none are black.

4. Backward linkages. The builders' suppliers are large white-owned construction materials' firms that sell at high volumes and low prices. Participants were not aware of black firms in the PE area that competed in this industry. However, some participants did express interest in the possibility of vertical integration into the builders' supply business.

5. Management. The lack of managerial skills is less of a constraint in the black homebuilding industry in PE because of the centralized role in administration played by the Eastern Cape Builders' Association. There is a centralized management system in which the Association purchases materials and controls their distribution, using just one or two trained controllers. The individual building firms do not need to replicate this management control system.

The Trust Fund

There was a consensus that the one major constraint to the growth and development of the black building industry in PE is the lack of access to bridge financing, and that this could be provided by banks or even by the suppliers themselves, on a rolling basis, if a loan guarantee mechanism were in place to assume the risk. The following alternatives were discussed:

1. <u>Foreign investment</u>. A modest but relatively safe return could be provided to foreign investors whose currency would be accepted by the Reserve Bank at the commercial rate of approximately 4:1, while dividends would be exchanged at the financial rate of 3:1. The feasibility of this mechanism has been researched by Syfrets (a financial institution) and inquiries with the Reserve Bank have been encouraging. Three problems: (a) finding interested investors; (b) the future merging of the commercial and financial rand exchange rates; and (c) the negative image of foreign investors profiting from low-income housing.

2. <u>Foreign donations</u>. This is a possibility though no single donor will have the resources required to guarantee financing for massive low-income housing projects.

3. **Local capital.** This may be one of the most interesting approaches. The Urban Foundation was approached but reportedly will not invest unless given a majority ownership position. Building suppliers are logical investors, as are black building associations. As in the above alternatives, resource availability is a problem.

If the financial constraint is overcome through the trust fund mechanism, black builders could take their rightful place in the rapidly-growing black low-income housing market, from which they are currently excluded, at least in the Motherwell area. Moreover, this would have important black employment generation effects (as more labor-intensive technologies are used than in the larger white-owned firms), and backward linkages could be created.

The risk of failure is always present. However, the Building Association could play a useful role in that regard. If a black builder is unable to meet commitments, the Association which is controlling the administrative process will immediately detect this and can bring another builder in to complete the job, so that the guarantee fund is protected.

Exhibit 4

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Focus Group Meeting on the
Black Transport Sector

Port Elizabeth, Eastern Cape

November 9, 1990
2:30 - 5:00pm

The focus group meeting on the black transport sector was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by the consultants from J.E. Austin Associates who presented the objectives of the meeting as follows:

1. To share experience on the opportunities and challenges of business growth

2. To generate ideas and recommendations on how to assist business growth and development

3. To analyze the feasibility of our ideas and discuss what is necessary to implement them

Participants then introduced each other, followed by a summary presentation by Dr. Tessie San Martin on findings of the J.E. Austin team on the transport sector in the South African economy. The group then broke into subgroups discuss the following question:

> Based on your experience, what kinds of assistance have been most helpful in the growth of your business? What do you need to further develop?
>
> - Who needs to be involved?
> - What kinds of resources are needed?
> - How will it work?

Conclusions and Recommendations

The groups reported back on the following limiting factors and recommendations:

1. Market saturation. It first had to be clarified that the taxi industry is not now in a stage of growth in Port Elizabeth and that taxi owners' major concern is not to "further develop" but to keep the business. This is due to a number of factors but the most important is the market saturation that has occurred because of the removal of entry barriers. It has becometoo easy to obtain taxi

permits; the application process to the Department of Transportation is almost automatic (last month, for example 260 permits had to be cancelled because the applicants never bothered to pick them up). Furthermore, the de-regulation trend will continue: the Passenger Transport Study Group will recommend a passenger transport market free of any controls except that the vehicle have a roadworthiness certificate and registry. Therefore the market will continue to be highly competitive and there will continue to be a high rate of repossessions.

2. Regulation. In spite of the above trend toward de-regulation of entry, there continues to be regulation of circulation areas, with each taxi allowed only a 30-mile radius (unless special permission is obtained, say, for an excursion). Moreover, the taxi associations impose further restrictions. The implication is that the wrong things are being regulated and de-regulated.

3. Financing. It was generally agreed among participants that financing had been the most important type of assistance contributing to their success. Financing had been made available through the franchise dealer for VW to purchase 14-seat vehicles for a deposit of 7 thousand rand and monthly payments of 2,300 rand over a period of 36 months. The cost of vehicles and financing has been going up, however, and one participant reported paying over 3 thousand rand per month. Effective interest rates for different financing arrangements ranged from 29-31% up to 39%.

4. Skills training. Many of the participants had two taxis-- one that they had driven themselves for years and another that they purchased using their savings for a down payment during the period that the bus industry was in decline and the taxi industry was undergoing rapid expansion. This meant hiring a driver, and this person did not necessarily have the driving skills needed to avoid accidents and to avoid wear and tear on the vehicle. One participant reported having a vehicle out of service for nearly 9 months due to repairs; another reported that maintenance costs were cut in half when he drove his own taxi. Accidents not only reduce revenues but also raise insurance rates. Driver education was considered to be of critical importance, but there is only one such school in the Cape area, and while it is reported to be quite good, it is also expensive (1200 rand per week, though shorter modules may be purchased for 500 rand).

5. Administration and control. Taxi owners pay drivers a fixed salary and collect the fares but this leaves room for under-reporting of income. It is very suspicious when a driver reports low income even though the gasoline used remains the same, yet there is no way of proving malfeasance since meters are not used. This requires that both the owner and driver understand something about averages and percentages. When a driver is fired for obvious malfeasance or for vehicle misuse, there must be some collective

controls so that the driver isn't immediately rehired by another taxi owner.

6. Declining operating margins. Taxi fares cannot be unilaterally raised without consulting the community through the civic association. These consultations have often led to strong conflicts among factions within the community. Fares must be set in relation to bus fares which are heavily subsidized. At the same time, costs operating the vehicles are now 2.65 rands per kilometer and rising.

7. Rising insurance costs. Base insurance rates are the same for the entire country even though the accident rate in PE is much lower than in the PWV area. However, individuals can get lower rates through safe driving records. One association has gone to the traffic department and asked for printouts of driving offenses so that reckless taxi drivers may be warned or fired. Other ideas that came up were: (a) diversification in the insurance business and (b) self insurance. FABCOS has begun an insurance brokerage firm, Afrosur, but this does not significantly affect the rates since all that is saved is the brokerage fee. The possibility of self-insurance of a large enough fleet could be looked into.

8. Association administration. Most taxi associations in the PE area rely upon volunteer work from members to administer the association. A full-time employee is needed but the members' dues would not cover the costs. The association would have to provide more tangible benefits through bulk buying or other services to justify this.

9. Diversification possibilities. Faced with a declining market, the taxi industry must pursue the cost-cutting measures outlined above but must also explore possibilities for diversification of activity. Insurance and financial services, such as the financing of vehicles to members of the taxi associations, is one such possibility. Another is entry into the gasoline retailing business through the purchasing of service stations. Another that was discussed is freight or courier service as an ancillary business along fixed routes.

Some of the critical variables affecting the profitability of the taxi industry were discussed by the group (see Exhibit 2). Though the taxi owner has little or no control over many of these factors, it was seen that there were many other factors over which he does exercise control. For example, by providing good training to his drivers, the taxi owner can affect directly his revenues and costs through fewer accidents, lower insurance rates, and less maintenance.

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Exhibit 5.2

Factors Affecting the Profitability of the Taxi Business

Variable	Factors	Degree of Control
VOLUME	POP DENSITY	NONE
	REGULATION	VERY LITTLE
	TAXI CAPACITY	HIGH
DOWN TIME	ACCIDENTS	MEDIUM/HIGH
	MAINTENANCE	MEDIUM
FARES	COMMUNITY	LOW
FINANCING	DEALERSHIP	LOW/MEDIUM
INSURANCE	ACCIDENTS	MEDIUM
MAINTENANCE	CARE OF V.	MEDIUM/HIGH
PETROL	PRICE	NONE
	VOLUME	LOW/MEDIUM
SALARIES	MIN WAGE	LOW

Focus Group Meeting on
Black Business Development

Berea, Johannesburg

November 12, 1990
3:30 - 5:00pm

The focus group meeting on the experience of the corporate community of South Africa in the development of Black business enterprise was attended by the participants listed in Exhibit 1.

The meeting began with a brief introduction by Mr. Steve Wade of COMAD and by ;the consultants from J.E. Austin Associates who explained that the purpose of the meeting was to share experience on the promotion and development of Black enterprise and to generate ideas and recommendations that might be of use to the United States AID Mission on how to assist Black business growth and development.

Following introductions, Dr. Tessie San Martin provided a brief overview of some research findings on the role of Black business in the South African economy, and Dr. John Ickis led a an initial brainstorming session which produced the following ideas:

1. "Lever up" Black business through the first-world economy

2. Promote increased subcontracting of Black business among White busineses by demonstrating that it can produce a positive change in the cost structure to make industry competitive in world markets

3. Use main factories to "grow" skills among Black workers, especially in industries with a growing mass market

4. Provide management skills training to "pull" Black entrepreneurs out of the hand-to-mouth informal sector-- but don't forget the informal sector because that's where you get job creation

5. Play an independent third party role to bring together skills and capital through joint ventures-- the crucial role of the third party is "getting it going"

6. "Mentoring" is the best way to transfer skills (SBDC model)--use IESC in mentoring of Black entrepreneurs

7. Experiment with a variety of mechanisms-- stokvels, workers' cooperatives, franchising, etc.

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Sub-groups were formed for further analysis. In the final plenary session, the outlines of a model for levering corporate resources to achieve Black business development began to emerge. The model includes the following players:

- the corporation that purchases goods and services from Black business or subcontracts specific manufacturing processes
- the Black enterprise
- the venture capitalist / franchisor
- the technical assistance facility (using a network of existing institutions)
- the banks or financial institutions
- the facilitator

It was suggested that USAID, with its flexibility and capacity for networking, is ideally situated to play the facilitator role. This would ensure that its limited resources are leveraged and produce the greatest possible impact.

Exhibit 6
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ANNEX C

SUBCONTRACTOR REPORTS

The Policy Environment and Its Effect on Black Business Growth

Black Participation in the South African Economy

THE EFFECT OF RECENT POLICY CHANGES ON THE PRIVATE SECTOR (ESPECIALLY THE BLACK PRIVATE SECTOR) IN SOUTH AFRICA

A study undertaken for

J E Austin Associates

by

MARLENE HESKETH
Economic Research Unit
University of Natal, Durban

October 1990

PREFACE

This report examines the impact of recent policy changes on the private sector. In particular, it considers the effects of changes in laws and regulations since 1987 on the small business sector and on the development of black (African, Coloured and Asian) business. It identifies remaining constraints on these sectors as well as expected changes in the legal and regulatory environment.

It begins by describing the South African legal environment, and then in Section 2 identifies the groups which are currently influencing policy change in this area. In Section 3 consideration is given to the abolition of influx control, the increase in African urbanisation and the concomitant growth in informal business activity.

Section 4 deals with the major legal and regulatory changes that have occurred since 1987. Regulations are part of the legal environment because they are made in terms of Acts of Parliament and are enforced and disputed in the courts. The difference between an Act and a regulation under the Act, lies in the method of amendment or repeal. Regulations can be changed executively by the State President, a Cabinet Minister or a Director-General of a government department, and do not require approval of Parliament. Similarly, local authorities are empowered by Acts of Parliament to make by-laws in their areas, and these by-laws may be changed at municipal level without parliamentary approval. Because Acts, Regulations and by-laws frequently link together to govern economic activity, this report is not structured according to the origin of the legislation, but rather in terms of the combined effect of the laws on particular spheres of activity.

Section 5 discusses the development of the African taxi industry as an important and conspicuous example of growing African business activity, while Section 6 discusses other activities such as the 'spaza' shops, street traders, shebeens, and small manufacturers operating from home. Section 7 looks at existing legal and regulatory constraints as well as expected developments in certain areas. The relationship between African business and the modern white business sector is discussed in Section 8.

Section 9 discusses the advancement of blacks within the corporate sector, and Sections 10 and 11 deal with changes in fiscal and monetary policy and training policy respectively. Indicators by which the effects of policy change on the black private sector might be measured are given in Section 12.

One of the interesting findings which emerges from this review of policy change is the direction of causality. It is evident that policy is to a surprising extent driven by the degree of economic activity.

It seems that in many instances changes in legislation legitimise the existing economic activity, and are a de facto recognition of what is happening in the economy. Laws are not and cannot be applied, and so are changed. Naturally, the removal of barriers provides greater stimulus to business activity but, perhaps more important, informal or illegitimate activity is decriminalised, and there is less scope for bribery and corruption. Entrepreneurs are also not distracted from seeking business opportunities by having to avoid the risk of prosecution.

Laws governing business activity with which people cannot comply, through lack of education, opportunity or other circumstances, are bad laws, as are 'victimless crimes' which cannot be enforced. If they are not removed from the statute book, they bring the law in general into disrepute.

CONTENTS

1. THE SOUTH AFRICAN LEGAL ENVIRONMENT - A LAYMAN'S GUIDE

1.1 Parliament

The South African Parliament comprises three houses, viz., the House of Assembly where the Members of Parliament elected by the white electorate sit, the House of Representatives for MPs elected by Coloured voters, and the House of Delegates which is for Indian representatives. These three Houses have the power to pass Acts. The Acts are known as Bills in the period before they are passed. Once passed they are enacted or promulgated. The general manner of reference is the Act's name, the number and the year in which it was passed. Subsequently, an Act may be amended but it is still known by the number and year in which it was originally passed, an example being the Unemployment Insurance Act (No. 30 of 1966).

The State President, Ministers and Directors-General of government departments, can make regulations or proclamations. They are given this power by an Act. These regulations and proclamations have the force of law, but can be changed or repealed executively by the person empowered in the Act, without parliamentary approval. Such changes are made by announcement in the Government Gazette.

1.2 Provincial Administrations

The provinces (the Cape Province, Natal, the Orange Free State and the Transvaal) prior to July 1986 had the power to pass legislation in certain areas. Some of these pieces of legislation, known as Provincial Ordinances, still remain and proclamations may be made in terms of them. They can affect the business climate, and this is discussed in the text of this paper.

1.3 Municipalities

The various municipalities have the power to pass by-laws governing matters within their municipality, provided these matters do not fall under the Province or central government. These by-laws again may appertain to business matters, and where this is the case, reference has been made in the text.

1.4 Regional Services Councils

Regional Services Councils (RSCs) were introduced in 1987. They were designed to bring together representatives (including Africans) of racially exclusive local authorities in certain defined areas for certain purposes, mainly the bulk provision of services. RSCs are financed through a regional services levy (a payroll tax) and a regional establishment levy (a turnover tax) imposed on all enterprises in a region. The stated aims of RSCs are to divert wealth on the basis of economic need, and to achieve cost savings in the provision of services.

1.5 Case Law

Legal precedents can be set in the court, although this is uncommon for the Black private sector.

1.6 The Homelands

The situation in South Africa may seem complex. However, it appears simple when compared to the position in the homelands. These areas comprise four "independent homelands"

(Transkei, Bophuthatswana, Venda and Ciskei) and six "non-independent homelands" (KwaZulu, QwaQwa, KwaNdebele, KaNgwane, Gazankulu and Lebowa).

The homelands were given legislative powers by the Black States Constitution Act (No. 21 of 1971). They have distinct powers at three stages: the legislative assembly stage, the self-governing stage, and thirdly, the "independence" stage.

The legislation governing labour, employment and business matters differs from one homeland to another depending on what set of legislation it inherited at the date on which it attained each stage of constitutional development. In addition, it may amend, repeal or replace the legislation. The result is that there are in effect eleven different legislative regimes in South Africa, each one having a different set of acts and regulations in force. The complexity is that the homelands may border on the so-called "white areas" and thus an entirely different legislative regime will operate in two factories on either side of a fence. A good example of this is Umlazi, a township bordering on Durban, where legislation passed by KwaZulu will be in force.

For the investor or businessman trying to operate in more than one regime, the situation can only be described as nightmarish - (for further details, see *Some Aspects of Labour Relations between the Republic of South Africa Neighbouring States, Part 1: Legislation and Agreements HSRC investigation into Manpower Issues*, Manpower Studies, No. 1 1985).

1.7 Differential Impact on Small Business

The uniform application of laws to business is more onerous for small enterprises than large ones. The smaller the business the disproportionately greater is the compliance cost. This increased cost reduces the ability of small firms to compete with larger ones.

Laws requiring payments to be made or reports to be furnished cause businesses to incur clerical, audit and legal costs in complying. This burden is higher for small and growing businesses that have not achieved the 'critical mass' which makes compliance cost easier to absorb. Apart from sales foregone during a waiting period pending recognition from authorities, there is also the cost of identifying the legislation that governs the activity in question. The time and expense involved in obtaining a trading licence used to be a significant obstacle (interview, member of Law Review Project, August 1990).

2. BODIES INFLUENCING THE POLICY PROCESS SINCE 1987

Key actors influencing policy change for the small black business sector since 1987 are detailed below.

2.1 Competition Board

The Competition Board was created in terms of the Maintenance and Promotion of Competition Act 96 of 1979. Responsibility for deregulation policy rests with the Minister in the State President's Office entrusted with Administration and Economic Co-ordination, currently Dr Wim de Villiers. The Competition Board is responsible for assisting the Minister by conducting investigations into specific priority areas for deregulation. The Chairman of the Board is Dr Pierre Brooks.

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2.2 Small Business Development Corporation (SBDC)

The SBDC was formed in 1981 as a joint venture between the State and the private sector. It offers a range of services to small businesses - financing, provision of premises, development services (advice, consultancy, training) and promotes entrepreneurship by advocating deregulation. The chairman of the SBDC is Dr Anton Rupert, and the managing director is Dr Ben Vosloo. It has about 22 offices throughout the country.

2.3 Law Review Project

The Law Review Project is a trust funded by the private sector. The purpose of the Project is to provide a resource to assist any level of government with the identification and amendment of laws which restrict economic activity. It is headed by Professor Louise Tager.

2.4 National African Chamber of Commerce and Industry (NAFCOC)

This is a grouping of African business interests, along the lines of the South African Chamber of Business. Its president is Dr Sam Motsuenyane.

2.5 Foundation for African Business and Consumer Services (FABCOS)

This umbrella body and rival to NAFCOC was formed in October 1988, and incorporates a number of African business and consumer groups, including the following:

- South African Black Taxi Association (SABTA), headed by James Ngcoya
- African Council for Hawkers and Informal Business (ACHIB), headed by Lawrence Mavundla
- National Stokvels Association of South Africa (NASASA), headed by Andrew Lukhele
- National Black Consumers Union, headed by Dr Ellen Khuzwayo

A complete list of member organisations appears in Appendix 1.

2.6 Sunnyside Group

The Sunnyside Group was formed in 1987 at a meeting at the Sunnyside Park Hotel in Johannesburg. It is an alliance of small enterprise associations, chambers, support agencies and concerned corporations, representing more than 150 000 small enterprise owners, including all of the above except the Competition Board (see Appendix 2 for list of members.) It is a 'single issue' lobbying group, campaigning for relief from over-regulation of small enterprises, including the so-called informal sector. The chairman is Keith Foster of the Urban Foundation, which organisation also provides the secretariat. The Group is funded by private sector interests.

3. SIGNIFICANT CHANGES IN THE LEGAL ENVIRONMENT BEFORE 1987

The basis for deregulation policy was established in the *Report of the Committee for Economic Affairs on a Strategy for Small Business Development and for Deregulation* in 1986. Specific areas to be addressed were:

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- "Deregulation of the system for licensing taxis.
- The repeal or amendment of discriminating regulation with a view to achieving a situation where all business people can conduct business according to equivalent procedures and standards.
- The stipulation of minimum standards only in statutory directives regarding standards and entry requirements in regard to economic activities.
- The investigation of legislation and regulations which affect black entrepreneurs. This includes regulations relating to the use of land and township establishment.
- The deregulation of licensing legislation.
- The deregulation of legislation affecting the work-place and workers' rights, taking into consideration the interests of both employee and employer.
- The deregulation of statutory health requirements.
- Deregulation with respect to professional and trade restrictions."

(Competition Board, *Eighth Annual Report*, 1987)

The formal framework is contained in a Cabinet decision issued as a press release on 2 July 1986, and a brief statement is contained in the *White Paper on Privatisation and Deregulation* (1987). The formal framework consists of an instruction to government departments and other regulatory agencies to critically assess existing and proposed regulation "with a view to reconciling such regulation with the goals of the deregulation policy" (Competition Board, *Eighth Annual Report*, 1987). Further, the Temporary Removal of Restrictions on Economic Activities Act, No 87 of 1986, was passed, giving the State President extraordinary powers to exempt a person from any law if it unduly impede economic development, competition or the creation of job opportunities.

3.1 Removal of Influx Control

Although this deregulation policy was designed specifically to promote small business development, the change in legislation which is considered to have had the greatest impact, in recent years, on the level of economic activity at micro-levels is the removal of influx control (SA Institute of Race Relations Survey 1987/88). The rapid urbanisation which followed, together with stringent economic conditions causing high unemployment, led to increased *informal* activity, i.e., that operating outside the legal framework of business, being unlicensed and untaxed. "... what is happening is that agricultural subsistence, for which there is no land, is being replaced by a pavement subsistence, for which there is space (of sorts) and a market (of sorts)" (Godsell and Clark, 1989). Informal activity amongst black South Africans is considered to be both of the 'push' or survival strategy kind and the 'pull' kind, i.e., small entrepreneurs who prefer self-employment to jobs in the formal sector, but who generally cannot comply with the costs of being legal (Nattrass & Glass, 1986; May & Stavrou, 1989).

3.2 The Informal Sector

The size of the African, Coloured and Indian informal sector has been recently estimated as being 8 per cent of Gross Domestic Product (see Tables 1 and 2: Central Statistical Service Survey in October 1989), but agencies working closely with informal business are sceptical of the CSS figure, and doubt whether correct information would be given to officials. Bodies such

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Table 1 The size of the informal sector: As estimated by the Central Statistical Service for October 1989

Numbers involved ('000s)	*Coloureds*	*Indians*	*Africans*	*Total excl. whites*
Full-time	56	30	654	740
for own account	27	14	304	345
employees	29	16	350	395
Part-time	61	25	1901	1987
in formal employment	23	10	667	699
looking for formal job	4	2	227	232
housewives and scholars	34	13	1007	1055
TOTAL	**117**	**55**	**2555**	**2727**
Male				
Cities	82	42	1013	1137
Towns	25	8	456	489
Rural	11	4	1086	1101
In Homelands (Rural & Towns)	-	-	1034	1034
Informal labour force as percentage of:				
Economically active	9,7%	16,7%	32,9%	29,3%
Population	3,7%	5,9%	12,0%	10,7%
Monthly value added:				
Total	R46m	R37m	R1253m	R1336m
Per worker	R389	R665	R491	R490
Annual per capita income (Rand):				
Recorded activities*	R3453	R4987	R1399	-
Unrecorded	R172	R471	R706	R631
TOTAL	R3625	R5458	R2105	-
% under-recorded	5%	9%	50%	-

Note: * Based on own estimates that include the TBVC homelands. The validity of further comparison depends on the spatial distribution of recorded and unrecorded activities.

Table 2 Occupational distribution of informal economic activity: As estimated by the Central Statistical Service for October 1989

	Trade/ hawking	*Serv- ices*	*Crafts crafts*	*Home*	*Trans- port*	*Scav- enging*	*Accom.*	*Other*	*Total*
Monthly value added (R-million)									
Total	R429m	R43m	R367m	R92m	R291m	R17m	R5m	R91m	R1336m
Black	R405m	R37m	R332m	R87m	R281m	R17m	R5m	R90m	R1253m
Employees in the informal sector ('000)									
Total	128	5	132	12	69	2	2	44	395
Number of workers for own account ("000):									
Total	837	244	470	315	92	161	19	193	2332
Black	802	220	431	300	88	158	17	188	2205
Percentage males amongst workers for own account:									
Black	42%	48%	89%	10%	96%	72%	55%	58%	53%
Average monthly income of workers for own account (R):									
Coloured	460	161	614	357	1776	77	118	192	426
Indian	756	1046	927	281	2022	500	303	437	785
Black	489	166	717	295	2827	107	259	466	534
Proportion of workers for own account earning less than R450 per month:									
Coloured	66%	99%	61%	67%	35%	100%	100%	78%	74%
Indian	55%	76%	44%	86%	13%	0%	87%	53%	56%
Black	68%	92%	58%	76%	26%	93%	85%	67%	69%

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as the Small Business Development Corporation, ACHIB (African Council for Hawkers and Informal Business), and the Sunnyside Group have estimated informal activity to be closer to 12-15 per cent of GDP. Kantor (1989) obtained a measure of unrecorded activity by measuring the demand for bank notes in circulation against GDP growth rates, on the assumption that informal transactions are conducted in cash and not through the banking system. He estimated unrecorded activity to be at least 16 per cent, but possibly as high as 41 per cent, of GDP. However this is *all* unrecorded activity in South Africa, and therefore includes white informal business. Most analysts agree that about one-third of the economically active population is involved in some aspect of the informal economy.

3.3 Other Legislation

Other changes in legislation made before 1987 which are considered to have led to an increase in black private sector activity include the Group Areas Amendment Act of 1984. This resulted in the establishment of about 100 free trade areas in central business districts throughout the country, where people of all races are allowed to conduct business. The concept has not been extended to include suburban shopping centres, and this is seen to significantly hamper black business (*Race Relations Survey*, 1987/88).

The Communities Development Act of 1986 enables residents of new (post-1986) African townships to conduct business from their homes.

4. CHANGES IN THE LEGAL AND REGULATORY ENVIRONMENT SINCE 1987

Three main areas of policy change that affect business, and small and black business in particular, are the deregulation of road passenger transport, the removal of restrictions on African business activity and the State President's proclamation on business licensing.

4.1 Deregulation of Road Passenger Transport

The National Transport Policy Study report, the Welgemoed Commission report and the Competition Board report led to the publication of the White Paper on National Transport Policy in January 1987. Its broad recommendations were to:

- devolve most passenger transport responsibilities to the lowest level of government, i.e., Regional Services Councils (RSCs);
- allow for economic deregulation, i.e., RSCs may refuse licences only on safety grounds, and no quotas may be applied;
- phase out subsidies on passenger transport in the long term;
- allow 15-passenger vehicles to operate as taxis.

In 1988, three bills were tabled, namely: the Road Traffic Bill; the Passenger Transport Bill and the Transport Deregulation Bill. The Road Traffic Bill introduced more rigorous safety requirements for taxis and it was hoped that this would allay fears that taxi deregulation would increase accident rates. The Bill was enacted in June 1990. The Passenger Transport Bill contained measures to change the permit system. It was not popular either with Regional Services Councils or SABTA and was withdrawn in 1989 for revision. The Transport

Deregulation Act allows the Minister of Transport to repeal, in stages, the Road Transportation Act, which governs passenger and goods transport.

4.2 Removal of Restrictions on African Business

In 1988, a number of proclamations under the Development Trust and Land Act of 1936 and the Black Administration Act of 1927 regulating business activity by Africans were repealed. These include:

- Proclamation 264 of 1968 which restricted the owning of businesses in African trust areas (non-independent homelands and African-occupied areas scheduled for inclusion in homelands).
- Proclamation 293 of 1962 which regulated trust and rural areas and restricted the allocation of trading sites, the alteration of buildings, the right to transfer businesses, the type of business that could be carried on, and the use of trading sites. Traders could be expected to submit to a medical examination, and there were restrictions on the acquisition of capital by African businesspeople from other race groups.
- Regulations governing the control and supervision of an urban African residential area and relevant matters as published in Government Notice R.1036 of 1968, which regulated African urban areas, imposed many of the restrictions mentioned above, and required African business owners to keep a set of accounts, which officials were entitled to examine. Non-compliance was a criminal offence.

The latter Regulation was repealed by the Conversion of Certain Rights to Leasehold Act which came into effect on 1 January 1989, and allowed the occupants of properties in African townships who held permits granting occupancy rights, to obtain leasehold title and made trading from township houses legal. The Act also allows whites to form partnerships with African businesspeople, provided that the white holding does not exceed 49 per cent of the joint venture.

4.3 State President's Proclamation on Business Licensing

In April 1989, the Businesses Bill, providing for the repeal and amendment of certain laws regarding the licensing and carrying on of businesses and shop hours, was tabled in Parliament. The Bill was considered a major step forward by the small business community and came as something of a surprise, particularly as its main provision was to do away almost entirely with business licences, except where prepared food and drink were to be sold. Those businesses requiring licences were to be governed at local authority level and not by Licensing Boards, and a licence could only be refused if the business constituted a threat to health or safety. Relaxation of the restrictions on trading hours and Sundays was also contained in the Bill.

The Bill could not be enacted in 1990 as there was not enough time to discuss it in the last parliamentary session. In order not to delay the deregulation of the licensing laws, the State President, acting under the powers bestowed on him by the Temporary Removal of Restrictions on Economic Activities Act, suspended most of the restrictive provisions of the Provincial Licensing Ordinances in December 1989. In areas where Regional Services Councils had been established, i.e., most parts of the Transvaal, Cape and Orange Free State, 1989 licences were made valid for 1990 without renewal. (The law used to require hawkers to apply annually for a licence; they could not renew their licences like other traders.) In Natal, where no Regional Services Councils exist, licence holders had to renew their licences as before. Licences for new businesses will be granted automatically, as this is now merely a registration procedure, provided that the business does not handle food or engage in activities such as the running of massage parlours, escort agencies, night clubs, etc. Licences for food handlers can be withheld or cancelled only if health and safety laws are contravened. Licensing of places of entertainment as mentioned above continues as before. Trading is permitted 24 hours a day, but the relaxation of Sunday trading as tabled in the Bill does not appear in the proclamation, and is still restricted in all provinces except Natal.

The Businesses Bill, which is currently being redrafted, would prevent local authorities from stipulating move-on or distance rules for hawkers in their by-laws. It would further prevent hawkers' goods from being confiscated, unless they constitute a hazard. The amendment would also repeal the section of the Road Traffic Act which prevents trading within 10 metres of an intersection. Some opposition from local authorities is expected, but if the Bill is passed with this amendment, the position of street traders would be considerably relieved.

5. EFFECTS OF DEREGULATION ON THE AFRICAN TAXI INDUSTRY

Most legal taxi owners are affiliated, via local taxi owners' associations, with SABTA (Southern African Black Taxi Association), a central buying and co-ordinating organisation, which is also a strong negotiating body. SABTA was formed in 1979 and was represented in the National Transport Policy Study group which made recommendations on passenger transport policy to the National Transport Commission in 1986.

SABTA's proposal was that passenger transport should be deregulated in a controlled manner, with a gradually increasing quota of permits being issued each year, and pirates being licensed first. The Competition Board report on the taxi industry, published late in 1986, rejected this phased deregulation, and the White Paper recommended the removal of a quota on permits.

SABTA's reaction to this was that it was unfair for them to be deregulated with no phasing-in period, while protection of bus companies through subsidies continued. It called for the permit system to remain in force until bus subsidies were removed, and for no new permits to be allowed in the interim, to prevent a flood of new entrants (*Drive On*, April 1987).

Since the release of the White Paper, SABTA has continually lobbied on the issues of taxi deregulation and bus subsidies, and it seems as if government is reluctant to enact the legislation proposed by the White Paper, not only because of the taxi lobby but also because of the dilemma of reducing the bus subsidies when Africans are forced to travel long commuting distances because of Group Areas legislation. Both SABTA and the Sunnyside Group are now campaigning for user subsidies based on vouchers which travellers can use on either buses or taxis.

The flood of entrants into the taxi business could not be checked. It is estimated that there are currently 80,000 African taxis in operation, 45 per cent of them unlicensed (Barolsky, 1990), compared with about 45,000 in 1987. Taxis have made heavy inroads into the passenger market, and both buses and the commuter rail services have suffered. Private bus companies have shown a 39 per cent decrease in the number of African passengers transported since

1983, and SATS recorded a 13 per cent drop in rail passengers on its urban third-class routes, while its rural services have shown a 76 per cent decrease since 1982. In 1987, the South African Long Distance Taxi Association (SALDTA) was formed and now has about 11,000 members (Barolsky, 1990).

It has been estimated that the capital investment in taxis at replacement value is R2.5 billion. The industry employs directly and indirectly 300,000 people, and it has created more jobs than have been lost through disinvestment (Khosa, 1990; Hetherington interview, 1989).

In 1987-88, SABTA members spent more than R180 million on spares, and were able to negotiate preferential terms with Unipart. Motor manufacturers such as Toyota and Nissan were also willing to strike special deals, and Volkswagen collaborated with SABTA to develop a new 14-seater minibus in the hope of increasing its market share by 20 per cent. Castrol and Cera Oil launched new oils designed for SABTA taxis for which the oil companies pay royalties. Wesbank and Rand Merchant Bank offer finance at special rates to members with securities from SABTA. By the end of 1989, SABTA owned 16 service stations in partnership with Shell and Total, with taxi drivers as shareholders (Khosa, 1990).

Major constraints on the efficiency of the taxi service are the general shortage of taxi ranks and the inability to cruise. The former arises because local authorities are reluctant to grant space for ranks. Because Local Road Transportation Boards will not grant a licence without proof that rank space is available, local authorities are thus able to control licensed taxi numbers. Current legislation allows for taxis to operate only from proper taxi ranks, and does not allow cruising for passengers as happens in cities in other parts of the world. These constraints result in often violent clashes between regional taxi associations over limited space and routes. The Johannesburg City Council has recently allowed taxis to stop on defined routes within the city, which was previously not allowed by municipal regulation.

SABTA is concerned about the fact that an estimated 30 per cent of taxis are owned by whites. SABTA sees the participation of whites as unfair competition because of their easier access to capital, and fears that deregulation will increase this trend. African taxi owners feel they "have fought for many years and against all the odds" to develop their industry, and do not see why they should now have to share it with advantaged whites (*Drive On*, April 1987). The recent credit 'scam' with whites fronting for African drivers to obtain hire purchase finance has aggravated these fears (*Natal Mercury*, 28 August 1990).

The high accident rate is also a matter for concern, and both SABTA and the government have initiated investigations into this aspect. It is hoped that the recent passing of the Road Traffic Act (June 1990) will improve the situation. In August 1988, SABTA asked the government to provide R88 million over the next 10 years as a grant to enable informal transport to compete with subsidised bus companies. Although this seems an enormous demand, it is only about 20 per cent of the amount budgeted for subsidies to bus companies in 1988. In 1989 the Department of Transport and Anglo-American Chairman's Fund each granted R254,000 for training programmes (*SAIRR Update*, July 1989).

SABTA's future plans include extending its services to white residential areas, and into courier and goods services in the inner cities. Transnet (formerly South African Transport Services) has approached SABTA to co-operate in providing package deals combining rail and taxi fares (SABTA interview, 1990).

6. IMPACT OF OTHER POLICY CHANGES

6.1 *Temporary Removals of Restrictions on Economic Activities Act*

Apart from its recent use to empower the State President to make the Proclamation on Business Licensing, the Temporary Removals Act has only been used twice. Job Creation (Pty) Ltd applied in 1986 to suspend the operation of certain legislation in respect of a single lot in an industrial area in Kew, and the exemptions were granted early in 1988. Similar exemptions were granted after an application made by the Small Business Development Corporation later in the year. The applications, however, were lengthy and complicated documents which required many hours of lawyers' time to compile. This is considered by the Sunnyside Group as being inappropriate for the informal sector, where operators are seldom educated beyond the Standard Four level.

The investigation of the National Manpower Commission into the Kew project, which was carried out after a year of operation, showed there was a large measure of support from small entrepreneurs for the reduction in regulatory measures which the Act allowed. It recommended that further research be undertaken to determine more suitable methods for deregulation (NMC 11th Annual Report, 1989).

6.2 *Relaxation of Licensing Requirement and Restrictions on African Business*

These actions are welcomed by the small business community as potentially decriminalising many of their activities, particularly hawking and the 'spaza' (township vernacular for 'hidden') shops. An African Council of Hawkers and Informal Business (ACHIB) representative reports that formal white businesses are showing increased interest in marketing goods through the informal sector. Major problems for informal sellers are the high prices they have to pay because they do not have access to proper channels of distribution, and the transporting and packaging of goods in small quantities. ACHIB are addressing these issues by negotiating lower rates and breakbulk deals with companies supplying the informal sector. A number of service businesses run by white/African partnerships are also developing, such as hawker training schemes, informal sector advertising and vending unit design, all of which help reduce formal business resistance to growth in informal sector retailing (*SAIRR Update 8,* July 1989).

6.2.1 Home-based Business

A variety of business activities takes place from residential premises in African areas, for instance, small manufacturers such as welders and clothing manufacturers; services such as hairdressers and repair workshops, and of course the spaza shops. Whereas spaza shops traditionally sold cigarettes, staple foods, liquor, toiletries and so on, many of those who have electricity for refrigeration are now expanding their activities to supply fresh and frozen meat and chicken, and cold drinks. Estimates by market researchers of spaza buying power range from R3 billion to R7 billion. However, individual turnover can be quite low, with a survey in Umlazi showing an average monthly turnover of about R1,500 (*Indicator SA,* Autumn 1990).

Spazas and other home-based businesses such as shebeeners, small manufacturers, workshops, and small transporters, are also increasingly trading with each other, and combining operations on such spin-off activities as the collection of waste paper, steel, oil and bottles for recycling (Darroll interview, 1990).

While the relaxation of licensing requirements has eased the position of most home-based business (excluding shebeens which must comply with liquor laws to operate legally), there is some misunderstanding about the licensing proclamation, with many assuming that a licence is no longer required, and some prosecutions have resulted (*SAIRR Update 8*, July 1989). African local authorities are also seeing township business as a potential source of revenue, and both the Wattville and Katlehong councils have moved to tax spaza shops on a monthly flat-rate basis (*SAIRR Update 8*, July 1989 and interview with Sunnyside Group representative, 1990).

Health regulations must also be complied with, although some confusion exists here as well. The SBDC believes that the national regulations promulgated in the Government Gazette of 30 January 1987, actually override any local health by-laws that may be more restrictive, whereas many local authorities are still enforcing old by-laws carried over from ordinances issued by white local authorities (SBDC report, August 1989). The health regulations, although currently under review, are still onerous for home-based business, requiring, inter alia, tiled walls, separate ablution facilities, storerooms, and lighting and ventilation of a certain standard.

The National Shebeeners Association has approached the Minister for Trade and Industry and the Liquor Board to amend the Liquor Act, so that shebeens can be legalised. The NSA has a membership of 20,000 shebeeners throughout the country, for whom the association processes licence applications and provides legal services. The Chairman of the NSA, Mtutu Hulana, has also held talks with the Minister for Law and Order on the issue of police harrassment and corruption (*Business Day*, 21 August 1990). Many shebeens are allowed to do business, with the authorities turning a blind eye, the problem being that this system often leads to corruption, with law enforcers prosecuting as it suits them (Momberg interview, August 1990). The Sunnyside Group has also approached the Competition Board on behalf of certain shebeeners/taverners who have endeavoured to legalise their businesses and have, according to them, "played open cards" with the police and the Liquor Board, only to have their premises raided and their stock confiscated.

6.2.2 Street Trading

Although street traders or hawkers have also benefited from the relaxed licensing requirement, many still suffer under municipal regulations governing CBDs, which differ from town to town. These rules emanate both from the desire for a clean and orderly CBD, and from resistance from formal traders to what they deem "unfair competition" (*Financial Mail*, 5 August 1988). While white traders have frequently complained to authorities about competition from African street traders, many Indian shop owners have changed their marketing strategy to face the new challenge by advertising themselves as 'wholesalers to hawkers'.

Regulations include move-on rules, distance rules, prohibited streets and areas, permits for employees, dress requirements, storerooms, business hours, and restrictions on unloading of vehicles or barrows. The SBDC has campaigned widely amongst local authorities for the relaxation of by-laws governing street vending, with limited success (SBDC *Proposal on street vendors*, August 1988). It recently brought a case against a local authority on behalf of a group of hawkers whose goods had been confiscated. They did not win the case, but the result has been a marked decrease in harrassment of hawkers by officials.

ACHIB also lobbies continually, as does the Sunnyside Group, for deregulation of street trading. It is difficult for central government to establish national regulations and at the same time maintain its policy of devolution of power to local authorities. Provincial administrative officers also feel they have their hands tied when it comes to municipal by-laws (NPA Planning Officer interview, August 1990).

Many local authorities, in particular those of South Africa's largest cities (Johannesburg, Cape Town and Durban), have amended their by-laws to allow street trading within certain constraints. Other smaller towns, such as Bergville, have attempted to establish Zebras (zero-based regulation areas), but have been criticised for marginalising traders to unsuitable peripheral areas. Politically conservative towns, however, such as Newcastle, Pietersburg and Welkom, have maintained the strict controls existing in the past (Rogerson and Hart, 1988).

Nevertheless, ACHIB estimates that there are close to a million hawkers operating throughout South Africa at present (*SAIRR Update 10*, July 1990).

7. CURRENT LEGAL AND REGULATORY CONSTRAINTS

7.1 Group Areas Act

The SBDC sees the Group Areas Act as a major constraint which infringes upon the mobility of business people, freedom of choice, ownership and competition, and it considers it a priority to open all business and industrial areas, and to make ownership available in these areas. It also recommends that the "remaining forms of influx control contained in legislation relating to slums, squatting and citizenship" be removed (SBDC, 1986). Blacks may trade freely in CBDs where these have been declared free trade areas, but they are still prevented from competing with white business in white residential areas. Blacks also have limited access to industrial areas, resulting in a shortage of suitable business premises.

The Group Areas Act has obviously also affected the ability of Indian and Coloured businesspeople to compete with white business, but these groups have traditionally established trading areas, usually adjacent to the CBD. This meant that they were the first to benefit from the declaration of free trade areas. Prior to this, these groups had also been resourceful in getting round Group Areas' restrictions by having white nominees 'fronting' for them. Proximity of the owner's residence, especially to a retail outlet, facilitates the use of family labour and reduces the cost of safe-guarding the business.

7.2 Conditions of Employment

The legislation governing conditions of employment is seen as over-burdensome for small businesses in a developmental phase. Both the SBDC and the Sunnyside Group have made representations to the National Manpower Commission during its recent enquiry into the possible accommodation of small businesses in terms of labour legislation (NMC Report, May 1990). The Sunnyside Group also submitted a separate proposal to the Competition Board (May 1989) and subsequently met with the Minister for Manpower (March 1990) to discuss this. The proposal recommends that barriers to entry into business and compliance costs imposed on small enterprises should be reduced by appropriate amendments to or exemption for very small businesses from:

- Wage Act
- Labour Relations Act

- Basic Conditions of Employment Act
- Machinery and Occupational Safety Act
- Unemployment Insurance Act
- Workmen's Compensation Act

Trade unions oppose deregulation in the work place, and this presents an obstacle to the process of policy change for small businesses. The attitude of small business organisations, e.g., Sunnyside Group and Job Creation, is that unions represent the ***employed*** and they therefore have a strong interest in maintaining high minimum wages at the expense of the unemployed. So, while the small business organisations do not oppose the right to organise and bargain collectively, they feel agreement should be restricted to those who are party to the agreement. Attempts are being made by these groups to reconcile the differences between small businesses and the trade unions, on the grounds that ***job creation*** is a common goal.

Recent press statements on the government's proposed economic re-structuring indicate that wage negotiations will, in future, be limited to parties to the negotiation.

7.3 Taxation

The Sunnyside Group submitted a proposal in September 1987 to the Stals Committee investigating the Margo Commission Report, which has since been updated, re-submitted to the Competition Board (November 1988), and discussed with the Minister of Finance (March 1990). The memorandum proposes that enterprises with no more than a certain annual turnover should be exempt from paying income tax and Regional Services Councils levies, and from collecting General Sales Tax, as the procedural and financial obligations under the tax laws are significant factors hindering the establishment and growth of small enterprises.

The Group is currently preparing a submission on the proposed introduction of Value Added Tax (VAT) to be sent to the Minister of Finance. This submission will probably include an indication of the costs for a small business of complying with the new VAT law, which are expected to greatly exceed the amount of tax they collect. It is likely also to recommend that the threshold level for registration be significantly raised, that very small businesses be exempted from submitting returns, and that the penalties for non-compliance should be reviewed. "It offends ordinary concepts of justice for a citizen to be penalised for non-compliance with statutory requirements beyond his capabilities" (Hetherington interview, August 1990).

7.4 Access to Finance

Access to finance is seen as one of the major constraints on the development of African business, with this sector having little access to formal-sector financial institutions. For banks, small business is an extremely risky market, and this, coupled with the high administrative costs of granting a small loan, has deterred the commercial banks from lending to small, and particularly black, borrowers. The lending practices of commercial banks rely on assessments of risk based on examination of trading records (which usually do not exist for the informal enterprise) and on reputation (which is very difficult to assess outside one's own community) so that even if Usury Act limitations were scrapped, it is unlikely that the gap between commercial banks and the informal business sector would be closed in the short term.

One building society (the SA Permanent) has altered its lending requirements to allow money to borrowers with low incomes against the security of a rudimentary dwelling. It is significant that, at the end of 1987, a mere 47,047 Africans owned property under leasehold which could be used as security for business loans. (*SAIRR - Social and Economic Update*, 10 March 1988). The inability to provide security against loans prevents African builders from obtaining bridging finance to buy materials to start building projects, and develop them to a stage where they can obtain building society finance. This gives white building contractors an advantage in bidding for work in African areas.

The development of co-operative saving schemes, in the form of *stokvels*, and their recognition by financial institutions as being potential middlemen between them and borrowers, offers some hope that finance will filter through to Africans wishing to start up or expand a business. The Foundation for African Business and Consumer Services (FABCOS), to which SABTA, NASASA (National Stokvels Association of SA) and others are affiliated, plans to establish in-house financial institutions in which members will have equity. Two possible sources of finance for this venture exist, the SABTA Foundation trust funds of R84 million, and the aggregated stokvel funds of R50 million (*SAIRR Update*, 10 July 1990). The government is also expected to seek major input from the informal sector lending institutions before the finalisation of the new Deposit Taking Institutions Act (*Business Day*, 31 August 1990), and is considering exempting very small borrowers from Usury Act limitations.

The SBDC is also becoming more active in the provision of mini-loans (up to R5,000) with the majority of these going to Africans at market-related, but not necessarily risk-adjusted, rates. Other organisations, such as Get Up and Get Ahead, also operate in this area.

7.5 Agricultural Marketing Boards and Subsidies

The existence of regulations concerning the processing and marketing of wheat and bread, and the related subsidy provisions, are seen to significantly constrain small bakers from competing with large established millers and bakers. The Sunnyside Group is currently preparing a submission to the Competition Board on this issue.

7.6 Access to Justice under the Law

With increasing deregulation, justice under common law and the ability to file civil suits becomes paramount. At the moment, access to the courts for small operators is almost impossible because litigation is so expensive and arduous. Although the introduction of Small Claims Courts has gone some way to alleviating this, it is considered that their jurisdiction is too narrow. They operate only in a few centres and are restricted to claims under R1,500 by natural persons only (not companies). Access to the services of the legal profession is also seen to be unnecessarily expensive, because of restrictions placed by the profession on the pricing practices of its members.

8. LINKAGES BETWEEN AFRICAN BUSINESS AND NON-BLACK ORGANISATIONS

Formal organisation of various sectors of African business has already been mentioned in connection with transport (SABTA), hawkers (ACHIB), and informal lending (NASASA), with FABCOS forming an umbrella body over these and eight other organisations. These business groups are considered to have had a major impact on the image of African business and consumers, not only because they increase the bargaining power of their members with the formal business community, but also because they make other Africans aware of increased business opportunities. Until recently the trade union movement was considered the only significant 'grassroots' force enabling black economic empowerment. The growth of the black business sector and its linkages with white private sector interests is changing this perception (Thomas, 1988).

FABCOS is sponsored by some large companies, such as SA Permanent, Everite, Anglo-American and Shell, although it does not care for the term 'sponsors'. "We view them as partners in business who are investing in the future prosperity of South Africa" (Joas Mogale, General Secretary of FABCOS, in *Business Day,* 28 September 1990).

NAFCOC (National African Federated Chamber of Commerce and Industry) also led delegations to neighbouring countries, e.g., Malawi, to create trade links It has just organised a trip to the United States to present the case of business in a post-apartheid society. NAFCOC is also negotiating with the government to take over the State-owned sorghum beer industry, which is soon to be privatised.

In a recent speech, the NAFCOC President, Dr Sam Motsuenyane, listed areas in which African entrepreneurs needed to develop as inter alia, partnerships between large and small businesses and networking with African business organisations to establish proper business contacts for the future. (*Business Day,* 9 October 1990).

Some companies, notably Anglo American Corporation and Johannesburg Consolidated Investments, have begun sub-contracting specifically to African businesspeople, via a joint venture with the SBDC, in which African businesses have contracted to supply services and manufactured goods with SBDC assisting with tendering, bulk buying and bridging finance. About R6 million worth of contracts were expected to be signed by February this year (*SAIRR Update*, 8 July 1989).

JCI recently signed a R2 million contract with Zenzeleni Clothing in Durban to supply the Group's workwear. Zenzeleni is a co-operative run by the Textile Workers Union, and it is interesting that they have apparently been prepared to charge less for labour in order to compete with bigger companies. The tender was made in accordance with standards set by the South African Bureau of Standards (interview with JCI executive, September 1990). JCI's policy on small business development is detailed in Appendix 3.

Further links between small African businesses and the white business sector, especially the mining groups, have resulted in timber and waste paper collection schemes, and catering, gardening machinery maintenance and cleaning contracts. Agricultural-sector linkages, when they occurred, have been relatively successful. The prominent example is in the sugar cane growing and refining sub-sector and citrus farming in the Eastern Transvaal.

At the apex of the pyramid there are a handful of larger African businesses running such activities as supermarket chains, with at least two African-managed and controlled companies quoted on the Johannesburg Stock Exchange. In 1987, Lebaka (Lebowa Bakeries) became the first African-controlled company to be listed, exceeding its forecasted earnings per share by 31 per cent in its first year (*Race Relations Survey*, 1987/88). In 1988, a subsidiary of the

Bophuthatswana National Development Corporation, Yabeng Investment Holding Company, was listed (*SAIRR Update*, 6 December 1988).

Big business continues to invest in organisations such as the SBDC and the Urban Foundation which foster the development of small black business. The SBDC was recently able to raise a further R30 million by means of a rights issue, involving some 100 corporate shareholders. A joint SBDC/Standard Bank venture has resulted in a scheme to finance market stalls for informal traders. The Law Review Project has played a very important role in drafting new, more suitable legislation where deregulation has been brought about. It is actively investigating and advising on other areas for deregulation such as health, land use/ Group Areas, etc.

The Urban Foundation has been particularly active in the private- sector provision of housing, and has sub-contracted some businesses to African builders. According to the Family Housing Association, in 1988 about half of the R60 million Dobsonville project would go to African builders.

In 1987 and 1988, the Sunnyside Group interacted closely with the Law Review Project to develop a proposal for appropriate legislation. This was presented to government in 1988, and suggested that a new piece of legislation be promulgated:

- to provide for the appointment of a small enterprise commmissioner;
- to provide for an analysis of any proposed legislation as to its likely impact on small enterprises; and
- to provide for the review of existing laws.

It suggested that the Act be called the Small Enterprise Promotion Act. Other than the Commissioner, the proposal asked for nothing more than the government had already promised to do. However, concern was expressed by government about the reaction of special interest groups and the cost of additional bureaucracy (the manning of the office of the Commissioner for Small Enterprise). Discussions with the Minister for Administration and Privatisation, who at that time held the deregulation portfolio, resulted in strong links being formed between the Group and the Competition Board. The latter has requested that the Group present proposals for the review of particular areas of legislation which impede small business. To this end the Group has formed a number of focus teams, each investigating specific aspects of regulation such as that affecting the building industry, transport, hawkers, taxation, access of small firms to finance, and others. Some of these have already been submitted to the Board for consideration (Hesketh, 1989).

9. PROSPECTS FOR ENTRY AND GROWTH OF AFRICANS IN THE FORMAL PRIVATE SECTOR

African advancement has been, and is mostly still, motivated by, and couched in, philosophies rooted in socio-political rather than socio-economic thinking both for foreign-owned/foreign-controlled and indigenous corporations.

In the heyday of the disinvestment campaigns, firms frequently justified continued operations in South Africa in terms of the social responsibility of these firms to Africans. EEC and Sullivan Codes of conduct were more concerned with pacifying stakeholders in the country of origin of foreign corporations than with corporate survival in a changing environment. It was thus common to read about non-executive Board appointments of black people in the media - frequently because of their perceived value in projecting the right public image of the corporation making the appointment.

Initially, indigenous corporate South Africa reacted to the changing environment by "going into committee". Here, the priority was to embark on activities aimed primarily at raising the level of understanding of the dynamics of change by corporate decision-makers, as well as to pool resources of the corporations involved. This led to the creation of the Five Freedoms Forum's Business and Economy Group, the Consultative Business Movement and the Law Review Project.

Within the corporations themselves, the beginning of the socio-economic turmoil in the fourth quarter of 1984, and its intensification in 1985, provoked a degree of open intervention in the political debate by a handful of vanguard Chief Executives, accompanied by pronouncements of what these CEs were prepared to do to advance blacks in their corporations. In general terms, the professed goal was to achieve an employee profile within the corporation that would be a reflection of the South African population composition outside the corporation. Some business leaders spoke of the need to reflect their customer base within the corporation's staff profile.

With hindsight, success in implementing strategies designed to achieve the pronounced goals has been mixed. Very good progress has been made to move blacks into previously whites-only clerical and, to a lesser degree, supervisory positions. Thus, where the policy was simply to reflect, in numbers, a certain percentage of black employees in white-collar jobs, this goal has been largely achieved.

More ambitious plans to change ratios at managerial levels have been less successful. In terms of categories of managerial staff,advancement of blacks into senior or general management positions has been less than satisfactory, even by the expectations of board members who, when setting their goals, were fully aware of their respective organisational "absorption capacities". However, in view of requisite progression through the ranks before appointment at these senior levels can be considered, the problem has been at the middle-management level. Blacks have not been able to penetrate this level in adequate numbers to provide the pool from which senior appointments can be made with a degree of confidence that such appointments will be successful. Frequently, white middle-management must be blamed for hindering the development of promotable black management material. Experience has shown that there is very often a real cultural gap between top management of companies wishing to see more meaningful African advancement and their middle to senior management. Equally, not enough visible or tangible top-level support to lend credence to pronounced black advancement policies is brought to bear upon the various levels. On the other hand, lack of a supportive network often means the aspirant African manager is "on his own" and resilience is frequently negatively affected.

Very good progress has been achieved in areas where little or no direct bottom-line responsibility is involved, e.g., personnel, industrial relations, social responsibility programmes, etc.

10. CHANGES IN FISCAL AND MONETARY POLICY

The government's longer-run determination to contain the growth of the public sector relative to the private sector, to dampen inflation and increase the international competitiveness of the South African economy, fiscal and monetary policy since 1987 followed conservative, market-oriented principles. ***Fiscal reform***, shaped by the Margo Commission, focused on a reduction in income tax rates, a shift of the relative tax burden from direct to indirect taxation, together with a broadening of the tax burden, and the curtailment of the budget deficit through increasingly strict discipline on the expenditure side. As part of this strategy, all types of subsidies and tax incentives came under scrutiny, with major subsidy and sectional support assistance, e.g., for regional decentralisation and agricultural support, being dismantled.

Together with these fiscal changes, ***monetary policy*** also focused on greater market orientation and more market-related interest rate levels. Thus the bank rate and other key rates in the band of interest rates (the BA rate, bond rates, hire purchase rates and prime overdraft rates) fluctuated more widely, reaching significant positive real rates notwithstanding high inflation rates of 14-16 per cent. These positive real interest rates, combined with a phasing out of tax preferences for certain types of investments, were aimed at the stimulation of private ***savings*** and a rechannelling of savings from the contractual segment (insurance and pension funds) to productive personal and company savings.

The liberalisation of fiscal and monetary policies was complemented by determined attempts to privatise some of the public sector through the sale of shares, e.g., in the steel giant, ISCOR, and the transfer of some activities to the private sector by way of subcontracting and other methods of ***privatisation***, once again following strategies well known and widely practised in other market economies during the 1980s.

All of these steps were destined to enlarge the scope of the private sector, increase the competitiveness of the economy and stimulate private entrepreneurship. The short-run effect frequently went in the opposite direction due to the cost effect of higher interest rates, the demand dampening of cuts in State spending, and the profit dampening of reduced subsidies.

The direct effect on the small business sector and, in particular, African enterprises, is more difficult to assess and in some cases more questionable. Restrictive monetary and fiscal policies hurt them in the downward cyclical phase of the late 1980s, whereas most of the privatisation affected relatively larger investors. The overall strategy underlying fiscal and monetary policies is aimed at the liberalisation of the economy, and the longer-run effect is undoubtedly positive This is also true for small business and African entrepreneurship - in particular if one keeps in mind the interdependence of these policies and all the other structural adjustments aimed at a strengthening of African enterprise and links between small (African) enterprises and big business.

11. CHANGES IN TRAINING POLICY

Throughout the 1980s the government increased its spending and reform efforts in the educational and training sphere, giving particular attention to changing needs amongst Africans. In the training sphere, increasing emphasis was given to applied, sector-specific and/ or need-specific training programmes designed by, or in cooperation with, the private sector. Of particular significance has been the comprehensive job-creation programmes which linked short-run skill training to attempts at job creation and the stimulation of self-employment. Training centres were established all over the country, and they applied for quota allocations of skill training contracts. Unemployed recruits - almost exclusively African, Coloured and Indian - would enrol for 3-6 week full-time courses in very practical, skill-oriented fields, e.g., bricklaying, motor repair, needlework, cooking, etc.

The rapid increase in enrolment in these courses led to bottlenecks on the job-creation side since inexperienced trainees still found it quite difficult to create their own jobs or obtain full-time employment. This, again, resulted in the establishment of numerous complementary programmes, mostly privately funded and managed, to further deepen the training, supplement managerial and entrepreneurial skills, and assist in the establishment of small enterprises or in their functioning. In addition to the Small Business Development Corporation, bodies like Get Ahead, Job Creation and the Triple Trust (Trident Training) have become active in this sphere. It seems likely - and, in fact, highly necessary - that these bodies further expand and diversify.

Aside from these lower-level skill training efforts which mostly affect Africans, the broader training spectrum has also widened and deepened in South Africa with more and more emphasis nowadays falling upon the recruitment and containment of African students and trainees. With the high level of unrest still prevalent in public-sector training institutions, the private sector plays an increasingly important role. Besides, the phasing out of racial job discrimination has created an incentive for African trainees which is likely to further improve the training output or efficiency of existing courses.

The small number of Africans receiving artisan training is disquieting. The Manpower Training Amendment Bill, which will be considered in the next parliamentary session, provides for a change in the system of artisan training from a time-based to a modular, competency-directed system, which should encourage the training of apprentices.

Following on publication in 1989 of the report of the Human Sciences Research Council and the National Training Board on skills training, the National Manpower Commission initiated an investigation into the training of small entrepreneurs (*NMC 11th Annual Report*, 1989). Its task is "to determine priorities for Government spending in respect of small businesses". Results of this investigation have not yet been made known, but it is expected that a national co-ordinating body for training for the informal and small business sectors will be established.

12. KEY INDICATORS WITH WHICH TO ASSESS IMPACT OF POLICY CHANGE ON BLACK PRIVATE SECTOR

The last part of the brief was to look at ways in which the impact of policy changes on blacks could be measured. Some proposals as possible key indicators are listed below.

- African-owned close corporations and companies registered
- African-owned companies listed on Johannesburg Stock Exchange
- Registration of Africans as members of trade and professional associations, e.g. electricians, builders, estate agents, travel agents, pharmacists, lawyers, accountants.
- Business loans to African businesses from agencies such as Small Business Development Corporation, Get Ahead, Get Up etc., and commercial banks.

- Credit extended to African business.
- Home loans extended to Africans
- Building activity in African areas.
- Africans entering into contractual savings and insurance schemes.
- African ownership of JSE-listed societies.
- Registration of vehicles by Africans.
- Petrol company franchises to African-owned outlets.
- Value of business sub-contracted to African business by big business, e.g. Anglo-American, JCI.
- Commercial demand for electricity and telephones in African areas.
- Sale of commercial and industrial appliances, e.g. refrigerators, welding equipment, to Africans.
- Africans registered for management courses at colleges and universities.
- Scholarships and bursaries available to Africans

Possible sources of information on the above and the following:

- Registrar of Companies
- Johannesburg Stock Exchange
- Trade and professional associations, Master Builders, Association of Black Accountants, etc.
- Small Business Development Corporation
- Get Up
- Get Ahead
- Commercial banks and building societies
- Wholesalers of appliances, textiles, clothing, groceries, liquor and building supplies.
- Pension and insurance companies.
- Vehicle registration authorities.
- Oil companies
- Mining houses
- ESCOM
- Department of Posts & Telegraphs
- Colleges and universities
- FABCOS
- NAFCOC
- Urban Foundation
- South African Housing Trust

13. CONCLUSION

From the discussion above it should be clear that the whole framework for African economic advancement has been altered over the past few years, which makes it difficult - and, in fact, questionable - to isolate one or other particular aspect as more significant or more catalytic. If anything, it is the interaction of African urbanisation, trade union advancement, deregulation in the (African) business sphere, the small/big business link and training which can be seen as the driving force behind much of the present evolution.

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The main thrust of further policy reform and African advancement can be expected in the training sphere, in the linking of African and white business activities and the "formalisation" of the vast African informal sector. In fact, the time now seems ripe for Africans to advance much faster ***inside*** existing (hitherto white-controlled) larger enterprises and to obtain an increasing share in the control and ownership of business.

Geographically, the thrust of African economic advancement is likely to remain in the metropolitan areas though small towns and even some of the rural areas should also experience a breakthrough in African business involvement and economic advancement, especially in the informal and small business sectors. As far as the different economic sectors are concerned, the most rapid advancement is still likely to be made in the commercial (retaining) and services sector, but housing construction and some segments within industry (clothing, furniture, metal work) are also important growth sectors for African entrepreneurial involvement.

As Africans are drawn into the mainstream of the business sector, policy reforms and deregulation steps will soon decline in significance whereas affirmative action, mentorship, more indirect supportive efforts and private-sector initiatives are likely to increase in significance, in particular due to rising political pressures and wealth redistribution demands by Africans.

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APPENDIX 1

Foundation for African Business and Consumer Services (FABCOS)

Affiliated Organisations

SABTA - Southern Africa Black Taxi Association
ABA - African Builders Association
NASASA - National Stokvels Association of South Africa
NBCU - National Black Consumers Union
SATA - South African Taverners Association
BATASA - Black Association of Travel Agents of South Africa
ACHIB - African Council of Hawkers and Informal Business
SABIBA - South African Black Insurance Brokers Association
ABHASA - Afro Hairdressing and Beauty Association of South Africa
NTSA - National Tuck-Shops Association
NCIA - National Cottage Industry Association
SRASA - Small Retail Association of South Africa
AFASA - African Farmers Association of South Africa

APPENDIX 2

SUNNYSIDE GROUP

Organisations represented at Meetings:

African Council for Hawkers and Informal Business (ACHIB)
Afrikaanse Handelsinstituut (AH)
Anglo Vaal Development Trust
Association of Black Accountants of Southern Africa (ABASA)
Association of Independent Small Businesses
Black Consumer Union
Bophuthatswana Federated Chamber of Commerce
Centre for Developing Business
Consumer Institute for Research and Promotion
Empangeni Small Business Advice Centre
Fisher Hoffman & Stride
First National Bank Limited
Foundation for Entrepreneurship
Foundation for African Business and Consumer Service (FABCOS)
Free Market Foundation
Get Ahead Foundation
Get Up Fund
Gonski Textiles

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HEW's Home Business Organisation
Imperial Cold Storage (ICS)
International Council for Small Business (ICSB)
Job Creation (Pty) Limited
Johannesburg Afrikaanse Sakekamer
Kwa Zulu Government : Economic Advisory Department
Kwa Zulu Training Trust
Leadership Institute
Link Consultancy
Mobil Foundation of S.A.
Natal Deregulation Co-ordination Forum
National African Chamber of Commerce and Industry (NAFCOC)
National Stokvel Association
Organisation of Livestock Producers (OLP)
Private Sector Counselling Organisation (PRISCO)
Richards Bay Minerals
Self Employment Institute
Small Business Advisory Services
Small Business Development Corporation Limited (SBDC)
Small Business Advisory Bureau, Potchefstroom
South Africa Foundation
South African Black Taxi Association (SABTA)
Standard Bank of South Africa Limited
The Urban Foundation
Transport Foundation of S.A.
University of Natal, Durban : Department of Accounting and Finance
University of Natal, Pietermaritzburg : Department of Business Administration
University of Pretoria : Graduate School of Management
University of the Western Cape : Institute for Small Business
Wheel-A-Meal
Wilgespruit Fellowship Centre
Women's Bureau of South Africa

Observers:

Centre for Policy Studies
Development Bank of Southern Africa
Law Review Project
SA Chamber of Business
University of Port Elizabeth: Small Business Unit

APPENDIX 3

SMALL BUSINESS DEVELOPMENT INITIATIVE: POLICY DOCUMENT

1. It is JCI's policy to facilitate interaction between the formal business sector and the informal/small business sectors. This policy is based on sensible and rational business decisions aimed at improving profitability and, in the process, expanding the free enterprise system and the economy to the benefit of all South Africans. JCI Exco re-affirms its full support of the small business development initiative at a time when the programme is about to embark upon expanding its activities in the pursuit of specific objectives.
2. The small business development initiative will be aimed primarily at the black businessman or entrepreneur. However, no particular race, nationality, religion nor sex will be specifically excluded from the programme.
3. The success of the small business development initiative is to be measured in terms of its ability to bring about increased opportunity for growth in the informal/small business sectors with the principal goal of cost savings to JCI and associated companies.
4. No sacrifice in the quality of goods purchased nor services provided to JCI and associated companies will be allowed, without specific and conscious relaxation of specifications where unnecessarily high standards have been previously set.
5. The programme will initially focus on the provision of goods and services to JCI and associated companies, but may expand into other forms of small business promotion and assistance. Financial support by means of loan capital or equity participation in small businesses could be considered.
6. In order to take JIC's SB initiative forward Mr D M MacGillivray has been given ultimate overall responsibility.
7. The target for placing business (products and services) within the small/informal business sectors during the seventeen month period ending December 1990 is R5 million.
8. It is anticipated that the mix of products which can be supplied will come from both the daily buying and contracts sections of the Buying Department, but that there will be a general shift towards contracts, with due regard for efficiency and ease of management and administration within the small business development initiative.
9. The target product range for small business will not be limited to a particular sector, but rather the full assistance, support and approval of the relevant authorities within the Group will be obtained for any particular item.
10. Not more than 50% by value of contract(s) which are strategically important to the Group (for either production or safety reasons), irrespective of the number of small business contracts placed. The authority for determining which products or services are strategic will lie with the appropriate purchasing agency.
11. Products or services which are not strategically important may be placed in their entirety (100%) with the small business sector.
12. It is accepted that simplification of the JCI terms of contract and payment may be necessary together with a reduction in contract administration lead times as required.

13. Within accepted business principles, it will be necessary to permit discretion to negotiate, in the fullest sense, contracts and contract prices. This implies, for example, that once an item has been identified as a small business opportunity together with volume estimates, specifications and users, the contract and contract price may be negotiated with the supplier and SBDC acting as agents for small business based on historical facts and known budget requirements. There will be no breach of ethics in terms of other suppliers, although they may know of JIC's intention to award a portion of JCI business to another supplier.

14. Should a decision be taken to issue an open enquiry, the small business/SBDC and JCI will be required to follow the standard tender procedures.

15. It will be incumbent upon the Co-ordinator to establish small business opportunities within the Group and to pursue those opportunities within JCI to the best advantage of small business, inclusive of the negotiation phase with the contracts or daily buying sections of the Buying Department.

16. Any marketing or advertising requirements will be handled by Group Public Affairs to whom the Co-ordinator will make recommendations.

17. The small business development initiative will be directed mainly (but not solely) at companies with total assets of less than R2 million.

18. To co-ordinate this initiative Mr W H Lowe has been appointed with effect from 1 May 1990 as Co-ordinator : Small Business Development, who will be responsible for facilitating interaction between JCI and the small business sector.

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Job Creation (Pty) Ltd (Ian Hetherington)
Law Review Project
Natal Deregulation Forum
Natal Provincial Administration Planning Division
National Shebeeners Association (Denise Momberg: consultant)
Small Business Development Corporation
South African Black Taxi Association (SABTA)
Sunnyside Group
Urban Foundation

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Economic Estimates of Black Private Sector Activity Supplied to the Economic Research Unit

prepared by

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The sub-consultants employed on the Quantification Study of the Black Private Sector have each focussed on particular areas of the data, employing techniques each felt to be appropriate. Consequently, in most sections their estimates do not overlap or coincide either methodologically or quantitatively. It is therefore necessary to present the information provided by each analyst in isolation, *caveat subscriptor.* The original intention of using a Delphi approach in judging the best compromise estimate in each sub-section is unfortunately not possible here.

Estimates of obviously dubious theoretical or quantitative foundation have been eliminated. It is interesting that two of the most eminent sub-consultants misinterpreted the essence of sub-section 5a, providing estimates of the total share in earnings from GDP for the black race groups, instead of the proportion of output produced by the black-owned private sector. These estimates have nevertheless been included, being probably of use to the study in their own right.

Van der Berg has provided estimates based on the original set of figures in the Section 1 spreadsheets compiled from industrial censuses. Although the information is probably not very useful for the purposes of the study, being confined to the latest years of census of the respective sectors (and therefore several years out of date), it is provided for the sake of completeness, on an accompanying set of spreadsheets.

3a. Contribution of Internal and External Sources to Credit Availability

McGrath

It is not clear what Section 3(a) requires. However, one can only try. The supply of Domestic Credit is shown in Table 1. The distinction between credit and availability is one which may be important prior to the 1980s (before the de Kock Report), but one cannot estimate the extent of the grey market with any accuracy. (*de Kock Commission Report: Final Report* pp101-104).

Table 1 Domestic bank credit in South Africa (R million)

	Net credit extended from banking sector					
Year	*To private sector*		*To government sector*		*Total*	
1985	50,014	(93.3)	3,606	(6.7)	53,620	(100.0)
1987	62,182	(96.4)	2,377	(3.7)	64,519	(100.0)
1989	114,609	(100.9)	-1,076	(-0.9)	113,533	(100.0)

Note: Percentages in parentheses are row percentages

I have only prepared Table 1 for years between 1985 and 1989, as it would have taken a vast amount of time to work it back to the earlier years mentioned.

The contribution of foreign credit to domestic credit is more complex than simply estimating the net supply of foreign credit, since deposits with the Commercial Banks actually expand the liquid assets of the Commercial Banks and therefore allow for a multiple increase in the supply of bank credit. Table 2 gives the flows of foreign capital, without attempting to estimate the credit multiplier (i.e. their contribution to the flows in Table 1).

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Table 2	**Annual net flow of foreign credit[1] (R million)**					
Year	*Long-term*		*Short-term (not related to reserves)*		*Short-term (Loans related to reserves[2])*	
1967	9.5	(250)	-3.8	(-100)	-1.9	(-50)
1975	331.0	(47.3)	-49.0	(-7.0)	418.0	(59.7)
1980	-478.0	(46.6)	-1,804.0	(-105.7)	536.0	(-52.2)
1985	-522.0	(8.3)	-7,799.0	(123.3)	1,998.0	(-31.6)
1987	-1,701.0	(41.4)	-1,150.0	(28.0)	-1,259.0	(30.6)
1989	-1,230.0	(71.6)	-3,115.0	(181.2)	2,626.0	(-152.8)

Notes: 1. Percentages are row percentages, showing the contribution to the total.
2. Loans to South African banks, SARB, and SA Government by foreign banks and authorities.

Table 3 analyses the factors which gave rise to changes in the domestic money supply between 1967 and 1987. Credit is the largest component of the supply of money and near-money.

Table 3	**Causes of changes in money and near-money (R million)**				
Year	*Change in money and near-money*	*Net gold and foreign exchange reserves*	*Net claims on the government sector*	*Net claims on the private sector*	*Net change in other assets and liabilities*
1967	307	2	-16	324	-3
1975	1,275	-365	719	807	114
1980	3,506	531	-407	3,161	221
1985	7,926	-3,306	1,521	9,594	117
1987	13,420	3,145	511	12,090	-2,326
1989	26,447	-1,237	-2,740	24,244	6,180

Table 4 shows the percentage contributions to changes in the broadly defined money supply (M3), which are reported in Table 3.

Table 4	**Percentage contribution to changes in money and near-money**			
Year	*Net gold and foreign exchange reserves*	*Net claims on the government sector*	*Net claims on the private sector*	*Net change in other assets and liabilities*
1967	.7	-5.2	105.5	-1.0
1975	-28.6	56.4	63.3	8.9
1980	15.1	-11.6	90.2	6.3
1985	-41.7	19.2	121.0	1.5
1987	23.4	3.8	90.1	-17.3
1989	-4.7	-10.4	91.7	23.4

Van der Spuy Heyns

Table 5 Financing of Gross Domestic Investment: Calendar years 1980-1989 (Rm)

SOURCE	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*
INTERNAL	21658	19944	16596	23154	24092	30068	33119	37847	45022	51712
Personal saving	4306	1167	635	893	2622	4327	1844	4423	3100	1073
Corporate saving	7132	7072	3633	7815	6545	7086	8246	9405	10535	12750
General govt saving	2026	1845	329	230	-1196	-990	-1668	-3979	-1006	-372
Prov for depreciation	8194	9860	11999	14216	16121	19645	24697	27998	32393	38261
EXTERNAL	-2818	4089	3696	451	2602	-5087	-6114	-5995	-2728	-3108
Net capital inflow	-2294	3084	4613	1527	1713	-6323	-7267	-4110	-4408	-1719
Change in reserves	-524	1005	-917	-1076	889	1236	1153	-1885	1680	-1389
TOTAL FINANCING	18840	24033	20292	23605	26694	24981	27005	31852	42294	48604

Note: - Increase; + Decrease

SOURCE: South African Reserve Bank Quarterly Bulletins

3b. Government budget (central and parastatal) as percentage of GDP

McGrath

The contribution of the Public Sector by type of organisation to GDP is shown in Table 6. The contribution of General Government is almost identical to its budget, and other enterprises are measured absolutely accurately.

Table 6 Percentage contributions to gross domestic product by public sector

Year	*Public Corporations*	*SATS*	*Dept. of P & T*	*Govt. enterprises & ancillary*	*General govt.*[1]	*Public sector*
1980	5.8	5.1	1.5	1.5	9.3	23.2
1981	5.8	5.3	1.3	1.5	10.4	24.3
1982	6.2	5.1	1.6	1.5	11.3	25.7
1983	8.0	4.7	1.8	1.5	11.5	27.5
1984	8.2	5.3	1.9	1.7	12.6	29.7
1985	8.7	4.4	2.0	1.6	12.6	29.3
1986	7.9	4.5	2.1	1.4	13.2	29.1
1987	8.3	4.0	2.1	1.3	13.6	29.3

Note: 1. Includes central, provincial and local government, and represents total budgetary expenditure.

Van der Spuy Heyns

Table 7 presents data on government expenditure as a proportion of GDP broken down according to the following categories:

1. **Expenditure on goods and services** by central government, provincial administrations, extra-budgetary funds and bodies at central government and provincial government levels, universities and technikons, self-governing states and TVBC countries. (Contribution to GDP.)
2. **Total expenditure** by central government, provincial administrations, extra-budgetary

Table 7 Central Government Expenditure as a proportion of GDP (R billion and percentage): Fiscal years 1980/1-1989/90: Current prices

Category	*1980/1*	*1981/2*	*1982/3*	*1983/4*	*1984/5*	*1985/6*	*1986/7*	*1987/8*	*1988/9*	*1989/90*
1	9.8	11.9	14.5	16.7	20.2	23.7	29.8	35.4	42.6	48.9
	15.74	*16.25*	*17.98*	*18.25*	*18.81*	*19.27*	*20.95*	*21.52*	*21.71*	*21.03*
2	15.1	18.3	21.7	25.7	31.2	37.3	45.8	53.6	64.9	74.6
	24.34	*25.12*	*26.92*	*28.10*	*29.08*	*30.29*	*32.17*	*32.57*	*33.08*	*32.05*
3	4.2	3.9	4.0	4.4	4.8	5.9	5.3	4.9	5.1	7.9
	6.80	*5.34*	*4.97*	*4.81*	*4.47*	*4.79*	*3.72*	*2.97*	*2.60*	*3.39*
4	14.1	15.8	18.5	21.1	25.0	29.6	35.1	40.3	47.7	56.9
	22.52	*21.59*	*22.95*	*23.06*	*23.28*	*24.06*	*24.67*	*24.50*	*24.30*	*24.43*
5	19.3	22.2	25.7	30.1	35.0	43.2	51.1	58.5	69.9	82.5
	31.12	*30.47*	*31.89*	*32.91*	*33.55*	*35.08*	*35.89*	*35.55*	*35.68*	*35.45*

Note: All amounts and percentages are estimates

SOURCE: Central Statistical Services; South African Reserve Bank; Department of Finance

funds and bodies at central government and provincial government levels, universities and technikons, self-governing states and TVBC countries. (Expenditure as percentage of GDP.)

3. **Fixed capital investment** by Public Corporations.
4. **Expenditure on goods and services** by central government, provincial administrations, extra-budgetary funds and bodies at central government and provincial government levels, universities and technikons, self-governing states and TVBC countries **and the Public Corporations.** (Contribution to GDP.)
5. **Total expenditure** by central government, provincial administrations, extra-budgetary funds and bodies at central government and provincial government levels, universities and technikons, self-governing states and TVBC countries **and the Public Corporations.** (Expenditure as percentage of GDP.)

5a. Contribution to total GDP of the African, Coloured and Indian private sectors

McGrath

It is strictly incorrect to attempt such an exercise since there are components of the GDP (such as undistributed profits, the surpluses of government enterprises, and depreciation allowances) which cannot be allocated to race groups. Others have, however, made the conceptual error of estimating the GDP by race group. In terms of the project brief an estimate can be made only for the year 1985.

A high and a low estimate of the Black share is made. The high estimate is made by allocating undistributed profits, depreciation and Public Enterprise Surpluses by race group according to the estimated racial share of profits. A marginally lower estimate of the Black share can be obtained by allocating the undistributed profits, depreciation and Public Enterprise Surpluses according to estimated racial shares of profits and property incomes (i.e. all non-labour incomes earned in the private sector).

While these methods of allocation are not even logically appropriate for the allocation of Public Enterprise Surpluses, the amount in question is so small that its allocation on a wide range of assumptions makes no significant different to the shares. The results are shown in Table 8. Estimate 1 gives the high estimate of the Black share of GDP (following the assumptions outlined above), while Estimate 2 gives the low estimate of the Black share of GDP. The magnitudes are not significantly altered by the assumptions, and this is encouraging. It does not matter which estimate is used, as they are very close, and are only very general approximations, to a concept which has no meaningful economic interpretation.

Table 8 Racial contributions to GDP: 1985

	R million in current prices			
	African	*Coloured*	*Indian*	*Black*
Estimate 1				
Earnings and dividends	22,976	5,712	2,722	31,411
Undistributed profits, depreciation, and public enterprise surpluses	6,232	211	1,136	7,580
CONTRIBUTION TO GDP	29,209	5,923	3,859	38,990
	(26.5)	(5.4)	(3.5)	(35.4)
Estimate 2				
Earnings and dividends	22,976	5,712	2,722	31,411
Undistributed profits, depreciation, and public enterprise surpluses	4,876	248	832	5,957
CONTRIBUTION TO GDP	27,852	5,960	3,555	37,367
	(25.2)	(5.4)	(3.2)	(33.9)

5b. Black private sector contribution to sectoral and sub-sectoral outputs

McGrath

Again a range of years cannot be estimated, and a very crude stab only can be attempted. If we assume that rates of return on capital have equalised throughout the economy, that the labour markets are competitive, and there are no economies of scale in production, or barriers to entry, then it will follow that shares of output will reflect shares of profit by sector. Profit rates will have equalised because of the competitive conditions which have been assumed. Thus the output produced in each sector will be a direct reflection of shares of profits and property income by sector of production, and this information can be inferred from BMR tabulations.

The contribution of the Black private sector can only be estimated from the share of profits which accrues to Blacks. This can be inferred from the results of BMR income and expenditure studies, and the BMR's estimates of Personal Income. For the period 1975-1985 the BMR has estimated the percentage of profits and imputed interest and salaries by sector, and this is shown in Table 9. The Shares of Profits (and Output by Sector) are shown in Table 9.

On the assumptions set out above these magnitudes become shares of production. If because of economies of scale, barriers to entry and other imperfection, the rates of return to

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Table 9 Percentage of owner's income by sector of production and race: 1985

	Percentages[1]			
	African	*Coloured*	*Indian*	*Black*
Agriculture	8.8	0.3	0.2	9.4
Mining	-	-	-	-
Manufacturing	2.7	0.1	0.3	3.0
Transport	0.5	neg[2]	0.1	0.6
Trade	2.6	0.3	1.7	4.6
Finance etc	-	-	-	-
Other services	2.6	0.1	0.5	3.3
Share in total	17.2	0.9	2.9	20.9

Notes: 1. All rounded to 1 decimal place.
2. Negligible.

large predominantly White owned business are higher than smaller businesses owned by Blacks, then the Black shares of Output will be larger than shown in Table 9. Precise magnitudes are impossible to judge. However, if labour market segmentation forces wages down in Black owned businesses this will raise rates of return in such ventures, and counter the effects of economies of scale. The final result cannot even be conjectured, and thus Table 9 must be our best guess at the racial contribution to output by the Private Sector by major sector. A sub-sectoral breakdown is impossible.

Thomas

Table 10 provides a breakdown of racial shares in sectoral contributions to GDP.

Notes to Table 10

General comments on the calculation of the racial shares in GDP:

1. Employment series are the most reliable figures for a calculation of GDP contributions. The data available suggest a remarkable stability in the racial share of employment in virtually all the sub-sectors. This is, however, deceptive since:
   - statistically enumerated employment understates the informal sector, in some sectors by a significant margin;
   - the racial participation in the informal sector can differ widely; it is, e.g., far higher amongst African in non-formal agriculture, trade, construction, clothing, other building material etc;
   - during the past 10-15 years formal sector employment has stagnated (due to higher labour cost and the substitution of labour), whereas informal sector employment increased;
   - in the informal sector black "self employed" earn the labour and capital/profit share; these may be low - in many cases extremely low - but it should be noted that wealth ownership in the sector as mere reflects the formal sector pattern of negligible 'non-white' ownership of capital/shares.
2. Given static longer-run employment trends in the formal sector and relatively stable racial employment structures, the share of labour remuneration in total output becomes very

Table 10 Racial shares in sectoral contributions to GDP: 1989

(Sub) Sector	% in overall GDP	Contribution to Sectoral GDP (%) African	Coloured	Indian	Notes to Table
Agriculture	6.71	28	4	0.8	(1)
Mining	13.24	34	1	0.2	(2)
Manufacturing	23.18				(3)
Food	2.40	33	11	4	(4)
Beverages	0.89	34	9	2	
Tobacco	0.21	24	0.3	0.6	
Textiles	0.79	28	16	5	(5)
Clothing	0.40	17	26	15	(6)
Leather	0.08	23	20	6	
Footwear	0.20	10	25	20	
Wood	0.34	38	9	1	
Furniture	0.23	26	21	8	
Paper	1.03	22	10	9	
Printing & Publishing	0.65	12	15	8	
Industrial Chemicals	1.25	22	2	3	
Other Chemicals	4.38	24	9	3	
Rubber	0.33	31	8	3	
Other Plastics	0.40	27	13	2	
Potters	0.05	43	13	0.1	
Glass	0.21	27	11	0.6	
Non-met Minerals	0.90	36	7	0.6	
Iron & Steel	1.76	29	3	0.5	
Non-ferrous metals	0.90	33	2	3.0	
Fabricated metals	1.49	32	7	2.2	
Machinery & Equip.	1.39	21	7	6	
Electrical machinery	1.26	10	13	3	
Motor vehicles & parts	0.72	28	13	3	
Other industries	0.40	22	17	4	
Electricity,Gas & Water	4.52	28	4	0.6	(6)
Construction	3.33	41	14	2.2	(7)
Trade	11.41	36	13	9	(8)
Transport & Commerce	8.52	30	13	9	(9)
Finance	11.40	9	8	5	
Community Services	1.72	25	13	3	(10)
Other Goods & Services	2.60	32	12	2	(11)
General government	13.11	28	12	2	
TOTAL GDP	100.00				

important. In South Africa, this varies between 45 and 60 per cent of total product, with most sectors in the mid-50% share. Research seems to indicate that labour's share has increased only slowly, if at all, over the longer run. By focussing on 1989 data, one used the last of a long series, which could hide a gradual upward increase in labour's share

3. Within the labour class black wages have risen relatively faster than those of whites over the past 10-15 years. Given the static nature of total employment, the black share in employment and labour's share in total output, this relative increase in wages could be seen as the most important factor making for a higher black share in GDP. The increase will be

larger for sub-sectors with particularly low wages for black **and/or** those where the relative wage level increased most rapidly (e.g. mining). In this respect, the unionisation of specific sectors (e.g., motor vehicle production) also plays a role, as does the sub-sector's scope for black skill advances.

4. Changing relative shares in different economic sub-sectors can also affect the black share in GDP, in particular if a sector with a high black labour (or skill) component grows disproportionately. The table calculated here only focuses on 1989, thus does not reveal past trends related to such sector growth differentiation.

5. With almost 6 million (mostly black) members of the labour force unaccounted for in employment data, the black contribution to GDP can be substantially influenced by the activity pattern of this un(der)employed or self-employed group. In as far as significant GDP creation takes place in this segment (which includes most of the informal sector) it should be noted that this also increases total GDP. Estimates about the unrecorded GDP differ widely, but it seems reasonable to assume that blacks contribute a further 8-10% to GDP, whereas non-recorded non-black (i.e. white or corporate) contribution to GDP would be a further 8-10 per cent. This would imply that the black share of unrecorded GDP could at best be a further 50% of about 70% added to recorded GDP.

   Compared to the other figures calculated on the table, the overall share of black contribution to GDP would thus not be changed too much.

Comments on sub-sector estimates:

1. If one includes subsistence agriculture, market gardens in urban (fringe) areas and all other segments of agricultural products - e.g., including "Dagga Farming in Transkei" - the African share could even be slightly higher, though not much more, since whites also add some unrecorded GDP via fishing, forestry, hunting, etc.

2. The African share has risen due to increasing wages. The redistribution of shares on mining ventures is still too limited to make an effect.

The question can be raised whether (indirect) institutional ownership of mining shares (from re-invested pension/insurances premiums) has already affected the profit share of mines going to different racial groups. This is, after all, the main argument amongst the insurance companies which argue that share ownership is already racially dispersed.

3. With respect to all the segments on industry, attention was given -
   - the labour share of blacks
   - changing wage levels and profit rates
   - the significance of informal activities in the sector

   Underlying ratios have been estimated and are difficult to quantify in any formal way.

4. The relatively high share of Africans in **food production** takes into account large informal sector activities - this is almost absent amongst Coloureds and Asians.

5. The **clothing and textile** sectors are dominated by Coloured labour and there is already considerable self-employment in this sphere - also amongst all three groups in the informal clothing sector.

6. Little recognition is given to informal generation of **electricity** and the **fetching of water** - imputed time is, however, considerable.

7. The high share of Africans takes into accounting self-help **construction** and the upgrading

of housing. If fully incorporated, it pushes up estimated overall GDP.

8. There is again a considerable element of informal sector contributions to GDP through **trade.**
9. **Transport** also includes the informal taxi sector, though much of this is already included in overall GDP.

10/11. The demarcation of these two sectors is unclear. As a "reservoir" of activities not included elsewhere it should have a relatively large black share, taking into account many service activities not regularly noted/measured.

Finally, our understanding of black **asset** holding is particularly weak. It is possible that official Nat. Accounts data grossly understate these assets and the annual return on some of them. This could also influence the GDP shares, though probably not dramatically.

Taking into account all these factors, the pattern shown from Table 10 - with blacks (African/Coloured/Asian) jointly contributing 40-60% to overall GDP - seems a fair reflection of the current state of affairs. Aggregate figures can, however, be influenced quite substantially, if wealth ownership is redefined or if it is seen to change rapidly - e.g., the reinvestment by pension funds, banks, etc. and, of course, the (semi) state sector.

5c. Black private sector contribution to GDP by firm size

McGrath

This is absolutely impossible and cannot be guessed in manufacturing and services.

5d. Black private sector contribution to wage employment at macro, sectoral and sub-sectoral levels

McGrath

If we apply the assumptions of competition stated above and assume we are dealing with a production function in each sector which does not generate economies of scale then we can postulate that employment will be proportionate to output by sector. Under these assumptions employment by major sector is shown in Table 11. It should be noted that the employment data you supplied seems of no use for this estimation at all. Total employment (excluding agriculture) is estimated from the Quarterly Bulletin of the South African Reserve Bank. The estimates do not include employment in the informal sector, in domestic services, or in agriculture.

Table 11 Employment in the black private sector

	African	*Coloured*	*Indian*	*Black*
Mining	-	-	-	-
Manufacturing (including construction)	57,968	2,669	7,103	67,740
Trade, transport and private services	54,016	4,346	23,350	81,713
TOTAL	111,984	7,015	30,454	149,452

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Informal sector enterprises are excluded from this table, and one cannot even begin to guess at the level of employment which they offer. However, to the extent that Black businesses are less capital using than White owned businesses and the large corporations, these estimates will understate employment. At a crude upper level the numbers might even be say doubled to give an upper limit to the Black private sector formal sector contribution.

5e. Black private sector contribution to employment by firm size

McGrath

5e is impossible.

5f. Black private sector contribution to gross fixed capital investment at the macro, sectoral and sub-sectoral levels

McGrath

Capital formation by race group cannot be estimated with any accuracy at all. We might assume it is proportionate to the shares of output (i.e. assuming some kind of steady state growth path). However, there is no evidence for this. We also cannot use the savings propensity of each race group - as racial savings do not necessarily go back into capital form in firms owned by that race group.

5g. Black private sector utilisation of commercial bank credit

McGrath

Cannot be estimated.

Van der Berg

I had some luck in obtaining figures on credit extension to blacks (see Table 12) which may be broadly correct.

Table 12 Credit extension to blacks by source: 1989 (R million)

	All races	*Coloured*	*Indian*	*African*	*Total blacks*
Advances by building societies	23,352	1,681	1,681	841	4,203
	32.9	*47.2*	*42.61*	*14.35*	
Loans and credit by banks[1]	37,844	1,135	1,892	757	3,784
	53.3	*31.9*	*48.0*	*12.9*	*28.3*
Hire-purchase	7,448	745	372	1,862	2,949
	10.5	*20.9*	*9.4*	*31.8*	*22.3*
Stokvels	2,400	0	0	2,400	2,400
	3.4	*0*	*0*	*41.0*	*18.0*
TOTAL	73,144	3,561	3,945	5,860	13,336
	100.0	*100.0*	*100.0*	*100.0*	*100.0*

Note: 1. Excluding loans and credit to companies and farm enterprises
SOURCE: SA Reserve Bank; personal communications from banks; estimates by journalists.

The sources for this information is a combination of contacts at the Reserve Bank, private banking sources, estimates by some journalists, and assumptions on the distribution of some forms of credit extension amongst the groups shown. Figures on consumer credit are not available. The Reserve Bank says that they are so unreliable that the SARB will not make them available at all in any form until more work has been done on them.

5h. Magnitude of productive linkages between black private sector firms and non-black private sector firms

McGrath

There is no data on these activities, and no way of estimating them.

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